Today’s material

- Research and consulting experience with 20 large, global companies over the past seven years.

- Heavy focus on the implementation of complex organization designs.

- Continuing to build on the work of Jay Galbraith and others.

- Captured in a new book from John Wiley due out this Fall.
Operating Models
There is pressure to break apart large, multi-product and service businesses - *why?*

Many diversified companies are breaking up:

- Kraft
- Mondelez International
- eBay
- Philips
- HP
- ConocoPhillips
- Ingersoll-Rand

Others are under pressure from activists to do the same:

- Pepsico
- Cisco
- Dupont
- BNY Mellon
- GE
- EMC
- AMGEN
- Qualcomm

“Peltz is challenging us to break up to create more focus. We have to demonstrate the benefits of scale in our performance.” CEO

Is it possible for an organization model to deliver both at the same time?

- Agility
- Leverage

*Is this a failure of strategy or organizational execution?*
Most of our clients are trying to find the right balance in order to gain the benefits of both.

- Drive More **Global** Decision-Making
- Enable More **Local** Decision-Making

Brands: Nike, John Deere, Heineken, Pepsico, Bloomberg, Ingersoll Rand, Medtronic, Philips, Marriott
Global operating models can be unique sources of competitive advantage

Many global companies are developing more nuanced organizations – and branding them with shareholders and major customers in annual reports and other media.

© Kates Kesler
The fact is, most global operating structures look about the same.

There are only so many structural options – and some form of matrix is unavoidable.

Example
But many companies struggle to activate the model . . .

1. **Excess layers and duplicated work** make the organization slow and internally focused.

2. **Global product teams and functions** are overlaid onto the existing regional (commercial) organizations without adjustments in legacy P&L structures, creating unproductive friction.

3. **Power dynamics** remain unresolved across global business units, regional teams, and functions.

4. Global functions are designed to do yesterday’s work, often independently from the needs of the business (and business heads have low expectations for functions).

5. **Leaders do not know how** and are not motivated to work in a matrix, while metrics and reward systems don’t encourage enterprise thinking.

6. **The corporate executive committee** continues to act as a group of individual leaders, each focused entirely on their own business versus the needs of the enterprise.

Gaps are sustained by a “dominant logic,” or mindset, that is entrenched in the culture.

The dominant logic construct is borrowed from Govindarajan and Trimble.
Activation is the bridge from design to performance

- Deliberate, adaptive creation of new work, decision and business outcomes
- Gained through repetition and refinement of management processes and interactions
- Enabled by well-designed organizational arrangements and collaborative mindsets.

Sustained over a two-year period or more.
The Five Activators

1. Unique, Value-Adding Layers
   - Unique contribution at each level of the org
   - Clear global/local docking points
   - Company resources tied together around the work

2. Innovation & Execution Networks

3. The Business Handshake
   - Inter-locked strategies and objectives
   - Joint performance management, aligned metrics
   - Agile decision making

4. Power, Governance & Decision Making

5. Matrix-Ready Leaders
   - Collaborative behaviors
   - Leader agility
   - Straight talk
   - Trust and strong relationships

Clear Growth Choices

The Right Connections

The Right Conversations

The Right Know-How
Is it important for challengers as well as big established companies?

As challenger companies evolve to maturity (think Dell) . . .

- **Proactive opportunity** to anticipate sclerotic build-up of organizational artifacts before it happens.

- **Don’t discount the value** of vertical organization – think how to gain more benefits of both horizontal *and* vertical elements.

- **Challenge the dominant logic** in organization and culture – however appealing it may be at a given point in time.

- Think ahead about the next set of **competitive capabilities**.

- **Agility and leverage** will eventually have to co-exist.

