



Activating the Global Operating Model



April 2015

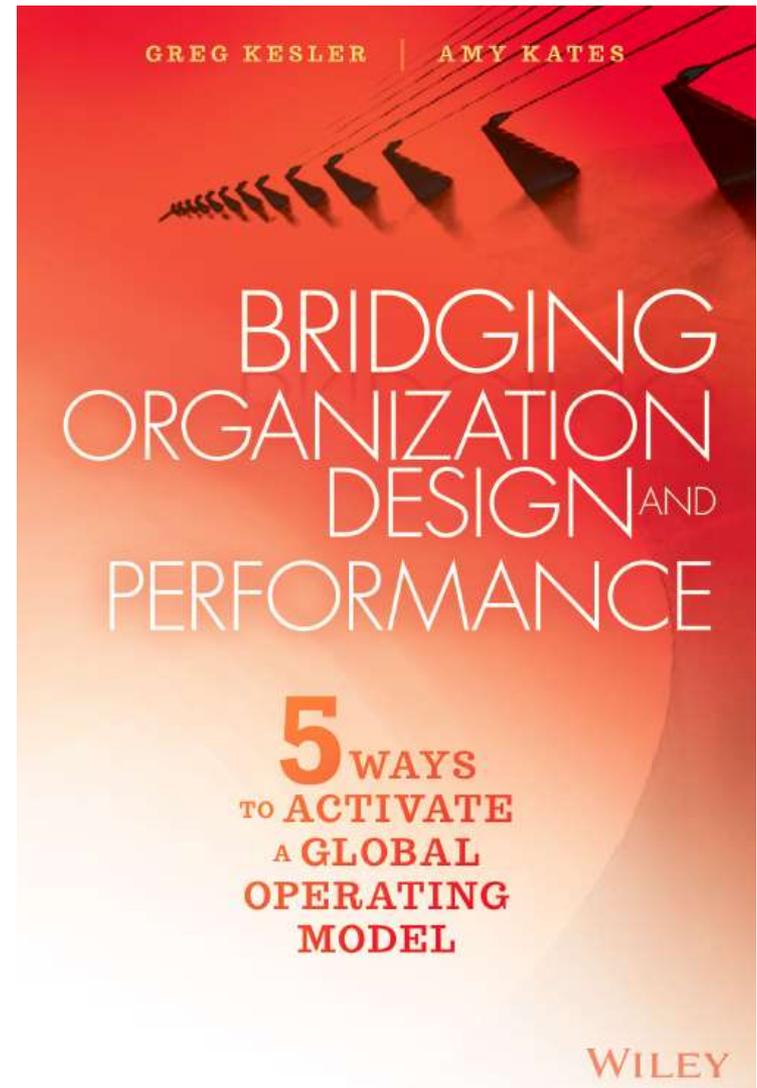
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Today's material

- ❑ 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:



PHILIPS



ConocoPhillips



Others are under pressure from activists to do the same:



"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



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.



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.

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.

