Designing the Global Organization

Gregory Kesler and Amy Kates

Kates Kesler

November 2019

The path to success for the globally-ambitious business has never been easy. Economic shifts, political protectionism, and infrastructure gaps in emerging markets have been obstacles for decades. These challenges are exacerbated for leaders in the twenty-first century by the requirement to be global and local at the same time and anticipate and respond to ever faster changes in the business environment.

Over 20 years ago, Bartlett & Ghoshal laid out the fundamental dilemma facing multinational firms: how to achieve global coordination while simultaneously being able to be locally responsive (Bartlett & Ghoshal 1998). The organizational solution to the global-local dilemma has typically been a global matrix across product lines, geographic markets, and functional groups. While the matrix creates clear points of connection across organization boundaries, it doesn't always allow for the speed of change that the current context of rapid digitization, empowered customers, and protectionist governments demands.

Galbraith foresaw the need for organizations to become more "reconfigurable." (Galbraith 2010). The power of the truly reconfigurable organization is that leaders can move work to where talent, capabilities, and capacity are, regardless of where they are located in the world. While this has been a goal for some time, the reality is that this type of organization at scale is only recently possible at scale. Customer relationship management (CRM) systems that make data and insights widely accessible and communication technology that allows the broad middle of the organization to work together are key enablers of reconfigurable organizations.

That the possibility of designing global, multi-dimensional organizations that can move fast exists, doesn't mean it is easy. All organizations – even the digital natives, built for speed from the ground up – face challenges of making decisions and organizing work across boundaries.

In this article we share frameworks for designing organizations that bring the benefits of speed and scale, global direction and local focus, and give leaders the ability to better anticipate and respond to complex changes in the environment.

Global Organization Trends

Historically, product and services companies have chosen to grow across national borders by replicating their success formula and delivering it in the local context (Galbraith 2000). General Managers are empowered to start with sales and marketing organizations and then invest in operational infrastructure. These "local-for-local" approaches are often effective market-entry strategies, but often prove expensive to operate for the long term. However, even enterprise leaders firmly committed to decentralized philosophies found that they could not sustain the complexity and costs of atomized market units led by mini-CEOs.

In the 2000s, we saw the pendulum swing the other way. Technology advances led many business leaders to buy into "the world is flat" rhetoric and predictions that global tastes and needs would converge. They dialed back autonomy and decision authority from country-based teams and transferred it to global product groups. Many went too far, however, in centralizing and consolidating global product and brand management. As a result, they soon found themselves under attack by nimble, local competitors.

In the past 10 years, we have seen a new flavor of global. Digital companies still need to localize their products, but no longer is the same infrastructure needed. When Spotify and Google move their success formula across borders, they can move into new markets without moving a lot of people. Global footprint strategies are more about how best to arbitrage talent costs for research, development, or operations work.

What remains the same across all of these strategies, is the central tension between differentiation and integration. This is nothing new to organization designers (Lawrence and Lorsch 1967). Today the term "agility" is often used to mean differentiation, while "scale" refers to the benefits of "integration." For the global organization, the balance sheet as shown in Figure 1.

Figure 1: The tension between agility vs. scale

Kates Kesler

Today's global companies have no choice but to design market units that benefit from the power of differentiated focus, assuring that even the most global products and services can be localized in the way they are designed and delivered to the customer. At the same time, these organizations must concentrate investments and resources for leverage, driving fewer, bigger bets to reduce duplication of effort and infrastructure cost.

The food and beverage industry provides a good example of this tension. While the PepsiCo brand is global, products in the company's expansive portfolio are highly adapted to local markets. Ingredients, flavor profiles, packaging, consumer marketing, and retail relationships have to all be tailored to local tastes. Market leaders need, and are given, high degrees of authority so that they can compete in a fast-moving, low-margin business. At the same time, PepsiCo gains advantage over local players by leveraging deep expertise in food-science research and global consumer insights data. PepsiCo builds these capabilities through strong coordination at the enterprise level.

Or, consider Otis Elevator, a 170 year-old industry leader that has installed its elevators in the Empire State Building, the Eiffel Tower, and the Burj Khalifa tower in Dubai. Otis, headquartered in Connecticut in the US, prides itself in being viewed as a “French company” in France and has grown successfully with strong regional centers of power. Variations among North American, European, and Asian building standards, construction methods, and economics continue to make it necessary to tailor technologies and product designs to real market differences.

But, today Otis also needs to incorporate sophisticated digital technologies to enable dynamic capacity management in 100-story towers, improve returns on new equipment installations, and meet complex demands from customers for services. Therefore, a greater degree of global harmonization of design and production has become critical. However, a single global elevator design is simply not realistic, so Otis had to find an organizational model that could deliver both global scale and local agility. The evolving organization can tailor products to regional variations in a profitable, customer-focused manner, while competing against local players who are willing to go to market at lower price points.