Nike’s Mark Parker asked top execs: Do we have the organization architecture to take us to 2X our current revenues?
Activation
What the activated global operating model looks like

1. Our best ideas move fast across brands, categories and geographies.

2. Product, functional, and regional teams and processes are set up to drive big ideas into more markets.

3. We take advantage of our scale in a way that still keeps important decisions close to the customer.

4. Global and local teams share accountability for growth in our most valuable markets and product lines.

5. We have functions that can add the right value at the best cost.
Working session

The Right Connections

1. Unique, Value-Adding Layers
   - Unique contribution at each level of the org
   - Clear global/local docking points
   - Company resources tied together around the work

2. Innovation & Execution Networks

The Right Conversations

3. The Business Handshake
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The Right Know-How

5. Matrix-Ready Leaders
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### Unique Value-Added Layers

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<td>1. We are vigilant about removing unnecessary layers, P&amp;L units, and divisions that duplicate decision-making without a unique contribution. We avoid overlapping roles in our organizational levels.</td>
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Take 10 minutes at your table

Which **two** of the five activators do the people at your table find the most interesting for further conversation?
The Five Activators
Layering makes horizontal connections difficult

Global Business Units
- SVP Global Categories
  - Group Level (x3)
    - Product A
    - Product B
  - Global Product Divisions (x17)

Geographic Commercial Units
- Region President
  - Region (x4)
    - Eastern Europe
    - SE Asia
  - Cluster (x12)
    - Sales & Customer Mgt.
  - Country (x170)
An anchor layer enables clear connection points

Global Business Units

- SVP Global Categories
  - Group Level (x3)
  - Product A
  - Product B

Global Product Divisions (x17)

Geographic Commercial Units

- Region President
  - Region (x4)
  - Eastern Europe
  - SE Asia

- Cluster (x12)
- Sales & Customer Mgt.

Country (x170)
Principles – layering and docking stations

1. The fewest possible layers overall enable delegation and faster decision-making.

2. Each layer in the organization must have a clear and unique, value-adding role to play in delivering growth.

3. One layer is designated as the anchor layer in the business; this layer is the home of the primary operating units that have been delegated authority to make short and long-term P&L trade-offs that are best for that business.

4. Docking stations are the clear points of interaction, the nodes in the matrix, where global and local will build partnerships for creating value.

5. Consolidation of infrastructure and the avoidance of duplicated functional activity at multiple layers allows for more productive support and partnering to the business units.
Discussion – The Survey Items

1. We are vigilant about removing unnecessary layers, P&L units, and divisions that duplicate decision-making without a unique contribution. We avoid overlapping roles in our organizational levels.

2. It is clear to global product or brand teams who their business partners are out in the regions. We have defined clear points for collaboration and accountability in the matrix.

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4. We do not have unnecessary layers of functional work and resources (e.g. HR, finance, marketing, IT, etc.) up and down in the organization. Each level plays a unique, value-adding role. The relationship between the corporate function and business unit function staff are clear.

5. The cost structure of our overall organization is sustainable. We have minimal structural waste.
A ‘center-led’ agenda is the focus for effective networks – vs. control

- **Center-Led**
  - Formal networks, field-based centers of expertise, shared agendas, strong governance, guardrails, common process

- **De-Centralized**
  - High autonomy of BUs

- **Centralized**
  - Policy, controls, reporting structures

**Local Integration → Global Control**

Low → Control → High
Interdependence is the way to leverage company resources without centralizing governance

**Coordinated**

- R1
- R2
- R3
- R4

**Interdependent**

- R1
- R2
- R3
- R4

**Hub & Spoke**

*Efficient, but low effectiveness*

**Networked**

*Effective and efficient*

**Digital Capability Example**

- Small center group to connect and build capability
- Governance to protect brand, but not slow local innovation
- Integrated with business cycle – built into growth plans
- Approval processes redesigned for speed
- Reverse mentoring field to center
- Talent investment in the markets
- Local talent connected through robust communities of practice, learning and sharing
- Culture change – do, learn, scale
An example of a global/regional category organization for managing innovation and brands

At PepsiCo the best ideas for new products and brand building ideas can come from anywhere in the world.
6. Our global and local teams work well together to come up with the best growth initiatives for the company. They collaborate well around a common agenda without worrying about who is in charge.

7. New product and other growth initiatives can come from anywhere in the organization and we have a process to scale them and lift and shift ideas to other parts of the company.