Right Connections



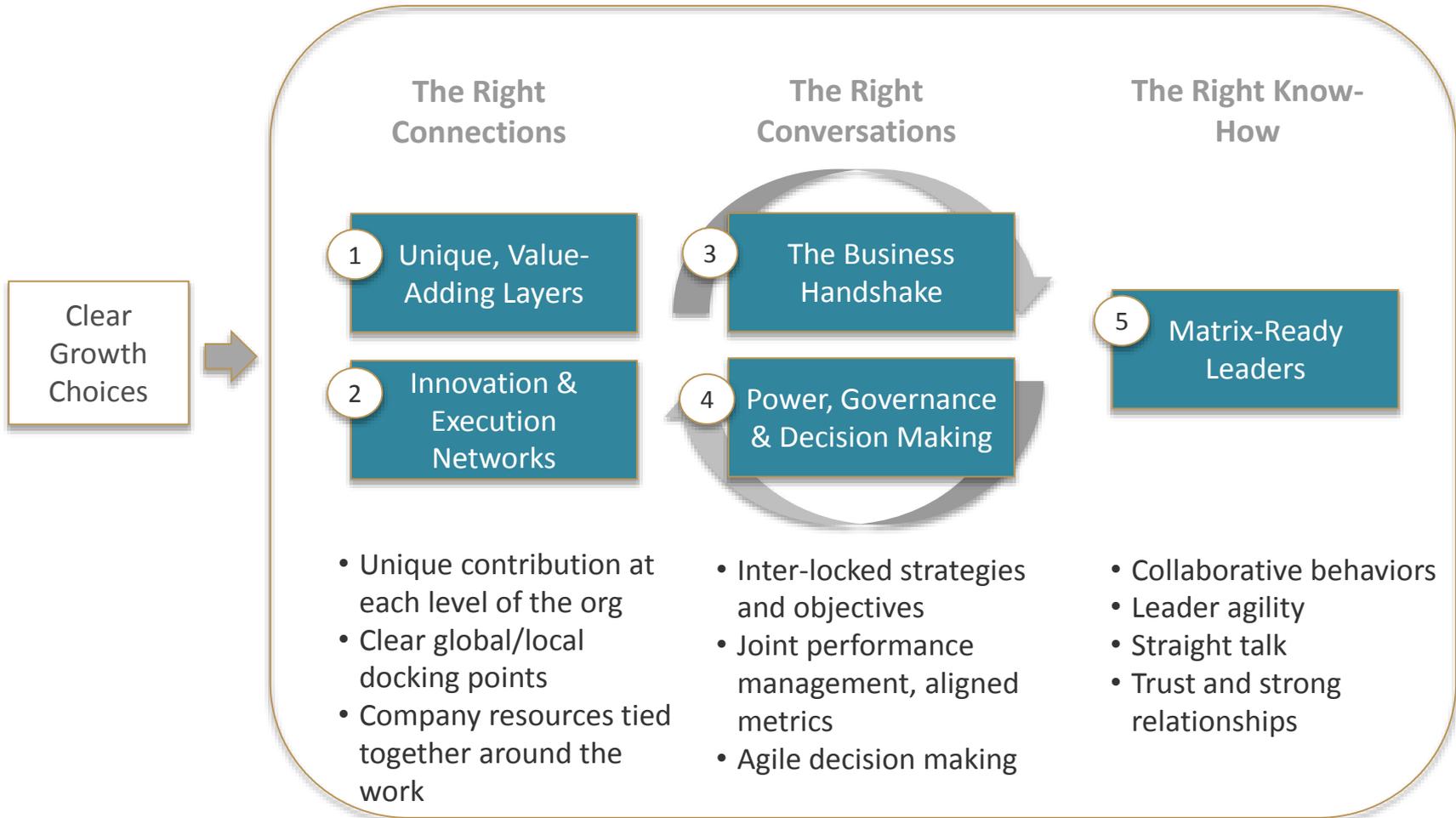
Right Conversations



The Right Know-How



The Five Activators



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?

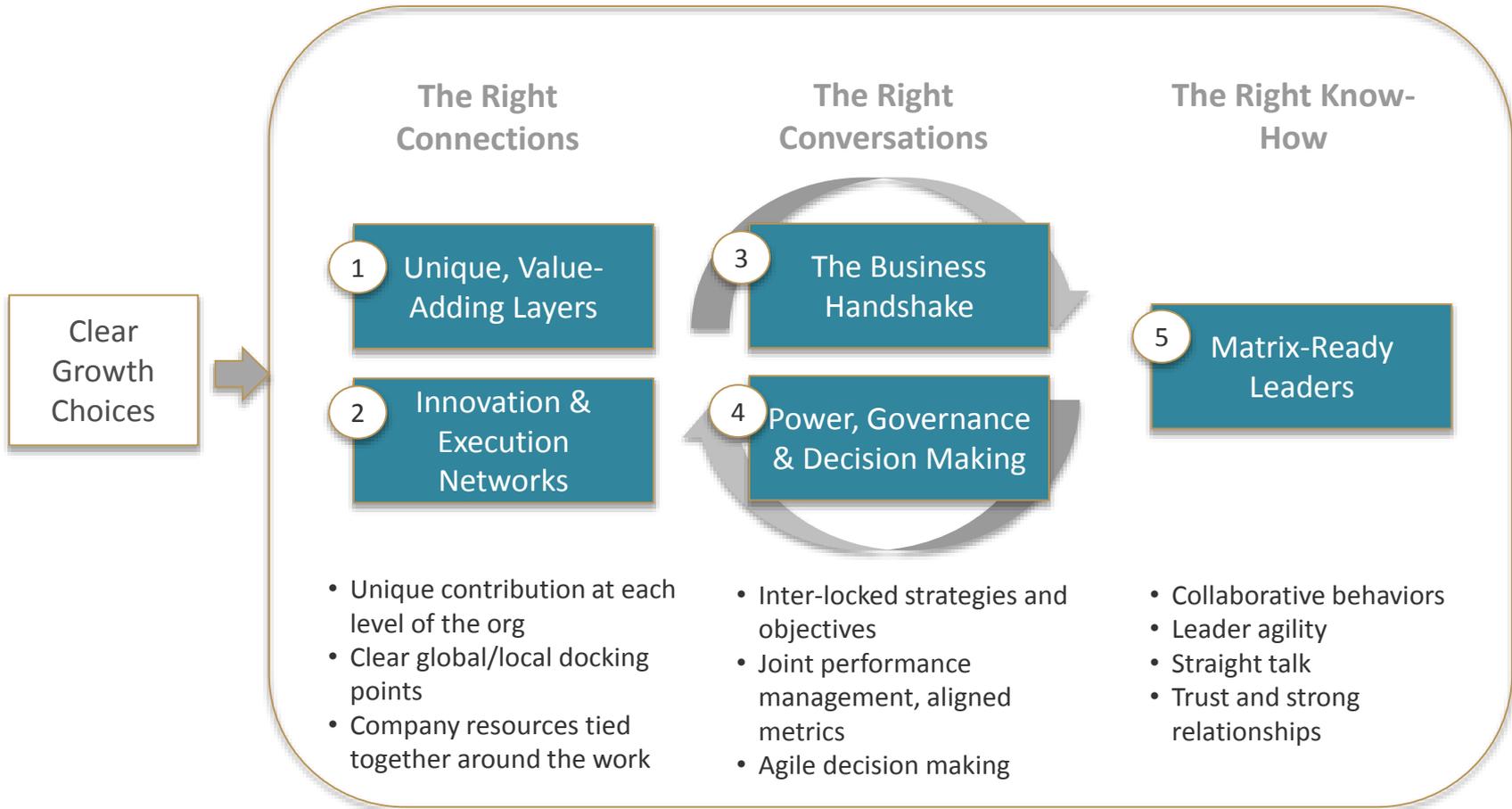
Activation

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



Unique Value-Added Layers

	Not at All True		Some what True		Very True
	1	2	3	4	5
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.					
3. Trade-off decisions are made at the right level in our business unit structure. We avoid sub-optimal decisions made at too high or too low a level in the organization.					
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. <i>The cost structure of our overall organization is sustainable. We have minimal structural waste.</i>					

Networks

	Not at All True		Some what True		Very True
	1	2	3	4	5
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. <i>We are able to move our best growth ideas and operational initiatives across geographies, brands, and divisions.</i>					