The current wave in global organization design focuses on avoiding the simplistic dichotomies of central versus decentral management structures. Today’s successful global organization has to be both agile *and* built for scale at the same time (Kesler and Kates 2016).

Designing the Global Organization

Each global organization has to be designed fit for purpose. The three core steps for delivering the right mix of speed and scale are to:

1. Match the operating model to the strategy
2. Build an organization model with clear accountability for work and outcomes
3. Design strong networks across organizational boundaries through a system of process, metrics, and talent

1. Operating Model

The “enterprise operating model” describes the relationship of the components of the company to one another (Kesler and Kates 2016). Many companies operate in an ecosystem. Relationships with customers, partners, and suppliers that extend beyond the walls of the corporation also may be part of the operating model.

We can depict operating model choices along a simple continuum as shown in Figure 2. The left column represents a single integrated business and the right column represents a holding company. Between the extremes are closely- and loosely-related portfolios.

The operating model defines the level of integration needed across the portfolio, based upon the extent to which the business models underlying each component are similar or different. Business models reflect how the company make money from different types of customers. Starting with strategy – how we serve customers and how we make money – ensures that the design thinking starts with the customer in mind.

These insights then set out the basic roles that business units, geographic territories, and functions play in the company and the decision rights that define interactions among these units.

Figure 2: Enterprise Operating-Model Continuum

	1 | Fully Integrated Single Business	2 | Closely Related Portfolio	3 | Loosely Related Portfolio	4 | Holding Co. or Conglomerate
Strategy & Org Design	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.
Governance	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.
Role of the Center	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.
Company Examples	Apple Heineken Coca-Cola	Siemens Deere & Co. Medtronic Microsoft P&G PepsiCo	Aditya Birla Group Unilever United Technologies	Berkshire Hathaway Virgin Group
Kates Kesler	1 2	3 4	5 6	7 8

Companies that operate at the extreme left of the continuum tend to have a single business model (way of making money) and a structure built around business functions. Functional leaders run the operations of the business together. Diversity in the business tends to be by geography and brands rather than by product line or customer segment. The business functions drive decisions, and the enabling functions drive a high degree of commonality in policy and practice across the geographies.

Companies that operate at the extreme right of the continuum are holding companies that optimize local business agility. Each business unit operates with high autonomy so that it can be moved in and out of the portfolio easily, a model commonly found in private equity or family-run conglomerates. The corporate center tends to be quite small and focused on financial oversight rather than operational control.

The most complex design questions arise in the closely- and loosely-related portfolios. In these cases, business leaders want to allow some degree of business-unit and market autonomy while gaining the benefits of resource leverage that comes with common processes and practices.

When times are tough, and companies are looking to cut costs, leaders tend to move left on the operating-model continuum in the quest for greater integration and leverage across the business units. When companies are seeking to drive growth, they tend to loosen the reins from the center and move to the right. This allows each business greater degrees of flexibility.

Unfortunately, business leaders often tend to swing the pendulum across the operating-model continuum as a reflection of leadership style or a reaction to apparent performance gaps rather than strategic change. The over-correction is perceived by employees as an inevitable oscillation between centralized and decentralized philosophies as different leadership regimes come and go. This can create degrees of cynicism and often creates inconsistencies in the model that lead to confusion and unhealthy tension.

The first step for the organization designer is to ensure that the leadership team is aligned on what operating model supports the business strategy. Then, the team needs to fully explore the organizational implications that this choice drives. These implications are best discovered and evaluated by developing an organization model.

2. Organization Model

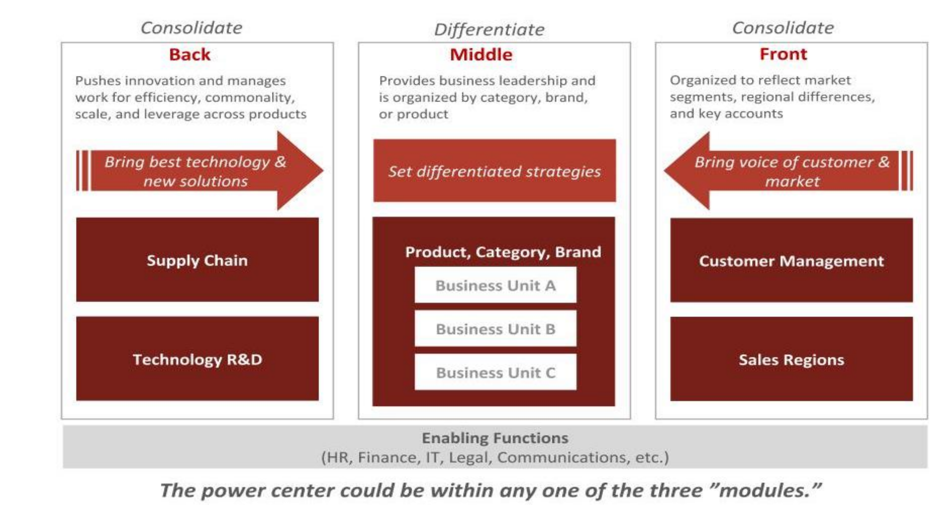
The most complex organization forms at the enterprise level result from the closely- and loosely-related operating models (the two in the center of the continuum), and we will focus on these.

