Tools for MEDIUM Businesses

Level 2 Question 12: Is our organisational setup supporting our future (1-3year) setup efficiently?

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| **Title** | Organizational Design |
| **Why** | As your company grows, complexity in your organization evolves. Most companies start in a Fuctional structure, but soon other models may prove more efficient. |
| **What** | Organizational Design is made by taking your strategic drivers into consideration. And designing the organization around it |
| **How** | Steps In Organizational Design1. Review Business strategy and 3-5 years objectives
2. Evaluate current state organization, what works, what constraints do we experience?
3. Set an ambition for your new Organizational structure, by defining some organizational Design Principles.

A Design principle are used to make decision making easier while designing the new Organization. Examples of design Criterias could be:* *”Decrease the number of managerial layers in our structure while increasing spans of control to encourage quicker decision making with a shift of accountability downward throughout the organization.”*
* *“From centralized control points to more local empowerment and accountability”*
1. Chose a new organizational Setup based on the design criteria
2. Make sure that you are carefull in describing Roles and responsibilities in the new organization in order to reduce confusion when shifting to the new model.

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|  | **Appropriate for** | **Advantages** | **disadvantages** |
| **Functional Structure** | Organisations which sell a low price product and need to keep costs down Organisations with stable, undifferentiated marketsOrganisations with well-understood customer requirementsOrganisations with one or two product lines Organisations with long product development lifecyclesOrganisations where there is minimal need for interdependency between functions | Resource efficient and maximises margins through leveraging economies of scale and functional expertiseClear functional divisions drive strong accountability and control by functionDrives common standards, collaboration, specialism and attention to quality within each functionSupports common culture and values | Less responsive and adaptive to market and customer needsHierarchy and bureaucracy can become rigid and stiflingCommunication between divisions can be limited and inadequate leading to silo mentalityInterdepartmental conflict can occur |
| **Product-based Structure** | High technology organisations where global product excellence is keyOrganisations where there are multiple products for different customersOrganisations where there are low synergies between the different product divisions (i.e. different distribution channels, purchasing processes, operating requirements, competitive environments)Organisations where product development cycles are key, either because they are typically very short or long | Allows a strong focus on producing high quality products and ensuring short product development cyclesClear product divisions drive strong accountability and control by productAllows products to be divested / added with minimal disruption to the rest of the business | Poor resource efficiency because of duplication of effort and loss of economies of scaleDoes not support coordination of geographic areas and responsiveness to local conditions and customers may need to work with more than one divisionTemptation to work in product-based silosSometimes drives competition between business units for resources |
| **Geographic-based Structure** | Organisations that are spread nationally or internationally, where business environment varies by geography, local value creation is key and customers in different regions have different needsBusinesses where it makes sense to produce the product locally rather than transport it | Enables recognition of local cultures and operating conditions through closeness to the customerClear geographic divisions drive strong accountability and control by geographyEasy to add new products into particular geographies | Poor resource efficiency because of duplication of effort and loss of economies of scaleDifficult to develop consistent global practices and apply a global strategy. Can lead to inconsistency in product delivery as decision making is based around regions, not productsImplementing changes across all divisions can be slow and difficultCan lead to conflict between regions and HQ |
| **Process-based Structure** | Organisations where the value chain can be broken into clear and distinct processes and there are well-defined processes serving different customersOrganisations where there is a need to focus on expert knowledge, process efficiency, reducing process cycle times and reducing working capitalOrganisations where there is little interdependency between core processesOrganisations where there are different cultures/workforces between core processes | Supports development of efficient processes, economies of scale and reduction in working capitalClear process divisions drive strong accountability and control by processSkills can be highly refined because experts on processes work together in the same teams | Temptation to work in process-based silos and potential for clashes with HQSometimes drives competition between business units for resourcesPotential lack of alignment of processes and procedures across divisions |
| **Customer-based Structure** | Organisations with a strong marketing and customer service cultureOrganisations where different customers have very different needs | Drives rapid customer service and product to market timescalesFacilitates tapping into customer knowledgeClear customer divisions drive strong accountability and control by customer groupAllows swift identification of unprofitable product rangesFocus on delivering to the customer rather than reporting to the boss drives employee job satisfactionGlobal control of brands and appeal to customers | Poor resource efficiency because of duplication of effort and loss of economies of scaleDoes not support coordination of geographic areas and responsiveness to local conditionsTemptation to work in customer-based silosSometimes drives competition between business units for resources |
| **Matrix Structure** | Organisations operating in complex environments that need to respond to multiple demandsMedium sized service oriented organisations where work tends to be based on lots of very different projects | Drives efficient use of organisational resources and offers innovative solutions through forming and dissolving teams of highly skilled individuals Attention can be paid to more than one dimension, for example, product and geography. Allows a balance of local responsiveness and scaleEncourages communication within business and promotes knowledge sharing and a focus on the organisation as a whole | Can lead to confused accountabilities, power struggles, overlapping responsibilities and conflicting demandsCan cause duplication of effort, requirement for increased coordination and increased transaction costsDecision making process can be long because of multiple sign off gatesRequires strong information systems to help get information to multiple places and reduce bureaucracy |

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| **Examples** |  |
| **Template** |  |