Business Handshake

	Not at All True		Some what True		Very True
	1	2	3	4	5
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. <i>Business results are co-owned by empowered, global-local partners in the matrix.</i>					

Governance & Decision-Making

	Not at All True		Some what True		Very True
	1	2	3	4	5
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. <i>We are effective at balancing the competing pressures of short vs. long term, profit vs. growth, and whole-company vs. division results.</i>					

Matrix-Ready Leaders

	Not at All True		Some what True		Very True
	1	2	3	4	5
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. <i>We have a strong bench of ready-now leaders who can be effective in global leadership roles in the company.</i>					

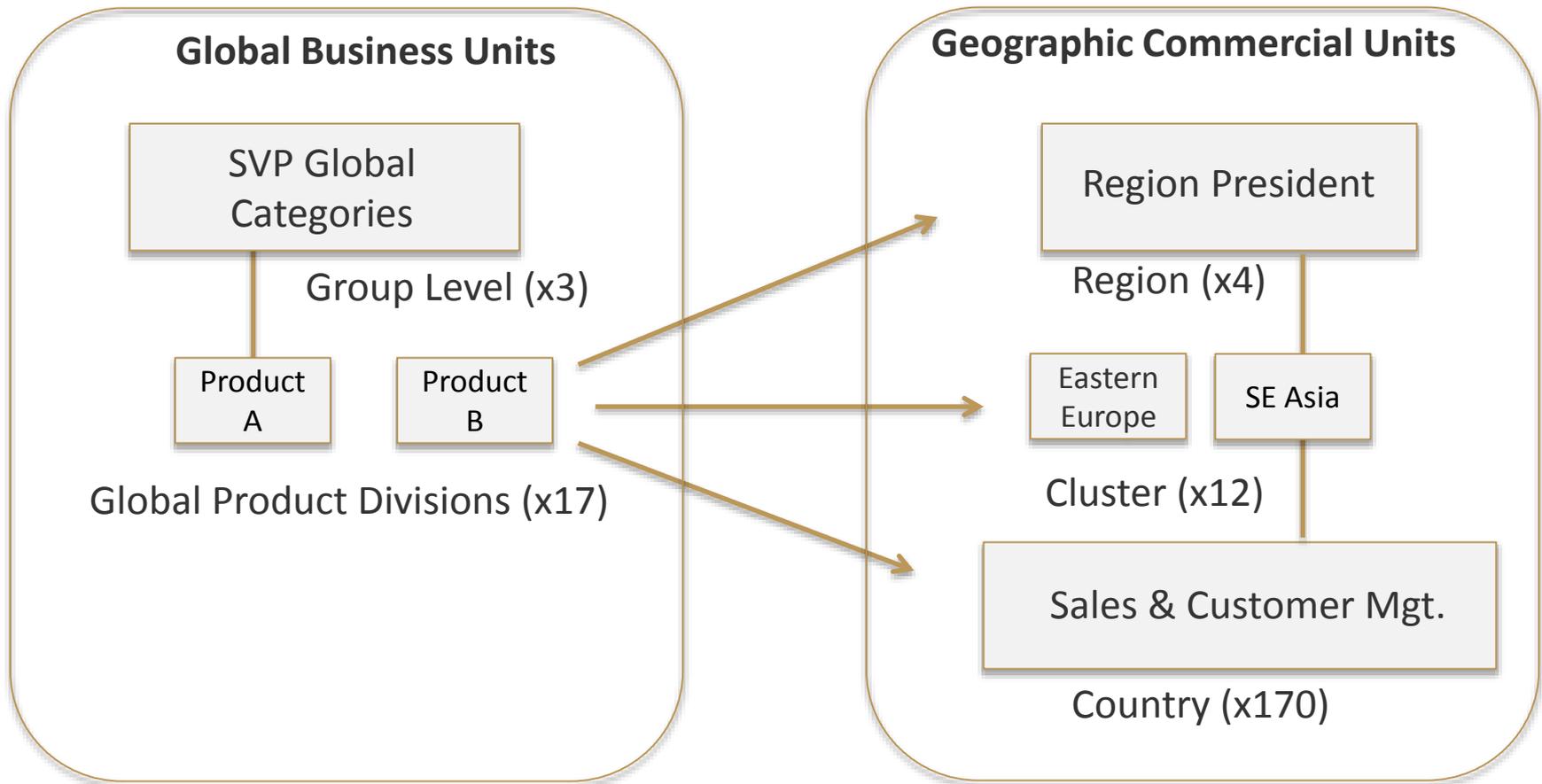
Take 10 minutes at your table

Which **two** of the five activators do the people at your table find the most interesting for further conversation?

