

# Organization Models

## 03

Organizations are invisible, abstract constructs. An organization is not the tangible product it produces, the services it delivers, or the physical locations in which it is housed. An organization is not even the people that identify with it. The people can change, but the organization is still there.

The organization exists because we believe it does. Yuval Harari (2015) says that what distinguishes humans from other animals is our ability to have “shared imagination.” Shared imagination is what allows us to believe in invisible constructs such as money, religion, and nations. And, just like these other ideas, the organization exists solely because we accept as true that it does.

As organization designers, we face the challenge of making this invisible and abstract idea tangible enough for a group of leaders to imagine the nature of the future organization they are trying to create together. Words are important but often imprecise. Ask any random set of managers to define terms such as “matrix,” “shared services,” “network,” “business unit,” “agile,” or even “team” and you are likely to get a variety of definitions and emotional responses depending upon each person’s past experience with these concepts. Graphics help, but they are also only inadequate representations.

Even though it is difficult, rendering the organization is still a valuable exercise. We find that using a combination of both words and pictures early in the design process can assist a design team explore and articulate organizational ideas. It is the very act of struggling to explain and build on ideas together that is useful. And then, long after the ideas have been turned into organization charts and job descriptions, these early expressions of intent often remain some of the best ways to communicate the core concepts of the new organization.

We call these conceptual combinations of words and pictures an “organization model.” The organization model is a visual manifestation of how the parts of the organization are intended to relate. It is both a design tool

and a communication tool. Building an organization model together allows leaders to work through new accountabilities and interdependencies without talking about specific jobs and people. It is true design work, bringing together the creative and analytical sides of the brain and benefiting from many diverse perspectives.

One of the biggest mistakes that leaders make in the organization design process is to start with their direct report structure and then assign work units to them based on the perceived strengths of the people on the leadership team. This is classic “designing around people” and yields designs that lack logic and have to be redone when there is a change of people at the top. Certainly, the organization chart is an important output of the design process. But it is not a design tool in the way that an organization model is.

In this chapter we will cover:

- what is an organization model, why it is important, and how it fits into the design process
- the front/back model and its variations

## An Organization Model Example

Development of the organization model typically comes after creation or refinement of the strategy, identification of capabilities, and assessment of the current state. It is often developed iteratively with a discussion of the operating framework, discussed in Chapter 2. The act of creating the organization model can highlight where a leadership team is out of alignment regarding the relationship of the parts of the business portfolio. We have assumptions about the operating framework, we illustrate it through the organization model, and then we discover insights about our shared assumptions.

The group developing the organization model explores how different configurations and relationships between the parts of the organization will yield new behaviors, decisions, and business results. The organization models become a set of hypotheses that can be detailed and tested.

The W L Gore story will show how organization models are used in the design process. Gore is a privately held company founded in 1958, with nearly 10,000 associates operating in 40 countries and over \$3 billion in sales. The company makes hundreds of components and products, all sharing a core technology based on polytetrafluoroethylene (PTFE). PTFE is a

fluorine and carbon polymer that, when expanded, creates a microporous membrane with a high strength-to-weight ratio, compatibility with the human body, and excellent thermal and chemical resistance. (We have worked with Gore from 2016 to 2020. The information shared here is drawn from publicly available materials and a presentation in April 2018 at the Organization Design Forum conference by Gore leaders.)

The many products Gore sells, all based on this polymer, are grouped into three business units:

Medical: Implantable medical devices including stent grafts and vascular repair devices.

Fabrics: Sophisticated materials, from the flagship Gore-Tex brand to fabrics used by fire fighters, astronauts, and the military.

Performance solutions: Mostly industrial products such as filters, sealants, and gaskets, but also specialty products from guitar strings to dental floss.

Gore is a product innovation company, but is equally known for its highly evolved culture. Founder Bill Gore instilled some principles and unique practices that remain in place today. These include:

- No titles. Everyone at Gore is an “associate.” Some associates are leaders. That’s it.
- No job descriptions. Each associate makes their own commitments. For a long time, these were self-defined. Associates would find the projects they wanted to work on in their area and put together their personal portfolio of work. Today, there are job categories and work is more directed by leaders, but associates still have a significant say in what they work on.
- Peer review. Performance is assessed through 360-degree feedback. While a complex and lengthy process, it is a deep part of the culture that underscores the value that the company puts on collaboration.
- Lattice. Rather than organization charts and reporting lines, Gore has used the concept of a lattice of communications, in which people are connected in many more ways than typically seen in other organizations. As part of the lattice, everyone has a sponsor focused on their career development.
- Power of small teams. Bill Gore believed strongly that work is best done in small, highly autonomous teams. Even the size of manufacturing plants was limited to 150 people, based on Dunbar’s law of relationships.

As a result, Gore remains one of the most organically collaborative organizations that we have ever worked with. Long before the technology companies of the 2000s made Agile teams all the rage, Gore was truly agile. Gore is a company in which one person with a compelling idea can attract others and form a team. These small, cross-disciplinary teams created and brought products to market.

