When Tension Drives Value: Complexity and Organization Design

with Greg Kesler and Karen Duvall

Organizational structures seem to be increasing in complexity, and supply chain sits at the intersection of these organization dynamics. How can supply chain executives make this complexity work for them? Greg Kesler, managing partner at Kates Kesler, and Karen Duvall, SC50 alumna and senior advisor at Kates Kesler, joined members and moderator Larry Bossidy for an interactive workshop on identifying and embracing value-added complexity.

Bossidy told members, “You ought to be asked, ‘How should the internal part of the company be organized?’ And you ought to have an answer. Supply chain touches so many points that other units don’t touch.”

“I always wanted to know from the people who led the internal part of the business what they thought about the organizational design that we had. We didn’t agree all the time, but it was always an interesting insight that supply chain provided.” – Larry Bossidy

Tension is necessary

Kesler opened the conversation by stating that the goal of organization design is tension, not harmony. He said, “If we don’t feel the tension that these organizations create, there’s a very good chance we’re leaving money on the table.”

To illustrate the efficacy of tension, Kesler said that most global companies have at least four to five axes of power and reporting relationships within them. According to Kesler, this type of power dynamic supports multiple, at times competing, voices that facilitate bringing as much value as possible out of an organization’s “assets, people, footprints, market reach.”
The value of complexity

Kesler outlined what constitutes valuable complexity. “Rewarded” complexity is the level necessary to support a complex strategy, whereas “unrewarded” complexity is the type experienced by employees as slowness to act or indecisiveness.

Critical to success is understanding that organization complexity needs to be only as complex as the strategies that it supports. When it’s more complex than that, it’s not useful.

Differentiators for a successful matrix organization

Have the right structure :: Kesler identified three kinds of supply chain structures, each of which fills different organizational needs. Centralized, where the function manages product supply end-to-end for all the businesses. Second is decentralized, where supply chain spreads “best practices and standards and metrics across a relatively decentralized supply chain management organization.” Third is center led, where business units manage their own operations, but those units are part of a very tightly integrated system managed from the center. Regardless of which structure an organization chooses, reducing management layers is a must.

Put the right operating mechanisms in place :: Shared power is vital; however, Kesler recommended a 51-49 percent split, with one side owning decision-making rights. Kesler described one company’s approach to this split:

“We collaborate until we can no longer agree, then we’ve designated in advance who gets the 51 percent vote, because we want to move fast in these organizations, and if we don’t designate that, we become committees, things slow down and competitors win.”
This member’s organization is one of the top suppliers for an international restaurant chain.

“We do all their distribution around the globe. One of the difficult things that we have in our matrix is that the owner/operator of a restaurant has the exact same ability to vote as does a corporate supply chain individual as does a supplier. Making sure that you’re tied into what’s happening on a daily basis inside of a single restaurant and then multiplying that by 15,000 restaurants around the globe is a real challenge.

It’s a matrix that’s very difficult, because not only does everyone get a vote but also the profitability has to be completely transparent through the entire supply chain. As we looked at the tools we’ve been discussing, it’s about leadership and being able to leverage your relationships.”

Larry Bossidy asked, “If you could change it, what would you do?”

The member said, “I would allow for the experts in particular areas like supply chain to be able to make decisions for the entire system, because there’s a lot of waste when everybody gets a vote. Supply chains are extremely complex. Quite frankly, a restaurant owner doesn’t have the ability to really know how that whole thing plays out.”
“We’re talking about the operating governance of the enterprise, how the pieces fit and work together, how decision making happens. These are core issues to be dealt with at the CEO and team level. To the degree that you can influence that, I’d argue that’s part of your role.” – Greg Kesler

**Cultivate boundary-spanning leadership talent**: Select leaders with the kind of learning agility that makes them successful in environments where they may have multiple bosses.

**Possess deep social capital**: According to Kesler, at the end of the day, relationships really do matter. The companies that do this well invest in social capital, and they create very robust networks.