Boosting business performance through organization design
Organizations and people: Front and center

Organization design is the vehicle through which business strategy is executed and defines the environment in which the talent of an enterprise is released. To that end, organization design is a critical business activity establishing the framework by which an enterprise serves its customers and interfaces with the market.

As a result, a thoughtful, systematic approach to designing the organization is a key responsibility of senior executives and one of the few levers they can directly manage to help them achieve competitive advantage in an extremely challenging global marketplace. It is a creative act that, when executed effectively, enables ease of doing business, provides clarity to customers and vendors, spurs innovation, and releases the talent of the enterprise. Conversely, a poorly executed organization design can create barriers of entry for customers, frustrate vendors ability to effectively partner, inhibit the release of talent by creating unnecessary silos, and hamper value creation.

With that in mind, it is our contention that organization design transcends the act of aligning the components of a business; instead, it is a critical mechanism for positioning an enterprise for financial success by making the structure itself a source of competitive advantage. Through our work with global companies, we have developed a simple, clear, yet powerful approach to organization design that can be applied by business leaders at every level. Most importantly, we believe it can help companies achieve the competitive advantage they want.

Most global companies are well down the path of articulating global product and customer strategies and optimizing their processes through Web-enabled technologies. The next frontier is maximizing the effectiveness of their organization’s design and the talent within them.

Jeff Schwartz, global leader of Deloitte Consulting’s Organization and Change service line

When to design:

Most organizations today, both public and private, are facing unprecedented internal and external pressures for a number of external and internal reasons that are creating the need for improved organizational design.

External triggers:
- Changes in the competitive environment in domestic or international markets
- Demands from customers or suppliers
- Pressure to reduce costs or improve performance
- Regulatory environment changes
- The quest for innovation

Internal triggers:
- The business is starting up a new company, division, or product line
- The business is planning to grow (number of transactions or geography)
- The business strategy and/or leadership has changed
- The organization around the business has changed as a result of a merger, acquisition, or divestiture
- The business isn’t delivering the performance expected
Organization design 101: The elements of organization

For many, organization design conjures up an image of managers tinkering with “sticks and boxes” on the back of a napkin. Organization design can and should be much more than what it too often is: a haphazard mix of art and science using structural elements that are based as much on politics as business value. The result of that haphazard blend can be organization design that is too “siloed” to allow companies to pursue operational excellence, too fragmented to encourage the collaboration required for innovation, or too distracted or unwieldy to support a focus on the real customer.

As we see it, organization design is about helping the business achieve its goals and objectives and deliver value. It consists of the structural elements that drive business strategy and bring the strategy “to life,” reflected in people’s behavior. Organization design should be built on the principle that an effective organization consists of interrelated groups that are structured to interact with one another in ways that get work done. An organization can be a whole corporation or one part of it. It can have tens of thousands of people or just a few dozen.

Figure 1: Deloitte’s Organization Assessment Framework

We have found that an organization acts as a complex, open system, which has a number of interrelated elements and the specific characteristics of each company will determine the scope of organization design.

One accelerator that can help executives better understand the interrelation of organizational elements is the Deloitte Organization Assessment Framework (please see Figure 1). The model provides a frame of reference to help identify and diagnose the effectiveness of the key drivers of an organization’s performance. The framework highlights the existing links between those key drivers (structure, process and policies, technology, etc.) and their alignment with an organization’s strategy. That level of alignment, in turn, is associated with an organization’s ability to deliver against its strategic goals. All the while, external environment trends and market forces influence and reshape the corporate strategy forcing a re-evaluation of the key drivers.

Conducting an organization assessment includes collecting data, identifying root causes, and defining solutions. These solutions may involve one or many of the key organization performance drivers. For example, a solution could be a standalone change in organization structure or, more typically, structural changes enabled by subsequent changes in business processes, skills, decision rights, or performance measures. Using the Deloitte Organization Assessment Framework facilitates a consistent and holistic approach to organization assessment which should lead to a better understanding of the company, its strategy, and how key components of the organization align with one another and contribute to the achievement of business performance objectives.

Creating competitive advantage

When a company does an effective job of configuring these elements through organization design, it becomes an extremely powerful management tool that can help create a strategic competitive advantage. Aligning organization design with business strategy can yield efficiencies and boost company performance. Establishing the right structure can improve an organization’s ability to meet customer needs and create shareholder value. Specifically, effective organization design can help a company do the following:

- **Facilitate business strategy.** Companies that align their organization design with their business strategy are positioned to do a much better job of improving their performance and achieving their goals. This goes beyond “form following function.” An effective organization design not only provides a vehicle for delivering on strategy, but also creates a new working environment, opening up new opportunities, and creating new strategic possibilities.