An organization model illustrates strategic choices being made. A modular view of organization building blocks (functions, geographies, products, and customer segments) provides a valuable way to both approach the task of creating accountability as well as communicate these choices. The power of starting the design work with an organization model is that we can then configure and reconfigure the parts to create new power and accountability relationships and identify the boundaries that must be connected through lateral connections.

Many global companies use what we call a front/back organization model in order to balance speed and scale. Jay Galbraith first described this construct in the 1990s (Galbraith 1995). It has continued to evolve into more sophisticated forms. Our experience working with the leadership teams of dozens of global companies over the past twenty-five years indicates this framework is still quite robust and is applicable across sectors – product, service, digital, and solutions companies. In our work we have adapted the front/back model to serve a broader purpose, beyond defining a matrix. We use the model with companies to develop strategic-grouping options in order to illustrate the potential relationship of the components of the organization to one another. These parts can be connected in many ways. Matrix is just one.

Figure 3 shows the basic front/back model. The front is typically the customer-facing components of the organization and may include all manner of sales channels, customer marketing, product localization, solutions integration, and customer service. The middle often owns development of the offering, whether a product, service, brand, or category. The back houses essential capabilities and functions that create and deliver the offering profitably.

Figure 3: Generic Front/Back Organization Model



From this generic 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.

This work starts at the enterprise level, but the same patterns hold as you design the units within the enterprise. For example, your company at an enterprise level might have a very loosely-related portfolio or even be set up as a holding company. At this level, the organization model would typically be a set of fully-integrated business units or divisions where all three components – front, middle and back – are reporting to a division head. Enabling functions such as HR, Finance, and IT would likely be lightly shared at the enterprise level with most resources dedicated to the business. A few other select activities, such as advanced technology, may be leveraged across the business units, but otherwise each one has all the resources it needs.

A company that chooses an operating model that is a closely-related portfolio, in contrast, may choose an organization model that is focused on narrower product or service-aligned business units in the middle, with shared or consolidated front and back-ends. In this model there is more integration around customers, managed in the front, and a more integrated supply chain or technology platform in the back.

The power of aligning the *organization* model to *operating* model 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/organization model thinking allows for deliberate and dynamic design of the organization.

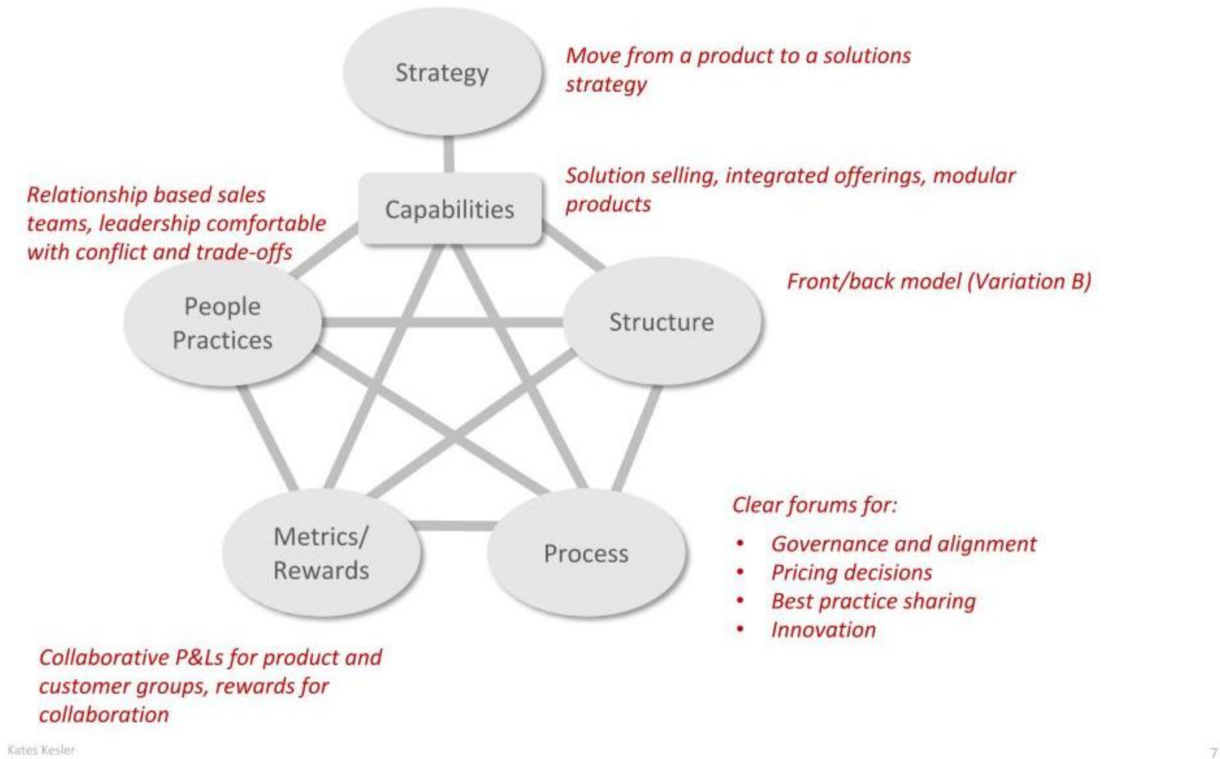
However, the organization model is only an abstract intention until it is supported by the process, metric, and talent systems that guide and support real humans to work together.