8. We are able to capture operational synergies that create value for our customer across our business portfolio.

9. We are able to move our best growth ideas and operational initiatives across geographies, brands, and divisions.
The ‘global/local’ conversation the front end and back end of management process

- Handshake partners own the results
- Performance visibility engages the right people with the right information
- Executive reviews on an exception basis (avoid across the board actions)

Inter-locked Targets

- Joint planning between business lines (horizontal) and regional (vertical) leadership
- Based on global product strategies and regional market development strategies
- Granular plans focused on the real growth opportunities

Performance Visibility

Plan and Do

Check and Act
Inter-locked plans are granular, prioritized growth targets, co-owned by global and local (with functional contracting).

This is an embedded practice at Unilever and Philips. Plans are focused on a Pareto view of growth opportunities in the matrix.
‘Performance visibility’ – single source of truth for all to see and handshake partners to act on

**The oil exploration giant is working on a similar process for managing performance across its matrix**

**Mulally’s Formula at Ford**
- 7 a.m. Thursday morning Business Performance Reviews, top officers gather to view simple view of data by cell.
- Changes vs. prior week highlighted, and the status of every goal or program in green, yellow or red.
- All see all results across the company everywhere in the world at a glance.
- Those accountable for specific cells work together off line.
- Senior intervention on exception basis drives accountability.
- Full participation of critical functions – one team mentality.
- Where the matrix intersects two executives must get together to set the color and action plans.
- Same discipline replicated at lower levels.
### Mapping the critical conversations

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- **Strategic Growth Plans (SGP) first round proposals**
- **Financial Targets:** targets by region + category guidance and big bets
- **Portfolio priorities across categories aligned with region presidents and key functions, to deliver at global and region level**
- **Final integrated view of strategic growth plans, prior to region strategy work**
- **Budgets & refined targets**
- **Region strategic business planning**
- **Region AOPs (finance + commercial)**

**The Business Handshake**
10. Our strategic and operational planning process results in priorities that focus management attention on clear growth choices.

11. Growth and performance targets are clearly aligned vertically and horizontally in the matrix. Global and local players work together with interlocked business plans. Both are held accountable.

12. We are agile as a company at shifting resources and investments to growth hot spots.

13. Our metrics and business performance reviews put the right data in front of the right people to surface root cause issues and enable action. We enable candid and productive conversations.

14. *Business results are co-owned by empowered, global-local partners in the matrix.*
Governance forums

Business performance, customer and associate feedback

Types of governance forums

1. Direction: Management of the enterprise with attention to issues that are outside the individual attentional of function and market leaders

2. Oversight: Cross-enterprise integration and alignment to achieve operational goals

3. Innovation: Expertise and diverse perspectives brought together to identify and champion new possibilities

4. Capabilities: Special focus based on unique aspects of the strategy, such as growth, customer experience, brand building, deals and acquisitions, etc.
### Matching decision rights to decision relationships

**Transactional (Customer/Provider)**

One role is clearly accountable to make a good decision, but is dependent upon others to provide service, data, insight, or technical advice.

- Don’t spend time on decision rights here.
- Focus on service level agreements, expectations and behaviors, measures of performance, and resource discussions.

**Collaborative (Give & Take)**

Two or more roles are expected to make decisions together. When there is disagreement, roles collaborate, not compromise to find a better solution.

When agreement cannot be reached, one role is given the “golden vote” to make the call. This role is accountable for the quality of the decision.

- Making these decisions will become easier over time – they require common data, trust based on experience, and reflection and learning based on real outcomes.
- Decision rights are useful to make expectations clear and keep the work moving.

**Example: Customer service standards in a local market**

**Example: In-market pricing and promotion strategy**

**Integrated (Fully Shared Objectives)**

Two or more roles truly co-own and co-manage business results.

- These tend to be decisions around strategy and big investments at the very heart of the business direction.
- Simple decision rights don’t work for these. Leadership needs to be aligned.
- These are a small in number, but expect to spend a lot of management time here.

**Example: Investment in a new customer segment across a set of markets**

Many decisions fall into this category – don’t over-complicate these with false involvement. Set yourself up for speed.

Focus here on the few high value/high risk decisions that are likely to cause tension. Expect collaboration, with the golden vote only used rarely.

Very few decisions fall into this category – don’t over-simplify these. Expect to spend quality time on them.

Adapted from Susan Finerty
The design dilemma is how to get the right balance between agility and leverage.