- **Drive value.** Effective Organization design can help a company increase value, whilst poor design can destroy value. Some of the “soft benefits” of effective design include improved reputation, branding, quality, and customer and employee satisfaction. Some of the harder benefits include speedier decision making, improved organizational metrics, increased employee productivity, and profitability.

- **Improve organizational performance.** When companies seek to improve performance – by cutting costs, improving efficiency, targeting more lucrative customers, etc. – they often fail to analyze the way they are organized. Effective organization design can help a company improve performance by removing unnecessary layers from a company’s structure and by providing managers who must make key decisions with the necessary power and resources to do so. Effective organization design can also help a company be more nimble and adaptable, so it can respond to a rapidly changing marketplace.

- **Raise the effectiveness of the workforce.** Organization design can help companies redesign jobs and build new career paths, creating an environment where employees can thrive and innovate. Having a workforce that is more motivated and creative should not only help a company compete for talent, but should also help it create more value as it competes in the global marketplace.

- **Facilitate business transformation.** Organization design can be a catalyst to business transformation by reinforcing a change in strategic priorities or goals through a structural realignment. It should grab the attention of employees and investors alike.

### Meeting a 21st century challenge – designing for talent

Organization design can also help corporations meet one of the most important challenges of the 21st century: a looming talent gap, which has already begun to take its toll.

The demographics are sobering. The huge baby-boom generation, 80 million people born between 1946 and 1964, has provided U.S. corporations with one of the largest, most prolific cohorts of talent in history. Its successor, Generation X, born between 1965 and 1981, is much smaller, about 40 million strong. These numbers mean that, within the next decade, corporations will have to find ways to achieve their goals with many fewer people.1,2

In 2008, the first members of the baby-boom generation will turn 62, the average retirement age in the large, developed economies of North America, Europe, and Asia. This means that corporations will have to find ways to achieve their goals with many fewer people.

By creating leaner organizations that do a better job of putting employees in jobs for which they are best suited, organizational design can help companies close that gap.

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Good companies, ineffective organization design

While organization design can be a powerful tool, it is trickier and a lot more challenging than simply making a few management changes. Most companies can sense when their organization design is not working, but many are unsure how to tackle the problem. The job becomes more difficult because a comprehensive organization redesign can seem too complex and intimidating, since it is fraught with economic and political challenges.

So when executives are faced with an organization design issue, they often take the path of least resistance – changing some leadership roles here or redefining some jobs there. However, to be effective, organization design must be complete. When it’s not, our experience has shown that companies can get in trouble in several ways.

• **Overlooking political realities.** Every organization design must have a balance between what is good for a company in the abstract and what is possible, given who will maintain key power relationships. Powerful individuals can make or break the execution of the organization design depending on whether they buy into it.

• **Making the wrong choices.** Without a general view and an understanding of the fundamentals of organization design, companies often create a mismatch between the new capabilities they want and the new structure they create. An elegant new organization chart may not put company resources where they are most needed.

• **Picking the wrong people.** At its most basic, organization design is about putting the right people in the right positions. In doing organization design, companies sometimes neglect to make sure that people chosen for leadership roles have the right combination of knowledge, experience, and competence for the job. In particular, they sometime fail to motivate people who can help the employees they lead become better at their jobs.

• **Failing to execute.** Many companies start with a strong design, but fail to execute it. In particular, company officials pursuing organization design may fail to secure buy-in from key leaders. At the same time, they may fail to communicate effectively to employees (or sometimes may not communicate at all) why organization design is important and what goals it is meant to achieve. Finally, over time, the enthusiasm the company’s leaders have for organization design may fade and the old ways of doing business return.
A new approach

One of our organization design tenets is that there is no “one best way” to structure organizations. Organizations at different stages of their life cycles will require different structural models, and factors such as market conditions, culture, available resources, and location will influence a company’s choice.

At the same time, we have found that breaking the organization design process into steps gives companies a framework within which informed design decisions can be made. Some of the steps may occur concurrently or in an order different than the one presented here. Nonetheless, breaking down organization design into these steps should help companies find a broad, end-to-end solution. The Deloitte Global Organization Design Methodology is a four-step approach (See Figure 2).