3. Cross-Boundary Integration

For the global company, the horizontal flow of ideas, capabilities, and talent across geographic, functional, and business-unit boundaries is imperative. And, as powerful as the alignment of the organization model to operating model is, it does not in itself create an effective organization. The Star Model remains the best guide for activating the non-structural design elements that facilitate horizontal, cross-boundary work (Kates and Galbraith 2007).

Organization capabilities are always built across boundaries. For example, take a global company that is shifting to a strategy built on "solution sales" rather than "product sales." A solutions strategy requires management processes for making difficult pricing trade-offs, metrics and incentives that reward a long-term view and active collaboration, as well as a high-performing leadership team comfortable with conflict. The Star Model work to deliver on a solutions strategy is shown in Figure 4.

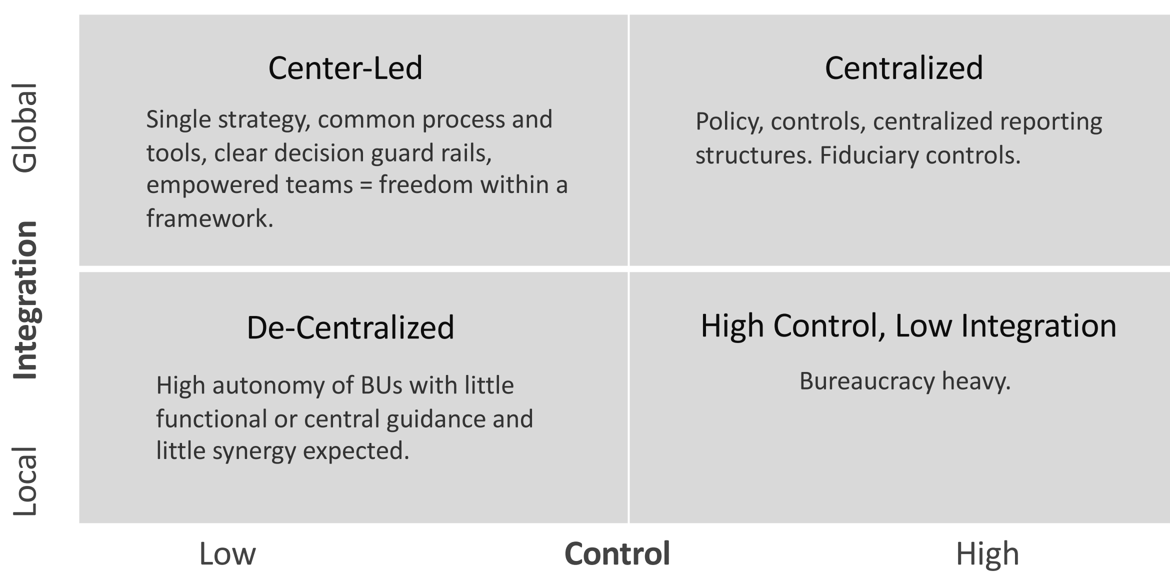
Figure 4: Star Model



The center-led organization

The debate that continues in many companies over whether to centralize or decentralize the organization has run its course and is no longer a useful conversation. Today's organization models must deliver the benefits of both. The way to do this is to add "center-led" to the design vocabulary as shown in Figure 5.

Figure 5: Center-led framework distinguishes integration vs. control.



Centralization of work and decisions (high control with high integration) is appropriate sometimes, of course, when ensuring an enterprise perspective and common standards are critical. Risk management, ethics, and brand boundaries are all examples of work that is often centralized. Decentralizing work and decisions (low control and integration) is appropriate when the center (headquarters or corporate) can add no value to the work of the operating unit or where common ways of work don't provide value to the customer.

Companies in the lower right quadrant of the model tend to exhibit high degrees of control with low levels of integration. Working horizontally to serve customers, to innovate with bigger ideas, and to drive brand value is very difficult. Employees and managers in these companies often report in organization assessments that they are constrained by controls that cause the organization to labor too hard on simple things that add no value to the customers. In other words, these organizations suffer the worst of both worlds: low degrees of collaboration with slow, over-controlled decision-making.

Enter the center-led concept. When work and decisions are center-led, those with enterprise roles support the operating units to coordinate and collaborate. They provide the forums, the data, and the tools to make good trade-offs that serve customers profitably.