The Five Activators

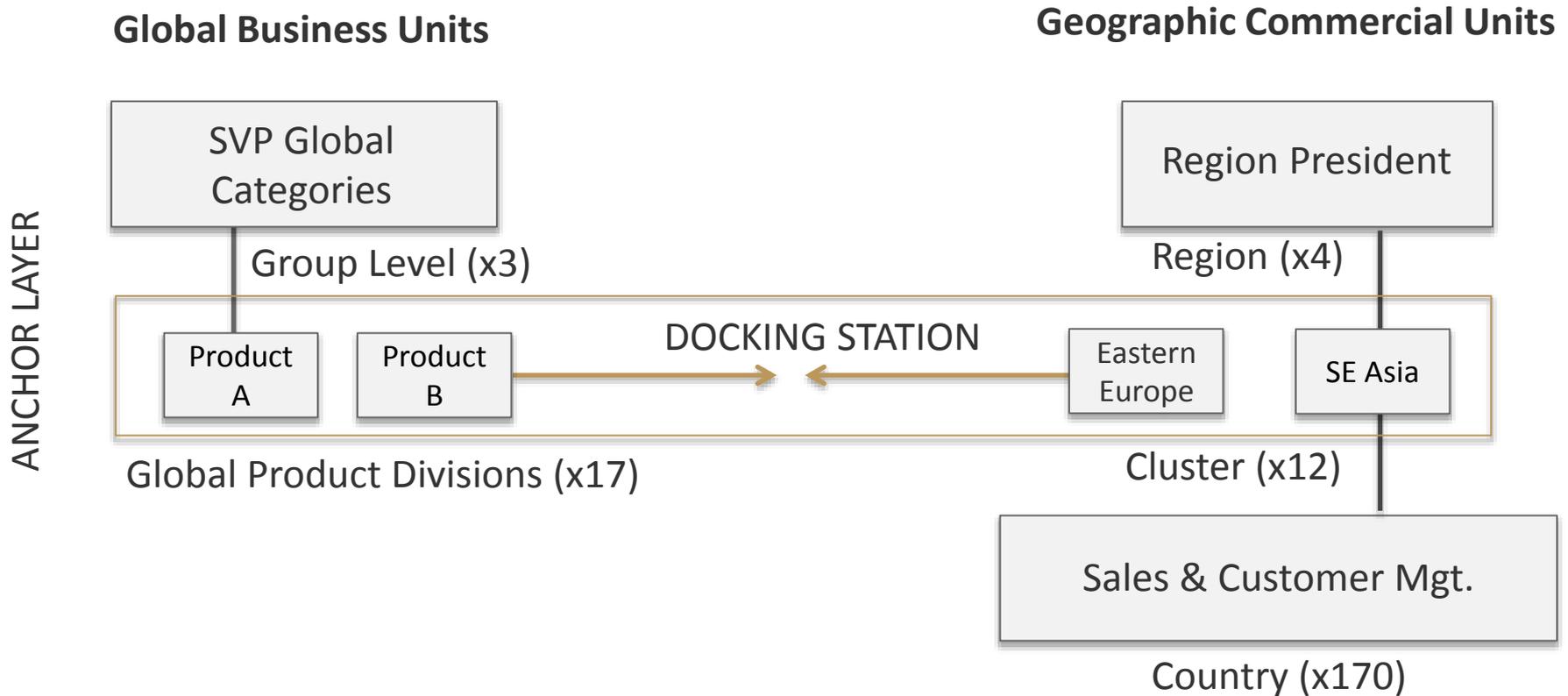
Layering makes horizontal connections difficult