In 2015, however, a number of factors prompted senior leaders to look at the organization, and the culture they had created. They found that:

- Productivity didn't match revenue growth. Assets weren't leveraged. Improvement activities yielded one-off solutions. Strong values created a strong sense of identity, but also a wide variety in ways of work and business processes. This inconsistency between business units and teams created cost.
- The bottom-up strategy yielded many small wins, but markets demanded bigger bets and clearer strategy. The medical device business unit was in a highly regulated environment and competed against the might of Medtronic and its enormous R&D budget. The fabrics industry was becoming a low margin business in a time of fast fashion and a broadening definition of "performance" in the marketplace. Gore-Tex was losing its cache as a brand. By being confined to the very high end of the market, growth was limited. And the performance solutions business was a hodgepodge of products, with a few big winners, but also many legacy projects started with good intent that had been left to linger without strict portfolio management.
- The culture of autonomy and independent small teams was actually causing frustration among associates. When Gore was small and led by a strong founder, autonomy was balanced by guidance from the top. New leaders, though able and respected, didn't have the mechanisms in place to substitute for the founder's vision. As the company grew in size, and product and customer complexity, the lack of common direction and coordination between teams made it harder to get work done overall.

Terri Kelly, the CEO at the time, made clear that the company's relatively small size and competitive global environment required it to act like more of a closely related portfolio rather than the loosely related portfolio that had characterized the company through much of its history. This declaration of a change in operating framework was a significant decision. She communicated clearly the belief that the company would keep its strong cultural tenets and business unit focus, but it would also find ways to leverage assets

**Figure 3.1** Operating framework showing Gore's 2015 shift

	1   Fully Integrated Single Business	2   Closely Related Portfolio	3   Loosely Related Portfolio	4   Holding Co. or Conglomerate
<b>Strategy &amp; Org Design</b>	Single strategy guides all P&L units with minor variations.	Complementary business portfolio and core strategies with synergies.	Diverse, relatively autonomous businesses set strategies, with limited synergies across units.	Structuring cheap finance, buying and selling separate assets.
<b>Governance</b>	Strategy and execution oversight comes from organizational center. All process and practices are common. Single culture.	Business units drive strategy and varying degrees of execution, often with shared resources (in a matrix). Seeks benefits of scale in core technologies, product and commercial platforms, and/or back end operations.	Business units drive nearly full execution of results with limited matrix Cross-BU scale is limited (e.g. government relations, technology transfer, back-end shared services). Some effort to harmonize culture.	Focused on appointing leaders. Business units return financials to parent. No common processes. Multiple cultures.
<b>Role of the Center</b>	Drives functional policy, staffing and standards to build a consistent global function presence across the company; Functional costs managed centrally.	Orchestrates and owns a common strategic agenda and most processes. Collaborates closely with divisions to support execution. Manages company-wide talent process and shared services. Influences functional cost structure.	Builds skills, tools, and talent practices necessary to strengthen a few functional capabilities. Priorities are guided mostly in divisions. May be a few selective shared services. Costs managed primarily within the business units.	Limited company-wide policies and practices mostly focused on risk and fiduciary matters.
<b>Company Examples</b>	Apple Heineken Coca-Cola	Siemens Deere & Co. Medtronic	Aditya Birla Group Unilever United Technologies	Berkshire Hathaway Virgin Group

and talent across the business portfolio. Leaders, working together, would provide stronger direction on what work would be pursued and how teams would be staffed. The company would still look like a loosely held portfolio given the diversity of its businesses, but leadership would work together as in a closely related portfolio, as shown in Figure 3.1.

Productivity and innovation are compelling reasons to work together, but integration is expensive. It requires more management time for planning and coordination. A move to the left on the continuum has to be quickly followed by an honest discussion of what parts of the organization need to be linked and which will remain more autonomous.

The organization model is the best way to have and illustrate this discussion. Gore leaders made three key decisions with respect to how the organization model would reflect the realities of their diverse business dynamics while simultaneously driving behaviors associated with a closely related business portfolio:

- The three businesses would remain as distinct units. This was important as each has a unique set of customers, competitors, and go-to-market practices. For example, medical devices requires intricate piece-parts manufacturing, in a highly regulated industry where products are produced in expensive “clean rooms.” Fabrics is a high-volume, bulk processing, low-margin business, where manufacturing costs needs to be kept down. Therefore, business strategy, product development, manufacturing, sales, and marketing remained in the business units.
- Three business functions—manufacturing, research and development (R&D), and sales and marketing—would have, for the first time, enterprise leadership focused on leveraging common assets, functional excellence, and talent development. New roles were created to oversee the creation of common ways of work and to build talent networks across the business units. For example, the sales and marketing leader was to direct the implementation of Salesforce and sales excellence training. The process of setting targets and directing deals would remain in the business units, however.
- Finally, the enabling functions, including human resources (HR), information technology (IT), legal, and safety, were to be managed completely at an enterprise level. The intention was to reduce costly variations in local practices that were no longer adding value to the whole company. While the consolidation of enabling functions is a difficult task in any company, it was particularly controversial at Gore, where associates were used to local, high-touch support.