While these center-led roles have appropriate controls and compliance mechanisms at their disposal, they do not over-rely on them. When done well, this construct can be very empowering for the operating units. They are enabled by the center to make good decisions fast for the customer, with a minimum of administrative oversight.

Consider the tech company, Salesforce.com, the customer-relationship software company that now provides a complementary suite of enterprise applications, including marketing automation and analytics. Their sales cloud and service cloud businesses must work together seamlessly with the commercial business unit sales channel if they are to deliver a single customer and user experience. If each unit is pursuing its own growth plans (and technology road map) an integrated outcome is impossible. This is especially apparent in a company like Salesforce that has also acquired many separate companies as part of its growth plan.

Organization structure alone will not solve this integration problem. This kind of horizontal organization requires sophisticated combinations of shared goals, functional centers of expertise, clear governance guardrails, common processes, and formal use of networks. The difference between companies that have strategies and those that execute on those strategies is the hard work of aligning the points of the Star Model and bringing new capabilities to life.

Formal networks

When Galbraith (Galbraith, 2010) outlined the reconfigurable organization, he conceptualized it as an organization built on a multi-dimensional matrix that remains relatively stable, boosted with a set of cross-boundary teams that are formed around major growth and innovation opportunities. These teams would form around a specific opportunity and disband once the task was accomplished.

This idea of reconfigurable teams sitting on top of a stable structure is still useful. But, today we can go beyond teams and design dynamic networks powered by technology that allows people to work in real time around the world using common tools and data.

These formalized networks are not ad hoc or based solely on relationships. The organization around these networks is highly engineered to make them successful inside the core structure of the business.

Reward systems and metrics are in place to encourage collaboration, including the right senior executive behaviors. Common business and management processes align work practices, making it easier for teams to work together. People are selected into these teams based on their collaboration skills and behaviors. And there are decision-making forums built to manage trade-offs that serve the greater company interests.

Today, formal networks are increasingly utilized in two broad forms: those that are opportunity-focused and those that provide a standing-governance forum for oversight of complex boundary-spanning work.

Opportunity-focused networks. The PepsiCo snacking category is increasingly run through what some leaders refer to as a distributed network model (not to be confused with technology networks). The objective is to leverage talent, investments in product innovation, and the many brand and physical assets without centralizing the work and decisions of a very diverse global snack business. PepsiCo, like Unilever and many other global companies, is committed to winning in local markets. But increasingly the company seeks to do this with more closely aligned strategies and priorities, coordinated to drive scale and eliminating duplication. And this must be accomplished in a world of rapidly shifting consumer tastes, playing out in many different forms across cultures, and in a technology-disrupted business environment.

As PepsiCo works to master use of the network, a collaborative web of marketers, designers, and product developers in its snacks category is assuming greater responsibility for product innovation. Some members of the network report to regional and country-based business units, and others report to corporate-center functions and brand teams. Their reporting relationships are relatively simple – some global and some local. They are not hyper-matrixed in the way that P&G people often are. But increasingly there is a shared culture and identity across this broader snack-brand community in the company.

Key components and working principles in a number of companies like PepsiCo, including Nike and VF Corporation, that have begun to work in networked teams include:

- A simplified and shared strategic agenda
- Scalable innovation priorities with project contracts
- Forward compatibility in the deliverables
- Innovation hubs (which can be anywhere in the world for a given project)
- Shared metrics
- Well-designed governing forums

A shared purpose is critical to these networks. Each of the network members has a “day job” with its own set of objectives, but when the network is activated around the right idea, the members come together around a shared agenda. At VF’s North Face apparel business unit, the brand is positioned the same in China as it is in Europe and North America. Team members share a vision. A new product idea can come from anywhere, and ideas in the network are quickly shared. Members of the network in any region have an opportunity to join in building a business case for a new product. If the idea gains traction across regions it becomes scalable and these are the projects that will get priority funding. Members of the network will be more likely to opt in when the core design idea has forward compatible characteristics, meaning local developers can build on the core to make the concept more relevant to local customers without duplicating investments.

Where the work is performed in these networks is the power of the model. Typically, companies like PepsiCo and VF have global technology centers that play a key role in discovery and global brand innovation. But the regional innovation centers also play a key role in cross-category projects as well as local scaling of big ideas. The central principle is to move the work to where the capability sits, anywhere in the world. In this way, the work is center-led in the sense that is it is performed on behalf of the diverse markets that have opted in, serving the greater company interests. But the work is not necessarily performed in the corporate center or even the company's home country. Increasingly these innovation hubs sit in India, China, or Eastern Europe. They may be managed by regional business units or by corporate functions, but their agendas serve the network, with priorities that are set in a collaborative portfolio-management forum with a broader view of the interests of the company.