1 Unique, Value-Adding Layers



An anchor layer enables clear connection points

1 Unique, Value-Adding Layers

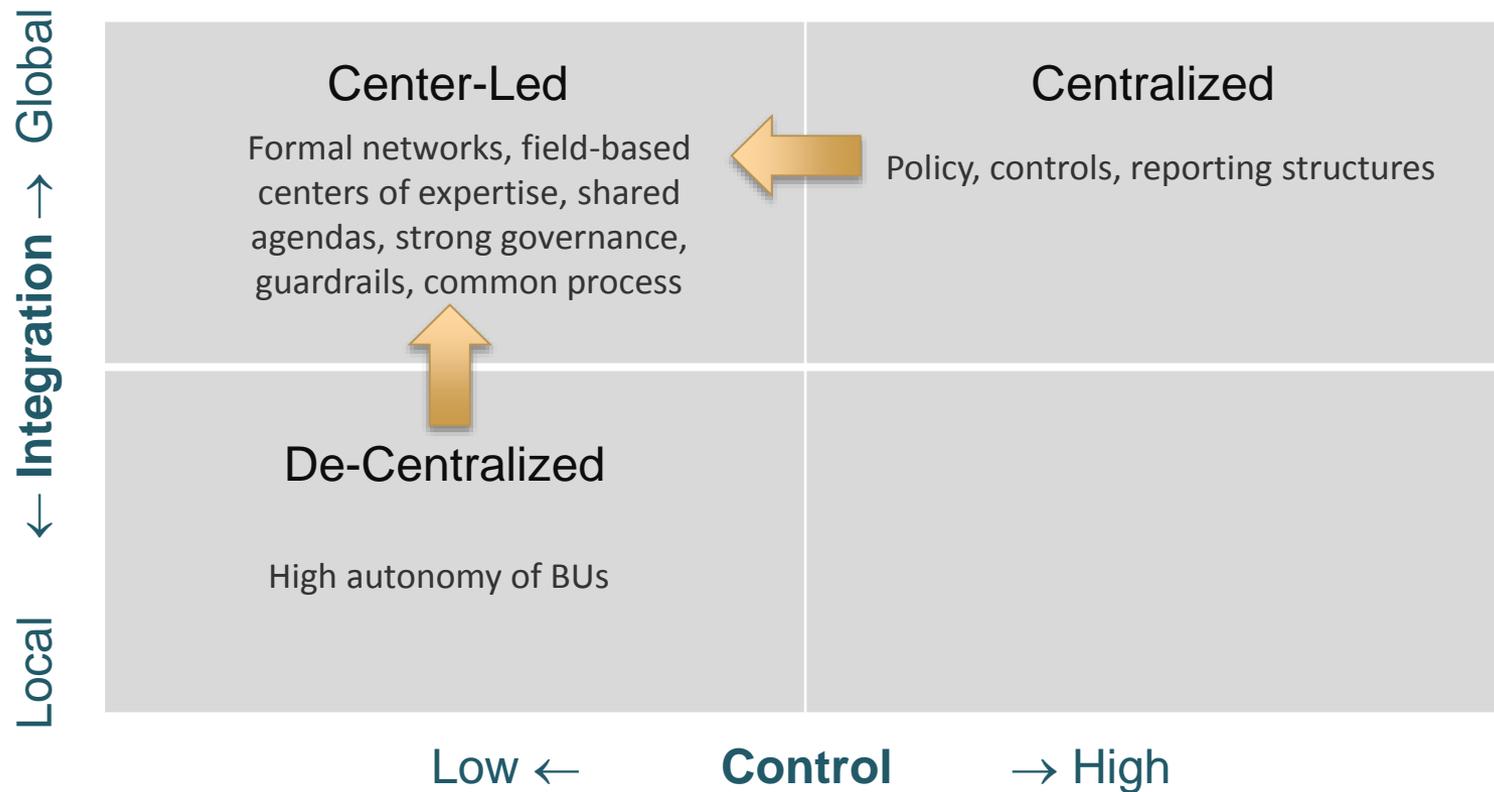


1. The fewest possible layers overall enable delegation and faster decision-making.
2. Each layer in the organization must have a clear and unique, value-adding role to play in delivering growth.
3. One layer is designated as the anchor layer in the business; this layer is the home of the primary operating 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.

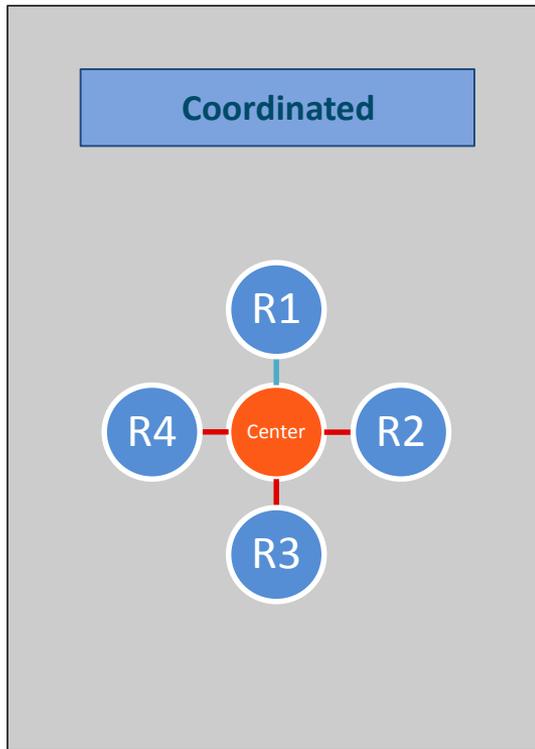
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A 'center-led' agenda is the focus for effective networks – vs. control

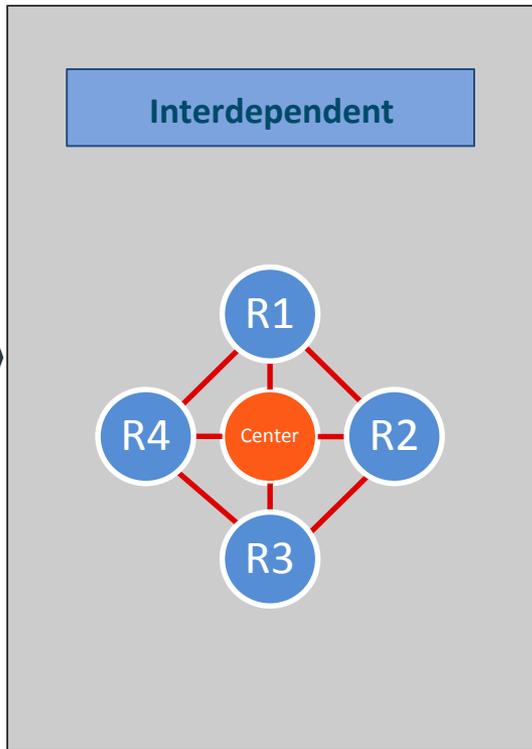
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Interdependence is the way to leverage company resources without centralizing governance