**Figure 3.2** Gore enterprise organization model

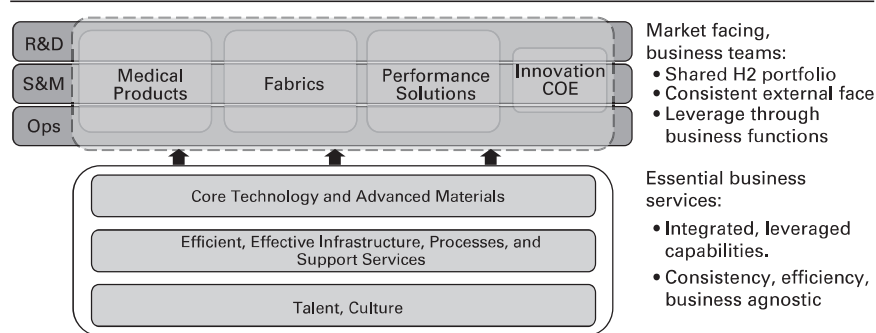


Figure 3.2 depicts these new relationships and design concepts for Gore at the enterprise level.

One of the most important uses of the organization model is to show power relationships and points of integration. In the Gore model, accountability for the P&L sits squarely with the business units. But some power was moved out of the business units in order to change how decisions are made. The new business and enabling function leader roles were to have authority over investments in common systems, platforms, and processes intended to increase productivity and focus energy on bigger innovations and changes.

The business functions are shown as horizontals woven into the business units. The enabling functions and core technology, where the PTFE is produced, are foundational horizontals. This was intentionally done to indicate two different types of integration.

The business functions are highly connected to the business units. For example, manufacturing is run by each business unit. Questions now can be asked around power dynamics, such as: What is the scope of authority and work of the enterprise manufacturing leader and team? How will a network of manufacturing expertise be formed across business units? What decisions will this network take part in? How will we measure the success of the manufacturing horizontal?

The enabling functions are more separate from the business units. This leads to a different set of integration questions, such as: How will we set priorities for IT work across the business units? How will the voice of the business units be represented in enterprise decisions? What is the process for determining which practices are best practices and become enterprise ways of work?

All of these questions get answered as we design the details of the organization. It is the creation of the organization model, however, that allows us to even conceive of and ask the right questions. We will come back to Gore after we step back and consider the basic and emerging building blocks of structure and what we call the front/back organization model.

## The Building Blocks of Complex Organizations

Organization models are created from a set of structural building blocks. The four basic types of structures are:

- **Function:** Work grouped by related activity or expertise. Functional groups allow for specialization, clear career paths, and strong professional identity.
- **Geography:** Work managed with a territorial boundary, which could be site, region, country, cluster, or continent. Geographical grouping makes the most sense when the product has to be highly localized in terms of features or go-to-market practices.
- **Product:** Product/service lines are multi-functional teams with accountability for developing products that can win in a specific market. Managing work by product often yields a strong focus on innovation and competitors.
- **Customer:** Customer groupings may reflect users, consumer segments, or industry verticals. The customer structure is a multi-function team focused on understanding and meeting unique customer needs.

More depth and detail regarding the basic structure building blocks and how each shapes organization behavior can be found in the book *Leading Organization Design* (Kesler and Kates, 2011).

These structures still cover most work, but we are observing some changes that are adding new vocabulary around digital, platforms and ecosystems, solutions, and channels.

The first is “digital.” Digital is not a function. It isn’t IT. It is a set of systems and new ways of working and interacting with customers enabled by new tools. We are in a transition time. In the future, we will likely stop talking about digital because it will no longer be something new or a place we aspire to go. Digital will be woven into the fabric of nearly all businesses.

But, because becoming “digital” for most companies is still a significant, multi-year journey, it requires leadership and focus. What makes digital important from an organization perspective is that it lives in various parts of the company that today are usually owned by multiple functional leaders. Digital lives in marketing through customer and consumer engagement and data analytics, in manufacturing through automation and robotics, in product development in the form of sensors and internet of things, and in sales through machine learning-guided customer service. In the enabling functions, digital is changing the core processes of the way work is done and how the company interacts with employees.

As a result, digital is causing a blurring of lines between functions and creating new functions. When 80 percent of technology spending is outside of the control of the IT function, and we expect that most employees will soon be working alongside technology inside and outside the company, then all strategy essentially becomes technology strategy. For example, traditionally, the folks in core IT infrastructure and those in marketing didn’t need to work together very much. IT provided the connectivity for desktop applications or perhaps a customer relationship management system. Today, however, marketing is technology. Few marketing departments still have a separate digital group—it is all digital. New points of tension are created as a result. Who has authority over the many vendors, agencies, and partners that today’s marketing department has to be connected with? Where do the people who program and customize systems and applications live and who manages them?

The other development in the past few years that has introduced new terminology is the concept of multi-sided platforms, which facilitate interactions or transactions between parties. Amazon, Alibaba, and Airbnb are well-known platforms in which the core of the business is to connect consumers to external vendors. Cloud technology is allowing many traditional companies to add a platform element to their business, creating much more complex ecosystems with blurred boundaries between what is internal and what is external to the company.

Conversely, solutions are highly integrated sets of products and services that are brought together for a customer. While the components are typically created or sourced by product units, they are often assembled and delivered by customer units. Management of the offering becomes a new task sitting between product and customer.

Finally, for many businesses, channels have become more complex. Companies managing wholesale and retail, through partnerships, and direct-to-consumer find that meeting the customer “where they are” creates significant internal complexity.

In the future, there will be additional dimensions within organizations. But the fact that we invent new ways of creating value and delivering work doesn't change the basic concept of the organization. And we will still need to conceptualize the relationship of all of these dimensions using an organizational model.