Metrics must be set to encourage greater risk-taking, and they must be aligned across markets and functions to assure these new ideas will be priorities for senior leaders in the regions who are under pressure to deliver local results. This may be the most difficult challenge in companies known for delivering consistent financial results every quarter. New ideas always have a hard time finding their way into the priorities of a big profit engine, especially when the investment needed developing a new idea compromises short-term objectives (Christensen 1997). And it is even more difficult to overcome "not invented here" rejection. The network must be built with the right governing forum, including senior leadership, who share elements of a common strategy and common set of metrics to drive long-term and innovation investments.

These challenges exist across industries. An executive in the automotive component supply industry shared with us his view on why his organization was unable to deliver on a clearly-stated solutions strategy.

> *We've talked about solutions for a long time but haven't seen the progress we want. What gets in the way is that our businesses are structured to be fiercely independent, and our compensation programs are designed to incent earnings and cash flow and almost nothing else.*
>
> *Our components business has the potential to deliver fully integrated, plug-and-play modules to the original equipment manufacturers. We could build door panels with integrated wire harnesses, switches, and lift motors. But, there has been no incentive for the leader of the Interior Systems business to work with Input Controls, Wiring Harnesses, or Motors to deliver a modular solution to Ford, Chrysler, or GM. Our general manager was paid to get good product to the customer, keep costs down, and keep inventories low. She knew that she would likely be in her job for a few years before moving up, on, or out. Delivering now paid off. Creating markets for tomorrow did not.*
>
> *A solutions-delivering corporation is fundamentally different than a parts-producing company. If we believe "this changes everything," then almost everything must change to make it succeed.*

This is why networks don't occur spontaneously in large complex organizational systems. They have to be deliberately designed as a system.

Standing-governance forums. Standing-governance forums also manage work that requires integrated strategy and execution. But these networks oversee a standing agenda and set of processes that are sustained over time; this work is less project-oriented and more part of the fabric of the organization. These governing forums come in several forms including:

- Managing integrated demand forecast and supply planning across production, supply chain, sales, marketing and finance functions
- Overseeing a technology road-map across diverse businesses that share a product platform or core technology
- Governing multiple software, product, and service components across business units to assure a single customer/user experience
- Managing an integrated digital strategy across functions and/or businesses

These networks succeed when there is:

- Clear purpose: an ongoing enterprise priority that must be managed across boundaries
- Membership with a stake in the outcome, as well as critical expertise or knowledge
- Metrics that define the enterprise outcome
- Heavy-weight sponsorship, including a regular cadence for executive review of outcomes
- Clarity about decision-making scope and authority

Digital Transformation – How the Network Activates the Organization Model

One of the biggest design challenges for legacy-analog companies today is how to make the transition to digital in terms of new ways of connecting to customers, marketing and selling products, and delivering services.[1]

For many companies, the path to becoming a fully-digital organization begins with a fractured set of experiments undertaken by different business units, regions, and functions. Eventually, executives discover that the investment in these diverse assets are expensive and are not scalable in their decentralized configuration. The reflex is to bring in a chief digital officer at the enterprise level and begin to direct and control activities and investments. But digital is a not always a function that can be neatly bounded.

Rather, we can tie these digital domains together through an integrated digital strategy closely connected to the core work of the business, linked through a cross-boundary network of resources that are supported by the right management processes, metrics, and skill profiles. The governance network depends upon a well-designed center that plays an active linking role guiding the right blend of global and local decision-making around shared priorities (Kesler and Kates 2016).

A sportswear and equipment company provides an illustration of how the center-led digital network can be designed to connect the parts of the organization model. Over the course of 10 years, this company built four types digital capability, each reporting into different parts of the legacy organization:

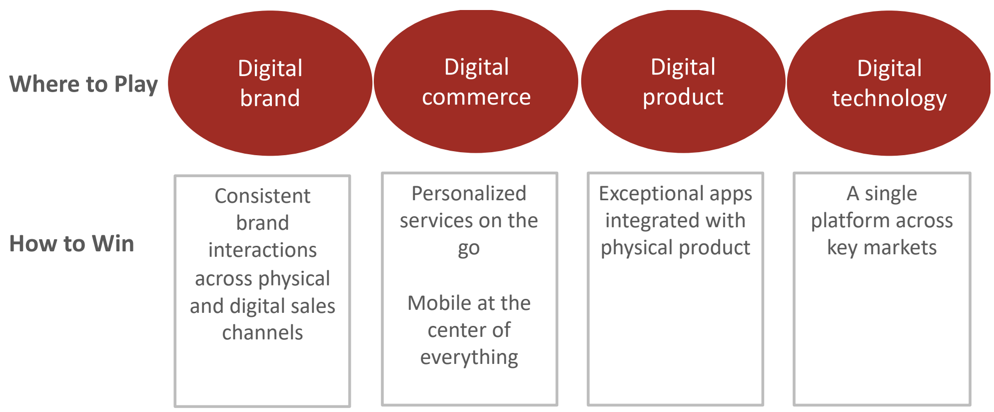
1. *Digital brand and consumer engagement:* The company website emerged as a powerful social media platform led by effective content and access to digital applications that attracted high levels of membership. Corporate marketing owned the brand across all physical and digital touchpoints.