**Step 1: Define strategic objectives and assess current organization.** Before diving headfirst into organization design, the organization design team must articulate the drivers for change and define the strategic objectives to which the organization must be aligned. The team should develop a comprehensive understanding of how the organization currently operates, including determining what works well and what could be improved. Getting stakeholders to agree on design principles early on will help guide the design and evaluation of draft models. A business case will help justify key design decisions and will help “sell” the changes later in the transition phase.

**Step 2: Define future core capabilities and build an operating model.** The organization design team’s next objective is to develop hypotheses on potential organization options. The team should define the future core capabilities required in the new organization to deliver on the business strategy, grouping capabilities into effective operating blocks. Core capabilities will be further developed by considering business rules, defining key performance indicators (KPIs), and developing a balanced scorecard that supports business strategy. A critical activity is developing an operating model. This is a pictorial representation of how the organization will interact with the marketplace and how key groups and functions will interact internally. The operating model serves as the lynchpin between design principles, functionality, and capability to the reporting relationships. Please see Figure 3 for an operating model example. In this example, the operating model is designed to demonstrate a shift from an existing country management structure to a regional management structure supported by governance teams.

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**Figure 2: Deloitte global organization design methodology**

1. **Define Strategic Objectives and Assess Current Organization**
   - Develop Organization Design Project Scope and Deliverables
   - Articulate Strategic Drivers and Design Principles
   - Conduct Organization Diagnostics and Roadmap
   - Define Improvement Opportunities and Business Case

2. **Define Future Core Capabilities and Build Operating Model**
   - Develop Organization Design Hypotheses
   - Define Future Core Capabilities
   - Align/Define KPIs and Balanced Scorecard
   - Develop Operating Model
   - In this example, the operating model is designed to demonstrate a shift from an existing country management structure to a regional management structure supported by governance teams

3. **Design Organization**
   - Develop High-Level Organization Structure, Roles, Business Processes, Decision Making Framework, and Transition Strategy
   - Define Rewards Strategy and Leadership Profiles
   - Align Business Process, Workflow, Governance, and Decision Right

4. **Transition and Evolve Organization**
   - Transition Workforce and Execute Training Plans
   - Implement Business Impacts Plan
   - Conduct Selection Process
   - Evolve Organization
• **Step 3: Design organization.** The design team should now be poised to design the top two to four (as appropriate) levels of the organization based on the new operating model. Developing conceptual organizational designs should be a highly interactive process, often involving development of alternative structures that are evaluated against design principles and the operating model. The business process, workflows, and decision rights should be aligned with this high-level organization design. Please see Figure 4 for a high-level organization design example. At a high level, rewards principles and leadership profiles should be developed that reinforce the new operating model. With a conceptual design in place, the organization design team is ready to drill down into the details. Job profiles, a business impact assessment, and an organization transition strategy should all be developed to move conceptual design into executable strategy.

• **Step 4: Transition and evolve organization.** Implementing the design can be as big a challenge as creating it. The organization design team should provide a step-by-step plan for making the transition between current and future organization models. The team can advise HR on conducting the selection process, bringing on board and redeploying selected employees, executing a training plan, and outplacing separated employees. The team should also assess the impact of the transition on the organization, continuously monitoring how well the company is achieving the business goals of the new organization, and identifying opportunities for improvement.

**Figure 3: Operating Model Example: Facilities Services Organization**

<table>
<thead>
<tr>
<th>Services</th>
<th>Clients</th>
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<tbody>
<tr>
<td>Facilities Design</td>
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<tr>
<td>Security</td>
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<tr>
<td>Cleaning</td>
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<td>Office Support</td>
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<td>Poverty Services</td>
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<tr>
<th>Countries</th>
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<tbody>
<tr>
<td>Strategy &amp; Business Development</td>
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<tr>
<td>Human Resources</td>
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<td>Operations</td>
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<tr>
<td>Country Sales</td>
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<tr>
<td>Regional Sales*</td>
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<tr>
<td>Finance &amp; IT</td>
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<table>
<thead>
<tr>
<th>Regions</th>
<th>Legal</th>
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<tbody>
<tr>
<td>Global</td>
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<tr>
<td>Latin America</td>
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<tr>
<td>North America</td>
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<tr>
<td>Central Europe</td>
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<tr>
<td>Eastern Europe</td>
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<tr>
<td>Nordic Asia</td>
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</table>