## The Front/Back Organization Model

The most complex organization forms result from closely and loosely related operating frameworks (columns 2 and 3 in the operating framework continuum). These tend to have all basic structures at play: product and service lines, geographic markets, customer segments, and business functions. While the parts are largely the same, the ways in which they are wired together result in different leadership behaviors and business outcomes.

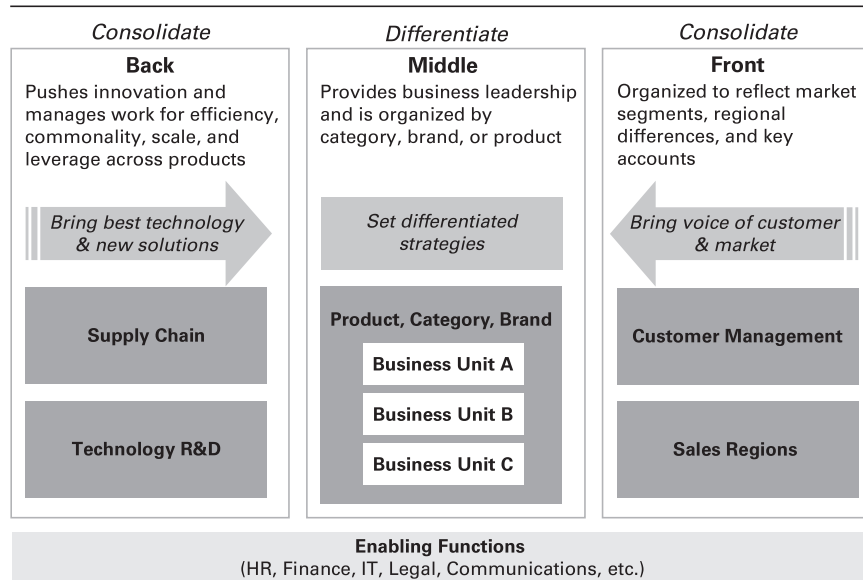
Many global companies use what we call a “front/ back” organization model for closely and loosely related portfolios to get the right balance of local autonomy and speed and enterprise leverage and scale. Jay Galbraith first described this construct in the 1990s (Galbraith, 1995). Our experience working with the leadership teams of dozens of global companies over the past twenty-five years has confirmed it is even more relevant in the 2020s for global companies with multiple product, service, technology, and solutions offerings.

Conceptualizing the relationships within a closely or loosely related portfolio is not easy work. We find that using the front/back construct allows a design team to articulate assumptions about power dynamics in the organization in a non-hierarchical way. Every part of the organization has a unique and significant part to play in defining and executing strategy. The model makes this clear.

From this core model, we can strip away or add parts and connect them in a variety of ways to drive different accountabilities and behaviors. Building the organization model helps us understand where we are today based on decisions made in the past and where we want to adjust for the future. In this way, the design work focuses on relationships and accountability, something that mere changes to an organization chart cannot do.

Virtually every business contains the three major components of work represented in the basic front/back model (Figure 3.3). Let's look more closely at each.

**Figure 3.3** Basic front/back organization model



The “front” is typically the customer-facing components of the organization. These may include all manner of sales channels, customer marketing, product localization, solutions integration, and customer service. The front end of organizations used to be fairly simple. Sales organizations tended to be geographically organized. And if you go to market business-to-business and want to be customer-centric, you might also organize the front by vertical (industry). But today, many companies operate in complex ecosystems where customers are also competitors. For example, SpartanNash, an \$8 billion food distribution and supermarket chain operating in the American Midwest had a fairly simple core retail business. But when Amazon moved into fresh grocery delivery, Amazon became both a customer and a competitor, complicating decision-making in the front-end sales channels.

Further, for companies that are trying to execute on solution strategies, the front takes on the accountability to bundle, integrate, and price the firm’s offerings as it goes to market. So-called *solution* architects are new roles that bring together all the value identified by the sales and account managers. Then *delivery* architects orchestrate the implementation of these complex projects.

In the business-to-consumer space, channels have become more complex. It is not uncommon for consumer goods companies to have wholesale partners, their own retail stores, and direct-to-consumer e-commerce sales. How these channels work together to deliver a seamless customer experience in an integrated marketplace typically falls on the groups in the front of the organization to manage.

The “middle” owns the business strategy and development of the offering, whether a product, service, brand, or category. The middle is designed to focus on differentiated strategies. The question to ask is: Does each of the units in the middle have a unique set of competitors and/or customers that would require a differentiated strategy? If so, then each group in the middle requires some autonomy and focus. This naturally leads to good discussion of what work each unit in the middle needs to control fully and what can be shared, and the assumptions for commonality. Often, product development and product marketing sit in these units. But, then the next level of design can focus on to what degree should engineering, operations, manufacturing, or research be shared or dedicated?

With a differentiated middle, portfolio management becomes an important leadership discussion. While innovation often springs from small experiments, real growth comes from identifying the winners and investing differentially in them. It is rare that all units in the middle are in the same stage of growth or maturity. The success of the closely and loosely related portfolio operating model depends not only on the leadership of each product unit, but also on the collective ability of leadership to make hard choices regarding investment and resource allocation across the units.

