Tools for MEDIUM Businesses

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

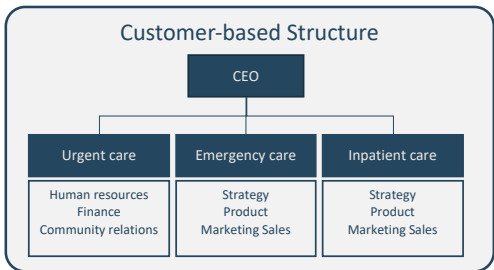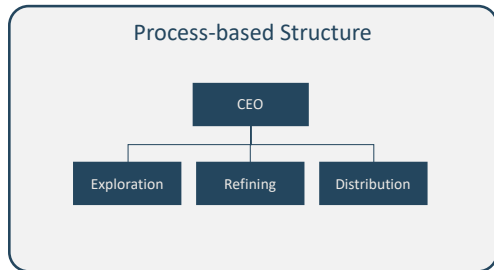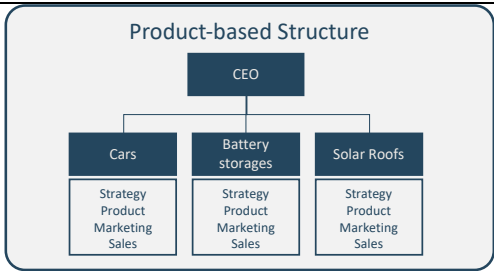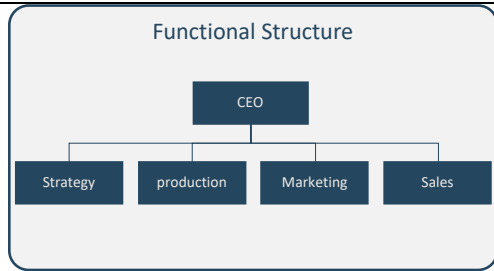| Title	Organizational Design
Why	As your company grows, complexity in your organization evolves. Most companies start in a Fuctional structure, but soon other models may prove more efficient.
What	Organizational Design is made by taking your strategic drivers into consideration. And designing the organization around it
How	Steps In Organizational Design 1. 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"* • 4. Chose a new organizational Setup based on the design criteria 5. 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.

Functional Structure

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              CEO
   ┌──────┬────┴────┬──────┐
Strategy production Marketing Sales
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Product-based Structure

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                    CEO
        ┌────────────┼────────────┐
      Cars      Battery       Solar Roofs
                storages
    Strategy    Strategy      Strategy
    Product     Product       Product
    Marketing   Marketing     Marketing
    Sales       Sales         Sales
```

Process-based Structure

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            CEO
     ┌───────┼───────┐
Exploration Refining Distribution
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Customer-based Structure

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                    CEO
        ┌────────────┼────────────┐
   Urgent care  Emergency care  Inpatient care
   Human resources  Strategy     Strategy
   Finance          Product      Product
   Community relations Marketing Sales  Marketing Sales
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Geographic-based Structure

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                  CEO
       ┌───────────┼───────────┐
      Asia       Europe      North
                             America
    Strategy    Strategy     Strategy
    Product     Product      Product
    Marketing   Marketing    Marketing
    Sales       Sales        Sales
```

Matrix Structure
(e.g. Products x Geographic-based)

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CEO
        ┌──────────┬──────────┐
       Cars     Battery    Solar
                storages    Roofs
America  ●         ●          ●
Europe   ●         ●          ●
Asia     ●         ●          ●
```

	Appropriate for	Advantages	disadvantages
Functional Structure	Organisations which sell a low price product and need to keep costs down Organisations with stable, undifferentiated markets Organisations with well-understood customer requirements Organisations with one or two product lines Organisations with long product development lifecycles Organisations where there is minimal need for	Resource efficient and maximises margins through leveraging economies of scale and functional expertise Clear functional divisions drive strong accountability and control by function Drives common standards, collaboration, specialism and attention to quality within each function Supports common culture and values	Less responsive and adaptive to market and customer needs Hierarchy and bureaucracy can become rigid and stifling Communication between divisions can be limited and inadequate leading to silo mentality Interdepartmental conflict can occur

		interdependency between functions		
	Product-based Structure	High technology organisations where global product excellence is key Organisations where there are multiple products for different customers Organisations 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 cycles Clear product divisions drive strong accountability and control by product Allows 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 scale Does not support coordination of geographic areas and responsiveness to local conditions and customers may need to work with more than one division Temptation to work in product-based silos Sometimes 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 needs Businesses 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 customer Clear geographic divisions drive strong accountability and control by geography Easy to add new products into particular geographies	Poor resource efficiency because of duplication of effort and loss of economies of scale Difficult 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 products Implementing changes across all divisions can be slow and difficult Can 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 customers Organisations where there is a need to focus on expert knowledge, process efficiency, reducing process cycle times and reducing working capital Organisations where there is little	Supports development of efficient processes, economies of scale and reduction in working capital Clear process divisions drive strong accountability and control by process Skills 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 HQ Sometimes drives competition between business units for resources Potential lack of alignment of processes and procedures across divisions

		interdependency between core processes Organisations where there are different cultures/workforces between core processes		
	Customer-based Structure	Organisations with a strong marketing and customer service culture Organisations where different customers have very different needs	Drives rapid customer service and product to market timescales Facilitates tapping into customer knowledge Clear customer divisions drive strong accountability and control by customer group Allows swift identification of unprofitable product ranges Focus on delivering to the customer rather than reporting to the boss drives employee job satisfaction Global control of brands and appeal to customers	Poor resource efficiency because of duplication of effort and loss of economies of scale Does not support coordination of geographic areas and responsiveness to local conditions Temptation to work in customer-based silos Sometimes drives competition between business units for resources
	Matrix Structure	Organisations operating in complex environments that need to respond to multiple demands Medium 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 scale Encourages 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 demands Can cause duplication of effort, requirement for increased coordination and increased transaction costs Decision making process can be long because of multiple sign off gates Requires strong information systems to help get information to multiple places and reduce bureaucracy
Examples				
Template				