Hub & Spoke
Efficient, but low effectiveness



Networked
effective and efficient

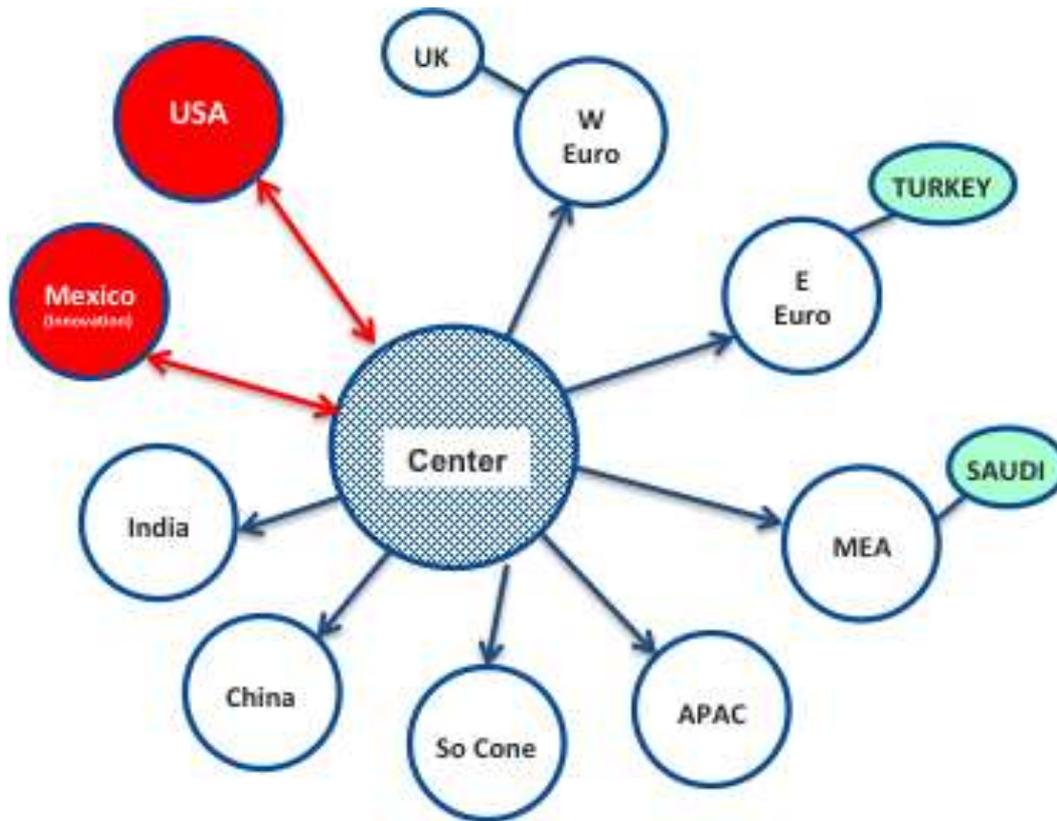


Digital Capability Example

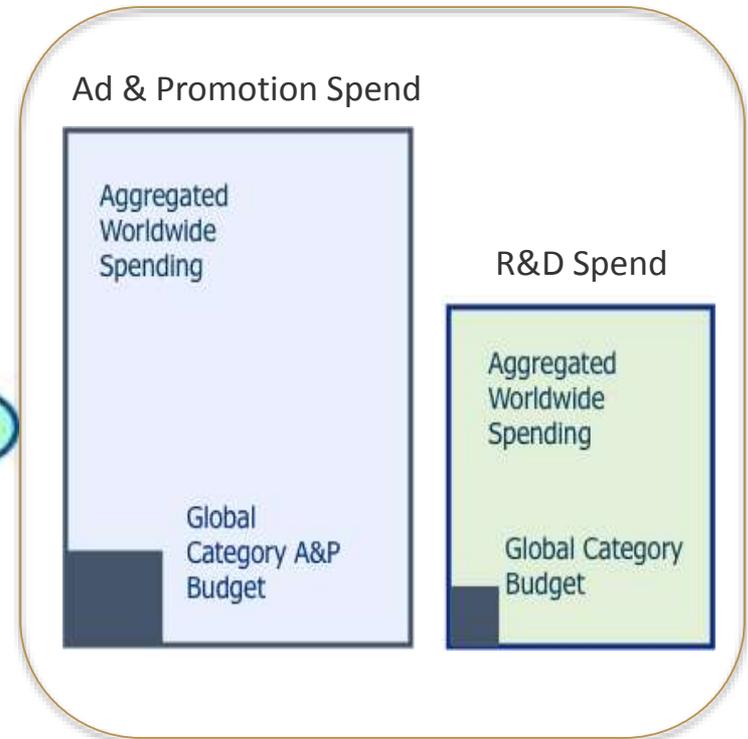
- Small center group to connect and build capability
- Governance to protect brand, but not slow local innovation
- Integrated with business cycle – built into growth plans
- Approval processes redesigned for speed
- Reverse mentoring field to center
- Talent investment in the markets
- Local talent 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