The “back” houses essential expertise that creates and delivers the offering profitably. We say these groups are in the back because, from a customer viewpoint, these groups are often not visible externally. However, the terminology is not intended to reduce their significance. Typical back-end groups are core engineering, operations, supply chain, manufacturing, technology platforms, research, and data and analytics. Because this expertise is expensive to obtain or requires intense capital investment, this work is often consolidated so that it can be leveraged across the various product units. Here the design questions include: Where can we have common processes and systems? Where can we pool resources and where do we need to dedicate them? How do we best make trade-offs when capacity is limited?

It is this stage that the idea of Enterprise Roles becomes important. As the model is developed, the roles document assumptions regarding accountabilities and decision making for each part of the organization. Figure 3.4 provides an example of accountabilities for the core roles of each part of an organization.

**Figure 3.4** Enterprise roles example

<b>Back: Platforms</b>	<b>Middle: Categories</b>	<b>Front: Go-to-Market Units</b>
<p data-bbox="415 422 651 510">Builds platforms for efficiency, commonality, scale, and leverage across categories.</p> <ul data-bbox="415 552 678 1066" style="list-style-type: none"> <li>• Delivers scaled services and assures compliance to protect enterprise interests.</li> <li>• Creates functional plans to build critical capabilities to execute the company growth strategy.</li> <li>• Manages technology roadmaps and builds infrastructure in line with growth plans.</li> <li>• Enables success of business objectives through oversight of functional resource pools, effective process and best practices. Manages central operational functions, where it makes sense.</li> <li>• Sets a cost envelope for the function.</li> </ul>	<p data-bbox="699 422 935 510">Develops market-leading assets that can be configured into customer-specific solutions</p> <ul data-bbox="691 552 954 1171" style="list-style-type: none"> <li>• Identifies long term market and technology trends. Sets growth, margin, and cash objectives.</li> <li>• Defines replicable, integrated solutions that meet customer needs profitably.</li> <li>• Aligns components to deliver profitable integrated solutions.</li> <li>• Manages development programs. Assures activation of new offerings in the market, including effective launch and customer support standards.</li> <li>• Sets pricing guidelines and service standards. Collaborates with go-to-market units to set growth targets for each.</li> <li>• Manages delivery of all solutions to customers across the value stream.</li> </ul>	<p data-bbox="987 422 1222 531">Coordinates how we prioritize value creation in the market, and bundles solutions across the platforms for customers.</p> <ul data-bbox="987 552 1234 1213" style="list-style-type: none"> <li>• Sets account and market segment growth strategies and plans.</li> <li>• Designs and integrates solutions for buyer groups.</li> <li>• Sets commercial strategy and plans for buyer groups.</li> <li>• Configures profitable solution sets for each account, based on solution sets provided by categories. Sets tactical pricing.</li> <li>• Owns the P&amp;L across the offerings.</li> <li>• Ensures customer commitments are fully met, working with platforms and categories units.</li> <li>• Brings customer intelligence to categories to inform new product development and growth targets.</li> </ul>

## Variations on the Front/Back Model

There are three core variations on the basic model, which create combinations that cover many global business strategies. We offer them here as a useful starting point for customizing a model for your own business.

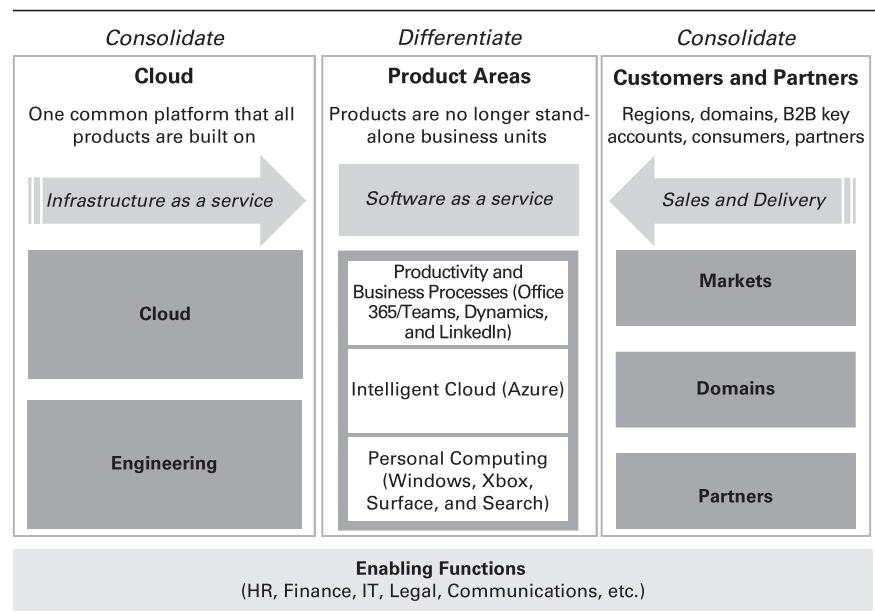
### ***Variation A: Differentiated Middle with Consolidated Front and Back***

In many companies, the basic organizational model is a set of product lines in the middle that each leverage a shared front-end and a shared back-end, much like the generic model. The conditions for this model are:

- The middle is a set of differentiated products or services that require some autonomy in order to innovate and compete in their own market niche.
- These product lines can leverage shared expertise or platforms to create competitive advantage and therefore the back-end functions can be shared at least to some degree.
- Customers not only buy across product lines, but also want bundled or integrated offerings. The groups in the front must be able to work agnostically across the product lines.