[1] We are aware that the transition to "digital" will at some point be a thing of the past. However, the same network design concepts will apply to the cross-boundary capability requirements of the near future.

2. *E-commerce:* The company built a robust e-commerce sales channel largely housed in the North America commercial unit. Over time, a single backbone was built that could accommodate regionally-oriented web pages.
3. *Digital product (applications):* Global category teams built a range of industry-leading digital apps, including wearables that connected with shoes and jackets and other products. While core brand messaging from the marketing function served as inspiration for these ideas, they were only loosely coupled to web content.
4. *Digital technology:* Like many businesses, the company separated business digital technology from the core IT organization based on the logic it needed to be driven by a very different cadence, culture, and skillset.

Figure 6 summarizes the various digital components.

Figure 6: Digital components

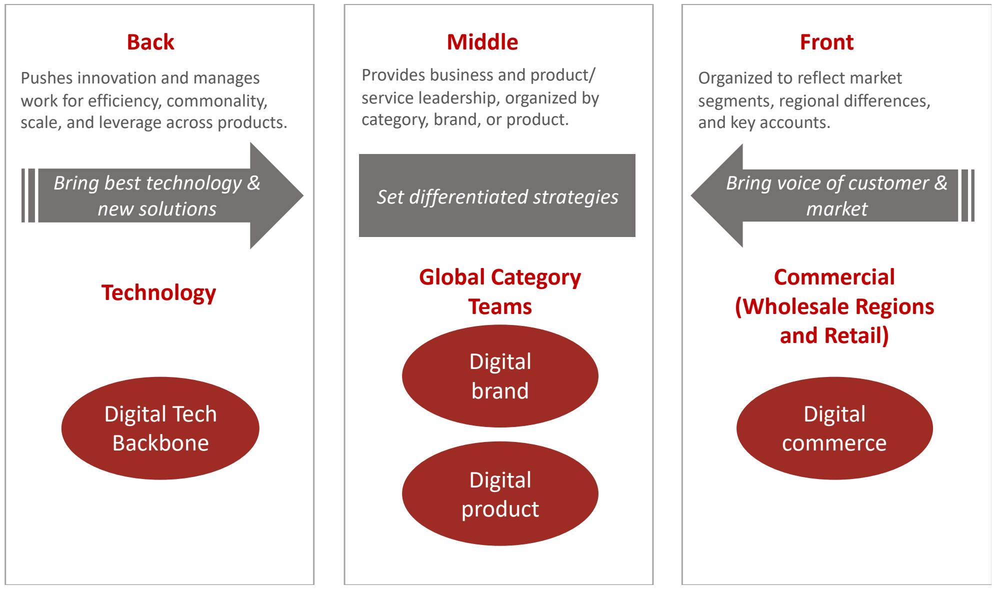


While each part of the business optimized their investment in digital activities, the lack of linkage across the work grew evermore obvious, especially when viewed through a consumer (UX) lens. A consumer spending time on the website who was taking in the substantial brand-oriented content, wanted to click through to purchase a product featured in the brand stories. This was not simple and intuitive, however, because the e-commerce pages were created by a different part of the organization. Likewise, innovative wearable and other digital apps created by the global category teams were not well represented in these brand content stories. Figure 7 shows how these activities were spread across the organization model.

Brand marketing, product creation, and commercial management, including company-owned as well as wholesale brick-and-mortar stores, all had to become closely linked in order for the shopping experience to be seamless.

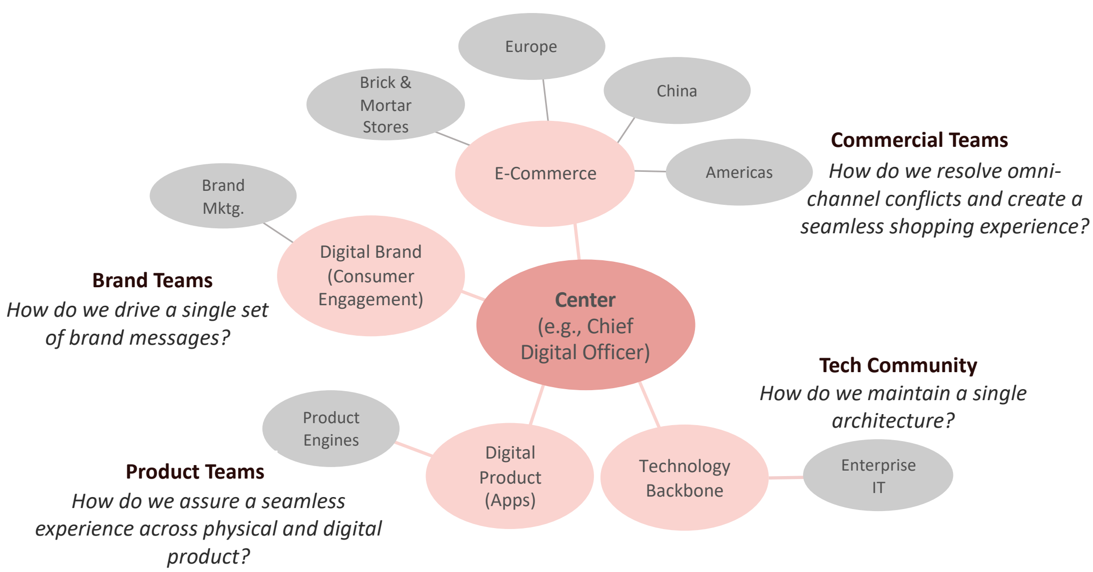
The company started with strategy. Leaders from across the organization were pulled together to build an integrated digital strategy for the enterprise. This customer-centered strategy identified the many touch points among the four key digital domains that were necessary to connect in order to create a single consumer experience.