2



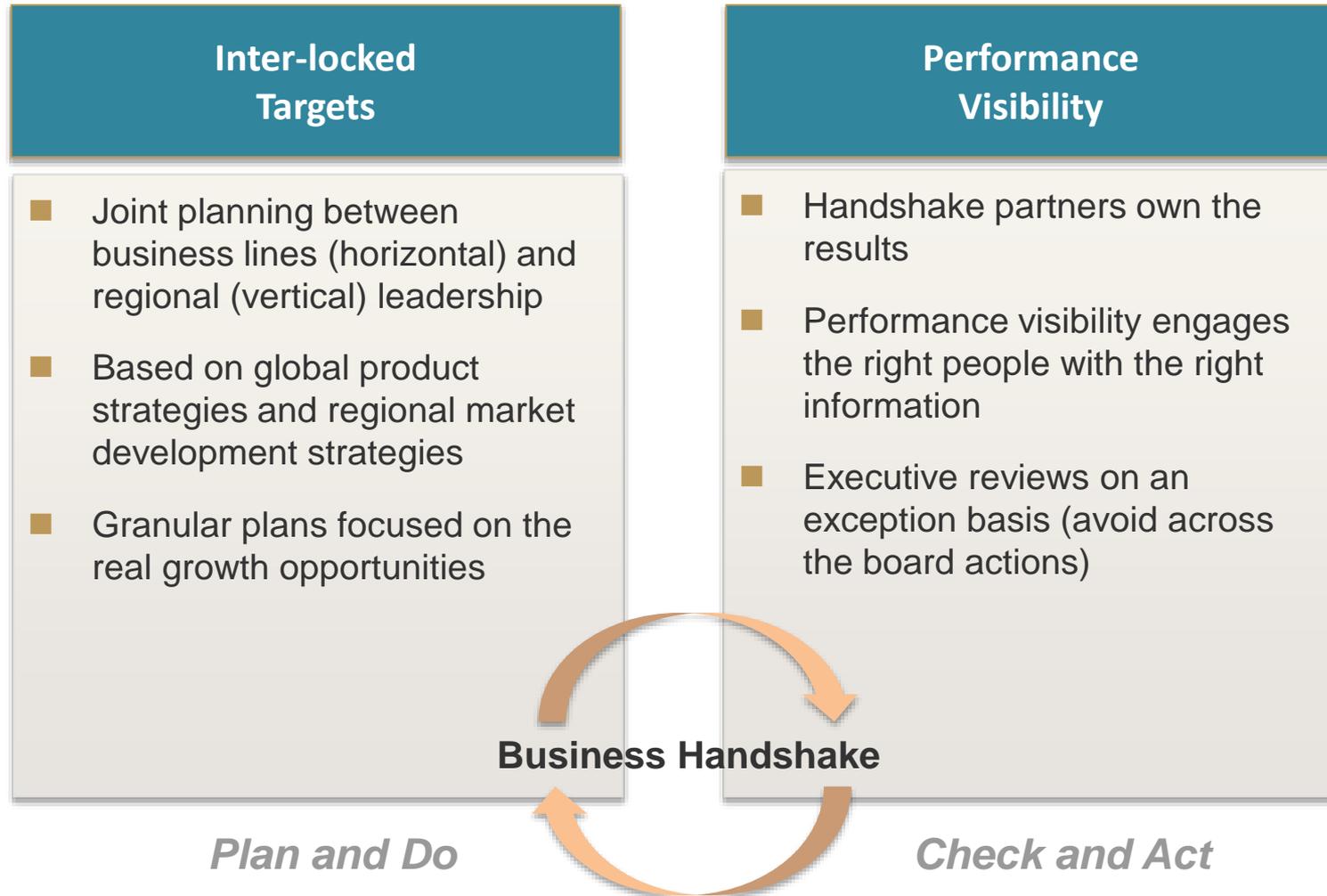
The Problem to Solve



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.
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-

The 'global/local' conversation the front end and back end of management process



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*

ConocoPhillips - Performance Visibility

No Relevant Activity
 On Plan
 Off Plan - Recovery Unlikely
 Better Than Expected
 Off Plan - Recovery Actioned
 Significant Issue Highlighted

	BU Status						Operational Drivers							Functional Considerations							Future implications expected (Up to 2017)			
	Outcomes			Risk			Major Projects	Well Stats	People	HSE	Asset Integrity	Shutdown Activity	Decomm Activity	Commercial	T&P	HSE	Legal	Gov't Affairs	IR & Comm's	HR	Finance	Production	Operating cost	
	Production	Operating Cost	Capex \$MM	Geopolitical	Commercial	Partners																		Other Stakeholders
L48 - San Juan																								
L48 - Mid Continent																								
L48 - Rockies																								
L48 - GOM																								
Alaska																								
Canada																								
Norway																								
UK																								
Libya																								
Malaysia																								
ABU West																								
APLNG																								
Indonesia																								
China																								
Qatar																								
Company/Corporate:																								