Take Microsoft as an example, shown in a simplified model in Figure 3.5. The middle segment is organized into product groups, currently Productivity and Business Processes (Office 365/Teams, Dynamics, and LinkedIn), Intelligent Cloud (Azure), and Personal Computing (Windows, Xbox, Surface, and Search). These are the key points of agility and differentiation—each product group is focused on a unique offering and has a unique set of competitors. The customer-facing front end—sales, customer management, and a large services consulting organization—is shared across the product groups. And likewise, the back end, which is all about artificial intelligence, machine learning, and cloud capabilities, is now the foundation that powers all Microsoft offerings.

**Figure 3.5** Microsoft 2020 simplified organization model



### ***Variation B: Differentiated Middle and Back with a Shared Front***

In other companies, the back end is strongly connected to the middle rather than consolidated and shared. The conditions for this are:

- The products or services in the middle are so differentiated that they require their own unique configuration of “back-end” expertise.
- However, customers may buy across product lines and may also want bundled or integrated offerings, requiring the maintenance of a shared front end.

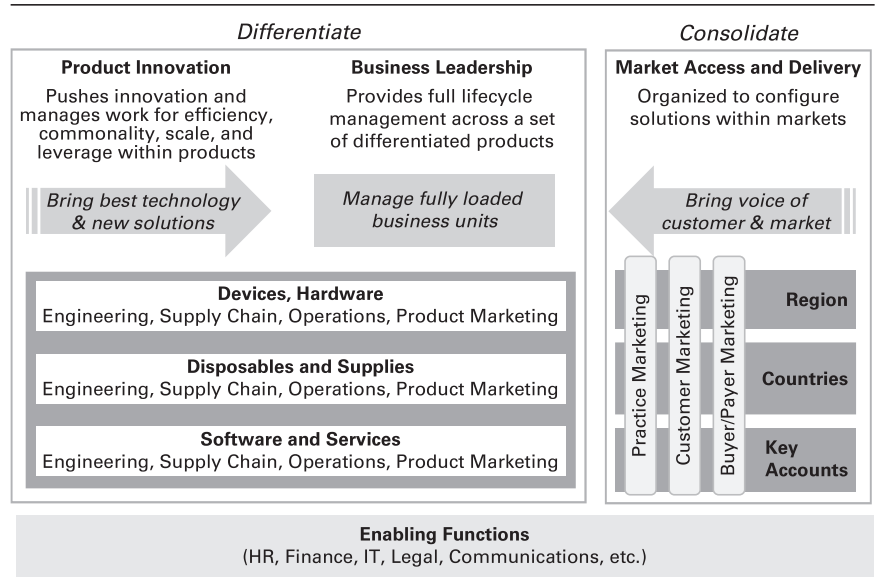
In this variation, we commonly see functions such as supply chain or systems developers closely aligned to the product managers and even managed by or sharing a reporting structure with the product groups. The rationale of combining the back and middle around the product lines is that there is little leverage to be gained by more centrally managed functions because the supply chain or the technologies associated with each product are quite diverse or even unique to each business.

The customer-facing front end, however, can be pooled or shared by all the businesses under a single commercial reporting structure because the products are serving the same customers. This front end is built for scale—leveraging customer relationships, as in Variation A.

The medical device industry has been evolving along this pattern for some time. Figure 3.6 is an amalgam of over a dozen global companies we have worked with in this sector. What was a fairly simple hardware business has evolved into three distinct product offerings in many of these companies—hardware devices, disposables and supplies, and software and integrated medical data. The supply chains and innovation processes for each of these offerings is highly differentiated. Little cost efficiency is gained from pooling them all together, so such capabilities are best attached to the product groups to provide the benefits of innovation and speed.

However, the customer in the medical device industry does not think in terms of hardware, supplies, or software. The customer is a specialty-oriented physician who wonders, “What thoracic surgical solution can you provide that will give me the best outcome in the operating room?” And, the customer is also a hospital system procurement manager who asks, “What solution can you provide that will reduce readmissions, be cost-efficient to maintain, and will integrate with our existing systems?” Therefore, the front end must be designed around customer segments that cut across product offerings.