Figure 7: Digital in the organization model



The leaders who engaged in building the strategy became the basis of a standing forum, a digital community that was chartered to deliver the customer-centric strategy as shown in Figure 8. The pink figures represent domains in the larger digital community, while the gray figures represent the core or legacy operating units of the business.

Figure 8: A standing governance forum for digital assets



Formal networks require a more conscious wiring of relationships among the principals. In our sports apparel company example, internal and external organization development experts worked to wire the formal network together with a thoughtful alignment of the points on the Star model:

Structure: A new chief digital officer was brought in with accountability to drive the integrated digital strategy through to execution. The role reported directly to the CEO with a seat at the executive committee table to send a clear message about the power vested in the role. Importantly, however, in order to balance the power given to this new role, reporting relationships for those in the digital network remained in the operating units that managed the business day-to-day.

Process: A meeting cadence was established for the digital network leadership with standing agenda items heavily focused on integration and horizontal work. Decision rights were clearly articulated regarding specific technology- and application-development decisions as well as for investment funding within the digital domains.

Metrics: Business objectives were tightly aligned around the digital strategy with shared ownership for key metrics such as web sessions, conversion rate, lifetime shopper value, and average order value.

The role of the center – in this example, represented by the chief digital officer – must be carefully designed in the formal network. Those in center roles are tasked with driving a common agenda, aligning priorities, and coordinating a shared set of initiatives and capabilities. They are not directive, and they are not controlling. Success is based on community building and how well these center roles inspire teams to work together to serve customers.

The New Global Organization

While the central challenges of global organization design are not new, they have become more complex due to shifting expectations of regional and global customers, an increasing number of aggressive, well-funded local competitors, and the adoption of digital technology inside and outside the corporation. Cost structure continues to be a priority as companies seek to automate non-customer-facing work in order to repurpose resources into innovation, product and service platforms, and brand building. The imperative to build organizations that deliver the benefits of both agility and scale cannot be avoided.

Today's complexity requires companies to be explicit about the operating model – the power relationships between the parts of the organization. The organizational model is then the design tool to articulate and illustrate these assumptions about power and accountability. The front, middle, back framework produces insights and draws out options for grouping business units, operational functions, and commercial functions to serve the strategy most effectively – and with the right mix of differentiation and integration.

Finally, formal networks serve as a dynamic system to move work and decisions to where the right talent and perspectives sit. Jay Galbraith's Star Model – structure, processes, rewards, and people practices – still remains the best way to create an intentional and reconfigurable organizational system.

***

References

Bartlett, Christopher A, and Ghoshal, Sumantra. Managing Across Borders: The Transnational Solution Harvard Business Review Press, 1998.

Christensen, Clayton M. *The Innovator's Dilemma.* Harvard Business Review Press, 1997.

Galbraith, Jay R. *Designing Organizations: An Executive Briefing on Strategy, Structure, and Process*. Jossey-Bass, 1995.

Galbraith, Jay R. *Designing the Global Organization*. Wiley, 2000.

Galbraith, Jay R. "The Multi-Dimensional and Reconfigurable Organization." Organizational Dynamics, Vol. 39, No. 2, pp. 115-125. 2010.

Kates, Amy, and Jay R. Galbraith. Designing Your Organization: Using the Star Model to Solve 5 Critical Design Challenges. Jossey-Bass, 2007.

Kesler, Gregory, and Amy Kates. *Bridging Organization Design and Performance: 5 Ways to Activate a Global Operating Model*. John Wiley & Sons, Inc., 2016.

Kesler, Gregory, and Amy Kates. *Leading Organization Design: How to Make Organization Design Decisions to Drive the Results You Want*. Jossey-Bass, 2011.

Lawrence, Paul R., and Jay W. Lorsch. "Differentiation and Integration in Complex Organizations." *Administrative Science Quarterly*, vol. 12, no. 1, 1967, pp. 1–47. *JSTOR*, www.jstor.org/stable/2391211.