**Legend:** *Client Facing*
Figure 4: High-Level Organization Design Example: Facilities Services Organization

Global Organization Structure
- Global CEO

Regional COOs
- Sales
- Finance & IT
- Strategy
- HR
- Legal

Regional Management Organization (one region)
- Regional COO
  - Regional Finance Director
    - Financial Reporting
    - Treasury Management
    - Financial Analysis
    - IT
    - Management Reporting
  - Regional Strategy & Planning Director
    - M&A Integration
    - Business Planning
    - Business Development
    - Procurement
    - HR
  - Regional Sales Director
    - Key Account Management
    - Service Management
    - Regional Marketing Manager
Working with an architect

Effective organization design strikes a delicate balance between the ideal and the practical. To boost performance, organizations must take a comprehensive approach, one that starts with an honest look in the mirror and considers what will be most effective for the company. Then they have to make difficult changes. At the same time, organizations must keep key people engaged so they can retain essential talent through the transition. In a sense, organization design is similar to constructing a building: both require an architect responsible for structural soundness and managers responsible for execution according to plan.

An organization design architect can help a company make the tough choices that a change requires. The most effective architects not only have organization design experience, they also thoroughly understand the business and the industry they are working with. They act as guides through the change management process, working with key people inside the organization to make important decisions. Often, organization design architects work with an advisory committee to help them make certain organization design decisions.

Overall, the architect can provide design parameters, develop the conceptual operating model, and help lead the organization through the steps outlined above.

Organizational design for growth

Case Example – Motorsports manufacturer
A motorsports product manufacturer with revenues of $3 billion annually wanted to grow. The subsidiary of a Japanese parent firm, the company had a three-year plan that called for 70-percent growth in a flat market.

To help the company meet its objectives, Deloitte helped them create an organization design that aligned the company’s structure with its goal of becoming more customer-centric and executing an area marketing strategy. To facilitate this undertaking, Deloitte helped the company:

- Synthesize project information and the company’s goals
- Analyze current and future states
- Create vision statement for the organization design
- Design the future organization structure
- Design jobs and develop competency profiles
- Develop an implementation plan

Under the new organization design, the role of the field sales representative was changed to emphasize a consultative, high-touch approach. Field sales representatives were expected to provide more hands-on assistance to dealers, helping identify ways for the dealer to increase sales, connect with customers, and improve profitability. To execute this plan, Deloitte helped the client develop a staffing model that called for an increase in the number of field sales representatives. As the company executed this plan, field sales representatives were able to decrease their territory size, freeing them up to increase dealer interaction. But providing a high-touch approach also required the field sales representative to have greater skills and a different combination of competencies. After assessing the competencies of legacy field sales representatives and comparing them to the ideal competencies identified in the go-forward job profile, Deloitte helped the client develop a training program aimed at bridging the major competency gaps. Finally, Deloitte helped the client revise the sales incentive plan of the affected workers to account for the new territory size and align desired behaviors and competency development goals with monetary rewards.

In the end, the company executed a pilot program design to reduce risk. A lot of responsibility was pushed to the field and, as a result, business results for high touch pilot areas outperformed sales in non-high touch areas by 5%-10%. On the heels of these results, the company recently announced a major investment in expanding its sales, service, and accessories staff throughout the organization.
Design for competitive advantage

To use organization design to generate competitive advantage, executives should think holistically about the elements of business strategy and leadership, organization and job design, and decision rights. They can start by asking:

• How is my organization structure affecting the value and results of my business?
• Does my organizational design allow the achievement of strategic goals and objectives?
• To what extent are customer-centric drivers incorporated into the organization design?
• Are roles and responsibilities well defined and understood?
• Are common capabilities and processes grouped together to deliver an efficient execution?
• Are decision-making processes well defined, clearly understood, and most important, are they followed?
• What actions do I need to take to help facilitate achieving the goals and objectives of the organization?
• What role must I play in enabling this to happen?

Armed with the answers to those questions, executives can use organization design to help align the work employees do with the goals of the organization. That will give the organization the capabilities it needs to achieve competitive advantage in a global marketplace that is rapidly changing and extremely challenging.

Customer-centric organization design

Case Example – Health care manufacturer

A global manufacturer of health care products and related services was looking to achieve its global supply chain vision of enabling consistent customer experiences, improving price and product availability information, and providing a unified view of the customer. One of the organization’s product segments had a plan to establish common processes and core systems across the North American business units.

The decentralized structure limited the organization’s ability to serve the customer effectively and conduct business efficiently. Additionally, the barriers of conducting day-to-day operations were exacerbated by the number of legacy systems used and the complexity of the processes involved.