**Figure 3.6** Medical device company example



**Variation C: Differentiated Front and Middle with Shared Back**

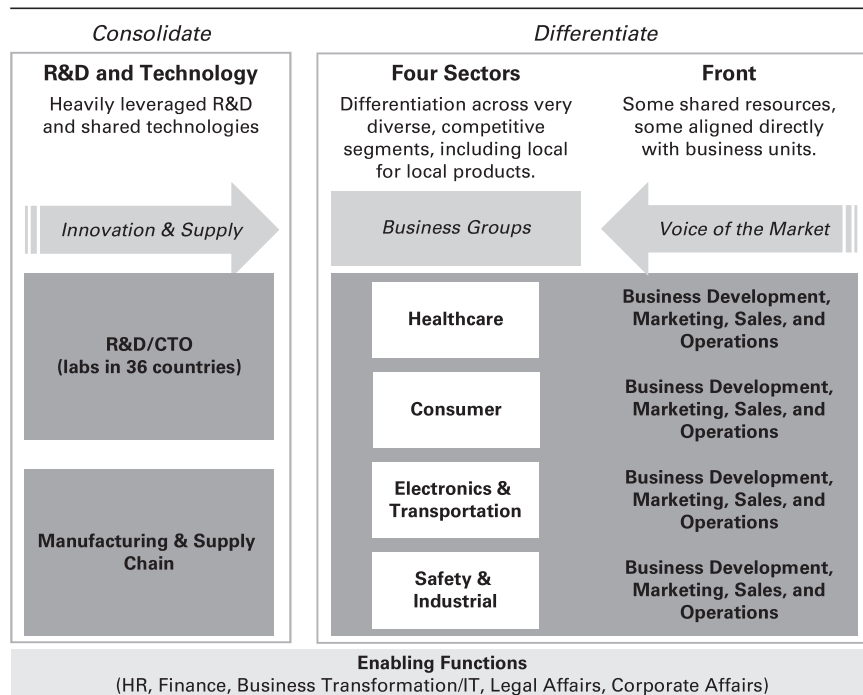
In this model, the products or services in the middle are connected to their own customer-facing teams in the front end.

The conditions for this are:

- Customer segments largely line up with the product offering and customers do not purchase across product lines.
- Products can be built on a common platform, and leveraging this proprietary expertise and asset is core to the business strategy.

3M, illustrated in Figure 3.7, is a classic example of a business built on this organization model. Like Gore, 3M centers on a handful of core technologies common to all products, in this case adhesives and non-woven fabrics. In fact, the company chooses what products to offer based on their connection to those technologies. But the industries that 3M sells into are quite different, requiring each product group to have a specialized sales and marketing organization to meet the needs of diverse corporate and consumer customers.

**Figure 3.7** 3M 2020 simplified organization model



For all these variations, the design of the product teams in the middle can be constructed in a variety of ways that reflect how different they are from one another and how much autonomy each requires to complete in its unique market space. A continuum is shown in Table 3.1.

## Where Does the P&L Go?

Assigning profit and loss (P&L) responsibility to a general manager is a common means of establishing clear accountability for a product or service line. Business leaders naturally want their scope of authority to match their assigned accountability, and many top executives, including CEOs, are drawn to these models of accountability. A common assumption is that the P&L sits in the *middle* of the front/back organization model. In the closely-related portfolio, this often leads to simplistic over-use of fully loaded, heavyweight product teams that operate independently, when in fact they should be leveraging more of the assets of the enterprise. This mismatch creates the perception of

**Table 3.1** Types of teams in the “middle”

	<b>Light-Weight Product Teams</b>	<b>Middle-Weight Product Teams</b>	<b>Heavy-Weight Business Units</b>
<b>Typical Functions Embedded in the Team</b>	Strategy, innovation, product planning	Strategy, innovation, product planning, product management, product development team management, consumer marketing	Strategy, innovation, product planning, life cycle management, product development, consumer marketing, regulatory, quality, sales channel strategy
<b>Typical Team Leader and Metrics</b>	Product Manager: revenue, sales support	General Manager or Product Leader: revenue, some shadow P&L elements	General Manager: P&L for revenue and gross margin, customer metrics
<b>Typical Reporting Level</b>	Into a marketing or product management leader	Into a division head or group product management executive	Into the CEO, COO, Group or Sector President
<b>Focus of Priorities</b>	Drive new technology strategy and big-bet initiatives	Drive global strategy and product/service plans. Product development, life-cycle management, and marketing	Oversee all elements of the strategy, offering, marketing, with guidance to supply chain and commercial support
<b>Examples</b>	Google (Product Areas for consumer applications)	Gore PepsiCo Kellogg's	General Mills Philips

accountability. But, not only do these organizations have higher cost structures with a great deal of duplication and unrewarded complexity, very often they conflict with the need for more boundary-spanning ways of working. Recall our discussion of enterprise agility in Chapter 1 in contrast to the agility that is created by small business units and autonomous teams. Hardened

P&Ls in heavyweight business units that “own” their own engineering, supply chain management, staff support, and other functions often create a false sense of agility.

Building an organization model with the front/back framework is an effective way to challenge leadership to reconsider conventional thinking about P&L. By working through the options, it often becomes apparent that alternatives exist with shared front- and back-resource teams that can bring greater cost effectiveness and scale while retaining agility in the middle.

The front/back organization model also exposes the increasing likelihood in today’s customer-focused organizations that the P&L belongs in the *front* of the model, not the middle. Companies that are bundling solutions across multiple product and service components, similar to the medical devices example, are shifting P&L accountability to customer-facing geographies and account-management teams. Accenture’s operating model, realigned in 2020, shifted primary P&L responsibility from global operating groups to regional market units in order to enable the customization of complex, cross-services solutions to clients.