Drive More **Global** Decision-Making

Enable More **Local** Decision-Making
How power is adjusted between global and regional roles

1. **One role is elevated** in the hierarchy vs. another (e.g. Medtronic’s Omar Ishrak elevated the leaders of key growth countries and regions to his executive committee.)

2. **Budget control** is granted to a given position or unit (ConocoPhillips CEO moved exploration project dollars from the project management function to the operating units.)

3. A given position is granted a more prominent **role in setting strategy** and targets with accountability for profit and loss (PepsiCo’s Indra Nooyi strengthened global category teams giving them a strong voice in strategic growth plans and P&Ls.)

4. **Decision rights** are tipped one way or the other for key operating issues (Microsoft shifted new product development authority away from product divisions to commercial and engineering functions.)

5. A **high-potential leader** is placed in a given role, elevating the status of the position in the organization (Nike executives moved high-potential executives to new consumer category GM roles.)
15. Our executive committee members invest the right amount of time in enterprise leadership, not just delivering against their individual business plans.

16. We have effective governance forums for making decisions about company-wide investment priorities and key capabilities (e.g., customer experience, innovation, brand building, quality, etc.)

17. We have defined decision making principles and called out clear decision rights where needed for product, market, and functional leaders in the matrix.

18. We delegate real responsibility down to the right levels of the business, through formal mechanisms as well as cultural and behavioral norms.

19. We are effective at balancing the competing pressures of short vs. long term, profit vs. growth, and whole-company vs. division results.
Talent + Experience = The Right Stuff

Intensity

Emotional affect

Complexity

Relevance

- Manage multiple brands in a single country
- Manage a single business around the world
- A job living in a foreign country

Source: Bird and Osland
Developing leaders and organization at the same time

- **Talent calibration forums** – new leader behaviors and conversations, culture change – learning to trust

- **Design charette** – whole system in the room aligns expectations

- **Process and practice design teams**

- **Learning programs** – embedded in the activation work (matrix logic, networks, trust building, etc.)

- **Executive engagement in the activation process**– ‘be the change’

---

‘Talent Pool Models’

**Ethno-centric**

*Parent company nationals*

**Poly-centric**

*Local for local talent pools*

**Geo-centric**

*International talent pools*

Source: K. DeMeuse
Most common feedback to top executives from VPs and directors across the organization

“Help us . . .

- Align priorities
- Make the right trade-offs between decisiveness and collaboration
- Become a more candid culture
- Work through conflicts (as teaching moments)
- Role model effective delegation and trust”

Executive engagement in the activation process – ‘be the change’
Matrix leader profile

Hire for...

Inquisitiveness (organizational curiosity, learning agility)

Cognitive complexity (systems thinking, able to conceptualize the whole and manage trade-offs)

Ability to build trust (integrity, humility, courage)

Develop...

Ability to influence stakeholders (sell compelling ideas across boundaries)

Global mindset (true appreciation for the value of differences)

Organization architecting (configure and continually improve structure and process)

Ability to build community (align agendas and create networks)

*Based on the work of Ernst, Chrobot-Mason, 2011; Eichinger, Lombardo, 2004; Black, et al. 1999; Bird and Osland in Mendenhall, et al, 2013.*
Discussion – Matrix-Ready Leaders

20. We have invested time and resources to help leaders navigate the matrix through education, skill building, network building, and coaching. Our leaders understand the role our organization design plays in creating more value for shareholders and customers.

21. We invest management time and energy in building relationships and trust among leaders across the organization. We are pretty good at straight talk and candor.

22. We utilize the right competencies for selecting and developing global leaders (who demonstrate learning agility, ability to manage complex trade-offs, trust building, influencing across boundaries, global mindset, organization architecting, and community building).

23. We utilize robust practices for building a global pipeline of leadership talent through shared talent review forums, rotations and mobility, and deliberate use of developmental experiences.

24. We have a strong bench of ready-now leaders who can be effective in global leadership roles in the company.
Kates Kesler Organization Consulting

✓ Organization design focus
  - 70% consulting
  - 30% research, teaching, training
✓ 12 consultants – US, Canada, UK
✓ Whole enterprise and function design

![Books Image]