As part of their North American Supply Chain vision, Deloitte provided consulting services to the organization in support of their efforts to:

• Define the value proposition and strategy for the customer contact centers
• Assess the current state of the organization and define future business and customer requirements and needs
• Design the future state operating model and detailed organization of the centralized functions:
  – Consolidated customer contact centers
  – Accounts receivable
  – Warehouse management
  – Transportation management
  – Master data management
• Develop job profiles, performance metrics, career paths, staffing model, and competency model
• Identify and analyze organizational and business impacts across multiple locations
• Develop an integrated training program
• Develop strategic communications and implementation playbook
• Design a regional decision-making governance model

To understand the customer-centric view of this organization, Deloitte practitioners worked closely with business and HR representatives throughout the organization design process, interacted with customers to gather Voice of the Customer data, interviewed and shadowed customer service representatives, and conducted interactive workshops to help the client in their efforts to validate design options and gain leadership alignment.

The transformational organization design integrated the customer, people, process, policies, and technology aspects of the business in order to position the organization to achieve its vision. The organization has since successfully implemented the redesigned accounts receivable, warehouse management, transportation management, and master data management functions. The consolidated customer contact centers are being rolled out in a phased approach to facilitate a smooth transition designed to minimize customer impact. This strategic transformation has already made it easier for customers to do business with this organization.
**Self Check – Is Your Organization Design Delivering Value?**

To check, please take a moment to answer the following questions. At the end, you’ll be able to rate your responses to yield an overall score.

<table>
<thead>
<tr>
<th>To what extent do you agree or disagree with the following:</th>
<th>Fully Agree</th>
<th>Partially Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy and Leadership</strong></td>
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<td></td>
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<tr>
<td>• The organizational design allows the achievement of strategic goals and objectives</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>• Executive leadership roles, responsibilities, and decision-making accountabilities are well defined and support the mission and goals</td>
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<tr>
<td>• Resource needs are periodically evaluated to allow effective long-term resource planning</td>
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<tr>
<td><strong>Organization and Job Design</strong></td>
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<tr>
<td>• Roles and responsibilities are well defined and understood</td>
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<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>• The right talent with the appropriate skills are appointed into key positions</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>• Common capabilities and processes are grouped together effectively</td>
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<td>☐</td>
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<tr>
<td>• Self-service, shared services, offshoring, or outsourcing are leveraged for commodity-like activities</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>• Clearly defined career paths, staff development, and succession planning processes are established</td>
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<tr>
<td><strong>Decision Rights</strong></td>
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<tr>
<td>• Decision-making processes are well defined, clearly understood, and followed</td>
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<td>☐</td>
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<tr>
<td>• Decision-making groups are operating as per their defined roles and responsibilities</td>
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<td>☐</td>
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<tr>
<td>• Decisions are based on fact-based analysis and are executed on a timely basis</td>
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<td>☐</td>
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<tr>
<td>• Decisions are consistently communicated across the organization</td>
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To rate your responses, please use the following scores for each response:
- Fully Agree = 2 points
- Partially Agree = 1 point
- Disagree = 0 points

Add up your total points to yield an overall score.

- **If your score was 16-24:** Your organization design is delivering value. There may still be some pockets for improvement, but you are on your way to boosting performance and driving change through organization design. For targeted improvements, carefully examine the questions that you answered with “Disagree” or “Partially Agree” and look for ways to make improvements. You may consider soliciting help from HR representatives or an experienced organization design architect.

- **If your score was 8-16:** Your organization design is delivering value in some areas, but not in others. More could be done to leverage the use of organization design in your company. For the questions that you answered with “Disagree” or “Partially Agree”, identify those areas that either have the largest negative impact on your organization or that can be easily remedied. Consider bringing these issues up at an upcoming business meeting where strategy and organization design can be a topic of discussion. Consider charging individuals or an ad hoc committee with the task of developing recommendations of ways to make improvements to the identified focus areas, bringing in appropriate expertise where necessary.

- **If your score was 0-8:** Your organization design is not delivering value in most areas. If your company does not improve its organization design capabilities, it may very well lose ground on your competitors. Consider forming an organization design team to take a broad look at the organization, define strategic objectives, and assess the current organization. The team should get key stakeholders involved in the process to define objectives of an improved organization design. Consider collaborating with an organization design architect to help create competitive advantage through organization design. Execute an organization design improvement project utilizing the approach outlined in this paper.
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