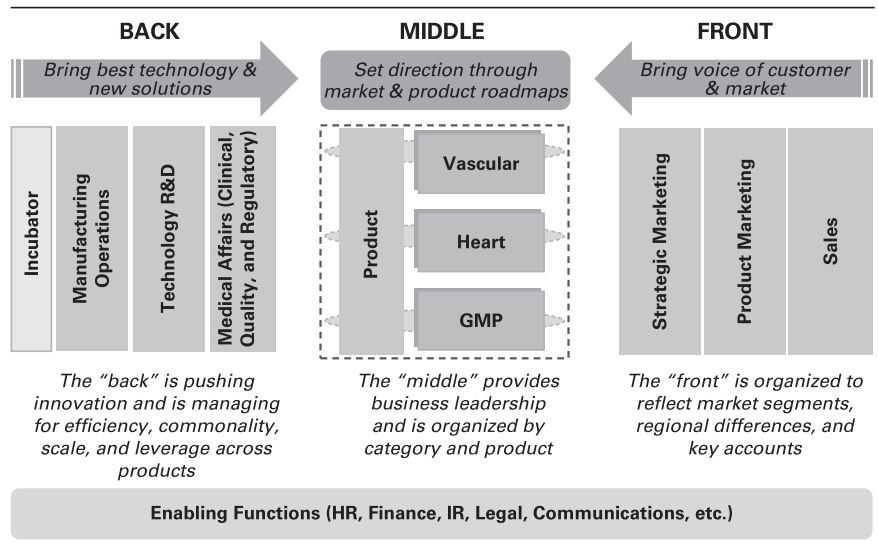
The role that any given product line plays in the greater portfolio is another consideration that should force a more critical review of P&Ls in the middle. For example, “winning” for one of the product lines might not mean profitability. This product line may provide an important component to the full solution but, standing alone, may not be a viable profit engine. Or, another product line may be critical for brand building and holding market share. When each part of the organization knows its contribution, respects the contribution of the others, and is measured and rewarded for the collective success, then P&L ownership becomes less of a source of focus and tension.

## Organization Models Below the Enterprise Layer

We have been looking at the alignment of organization model to operating framework at the enterprise level. The same patterns hold as you design levels below the top layer.

Let’s go back to Gore. As we described above, the company at the enterprise level deliberately only connected and leveraged a few assets—core technology, business function expertise, and enabling function efficiency. The three business divisions retained a fair amount of control over product development, marketing, sales, and manufacturing resources.

**Figure 3.8** The front/back model for Gore Medical Products



The Medical Division, however, is run as a *closely related* set of product lines focused on heart and vascular products. The category leaders in the middle set strategies and teams are assembled around priorities in a process that involves all parts of the division. Back-end resources are pooled for scale so the deployment of this expertise and capacity has to be carefully considered. The front end is also completely consolidated as customers (typically hospitals and governments) buy across the product offering. Figure 3.9 shows the front/back model for Gore Medical Products.

The power of aligning organization model to operating framework is that this work allows each part of the global company to be designed fit for purpose within a consistent logic that reflects the business strategy. As conditions change, leaders can proactively make targeted adjustments to reflect market shifts or drive different employee or customer behaviors. Operating framework and organization model thinking allows for deliberate and dynamic design of the organization.

## The Design Process

Creating an organization model is strategic work and should be led and owned by the most senior leaders in the organization unit under consideration.

We find that the design work is enhanced when this top team is augmented by participants from a level or two below. People in these roles are closer to the current realities of the work and help push for change. We suggest that our clients include high-influence, high-potential systems thinkers who sit in pivotal roles in the current organization in this work as well as a few that are fairly new and bring relevant external perspectives.

The top team must be part of the work because they have to commit to the direction and lead the organization forward (even though their own roles may change as a result of the design process). But if you only have the top team, they may convince themselves that the status quo is not so bad. The next layer is included to keep things real—to push for change and bring the voice of the broader organization into the work.

Before this design team starts imagining the future together, four foundational “business case and discovery” activities should be completed:

- 1 Clarity on the strategic priorities with alignment on how “we will win.”
- 2 Identification of the short list of organization capabilities (new muscles) that articulate what the organizational must be able to do together to deliver on the strategy.
- 3 Current-state diagnostic providing an honest picture of gaps against ambitions.
- 4 Operating framework discussion to surface and align assumptions of how closely connected the current and future product portfolio should be, and where integration adds value and where it does not.

In addition, we find that a few questions focused on the work are excellent catalysts for helping a group develop organization model options:

- 1 Idea to product: How will we develop products faster in the new model? What role does each part of the organization play in innovation and execution?
- 2 Demand generation: How will the new model help us gain customers and expand into new geographies and channels?
- 3 Delivery and service: How will this model help us go to market as one company and deliver a consistent customer experience, where we need to?

Remember that different organization charts can support the same organization model. The organization chart is a largely unconnected to the organization model. Size of leadership team, scope of roles, reporting relationships, spans of control, and number of layers are tactical decisions made *after* the organization model is agreed upon.

In sum, look to consolidate where scale gives advantage—cost, expertise, global reach, platforms, technology investments. Differentiate where autonomy gives advantage—product innovation, customer knowledge, go-to-market relevance. Use this logic as you design each component and each layer of the organization to yield a creative, thoughtful, and efficient design process.

### Key Takeaways

- The organization model is a graphic depiction of design concepts that helps to make the invisible, abstract concept that is “organization” tangible to a design team.
- The front/back model is a useful way to show, in a non-hierarchical way, the relationship between commercial, product, and operations parts of the organization.
- Enterprise roles lay out the accountabilities for the major parts of the organization model.
- Organization models should be developed for each unit of the company and are a critical design step before the creation of organization charts.

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