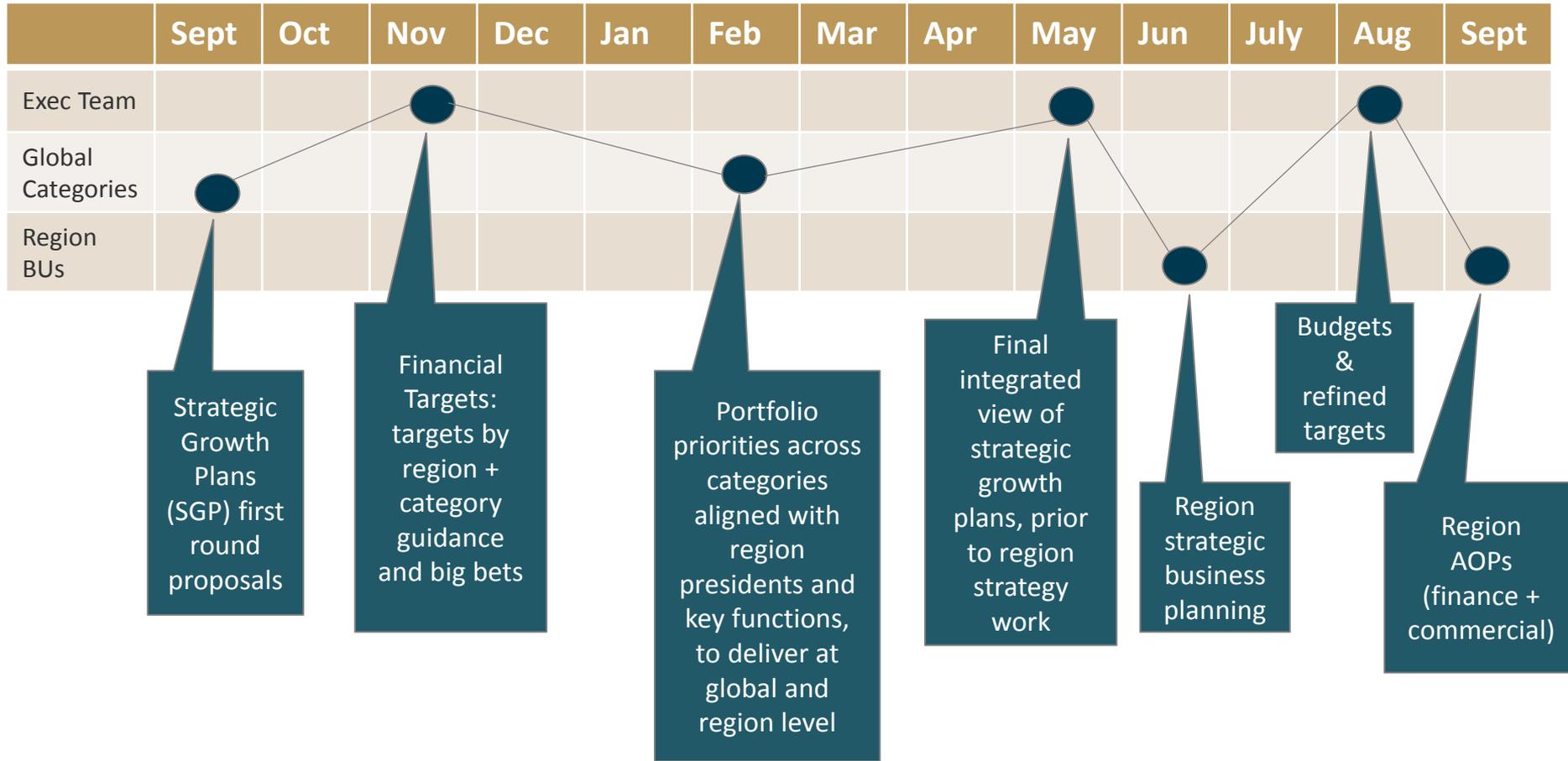
Mulally's Formula at Ford

- 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.

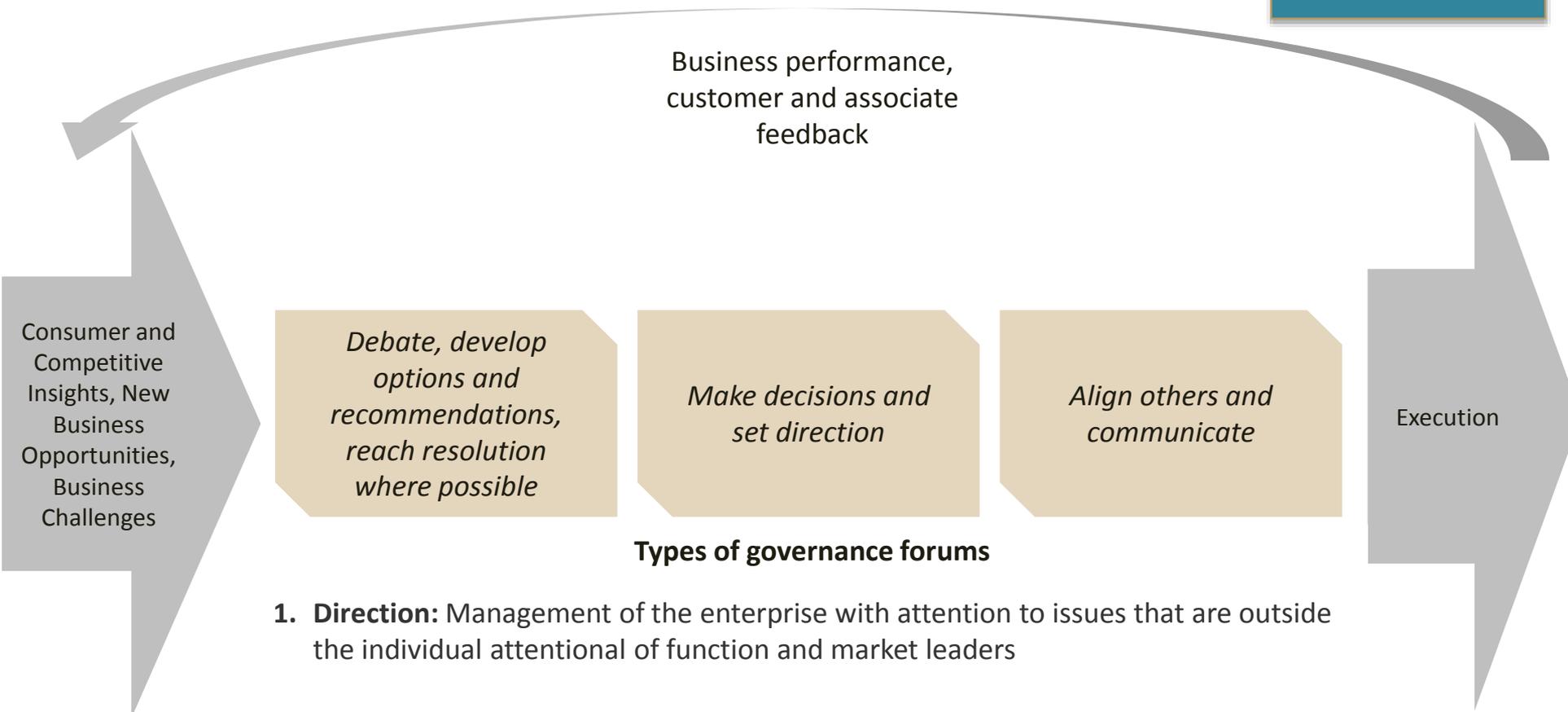


The oil exploration giant is working on a similar process for managing performance across its matrix

Mapping the critical conversations



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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.

Example: Customer service standards in a local market

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

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: In-market pricing and promotion strategy

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.

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

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

The design dilemma is how to get the right balance between agility and leverage



How power is adjusted between global and regional roles

4

Power, Governance
& Decision Making

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.)



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Talent + Experience = The Right Stuff

5

Matrix-Ready
Leaders

Emotional affect

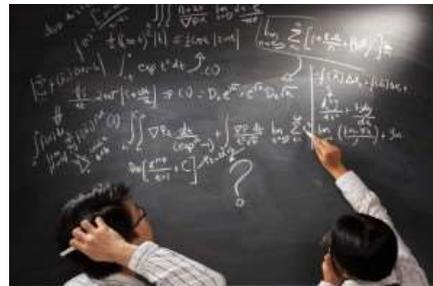
Intensity



P&G

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

Complexity



Relevance



Developing leaders and organization at the same time

5

Matrix-Ready
Leaders

- **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

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

“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*”

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)

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

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

