

From Value Proposition to Organisation Design

Dr Norman Chorn

The Context

Business leaders have much of their attention currently focused on the global financial crisis and how to secure the survival of their firms. Right sizing, cost cutting and securing funding are all issues that are high on managers' agendas. It's all about developing the requisite levels of organisational resilience to ensure that the organisation continues to prosper during difficult times.

Many compromises are made in these situations. Our research¹ reveals that appropriate organisation design is often a casualty, with business leaders making structural and process decisions prompted by short-term concerns – but these can often be misaligned with the strategic intent of the organisation.

Our work further demonstrates² that it is vitally important to maintain an alignment between strategy and organisation design – the organisation's design and structure are important to the short and longer-term performance of an enterprise.

Two popular myths surround this issue:

Myth 1: Good attitude is more important than organisation structure

Inappropriate designs usually incur high internal transaction costs - often remaining invisible to conventional accounting systems. And the levels of frustration and anxiety can contribute to staff burnout and stress.

Myth 2: Flexibility implies a lack of structure

Research demonstrates that true flexibility occurs when the underlying design and structure is closely aligned with the needs of the environment. In a dynamic environment, this means that the structure allows for more decentralised decision-making and greater autonomy near the interface with the market.

So, the design and structure of an organisation is much more than equalising the workload of senior managers and producing a conveniently sized executive. It is about systematically linking the strategic intent of the organisation with the way that roles are designed and resources are allocated. It is about ensuring that the way we seek to create value in the market is reflected in the overall architecture of the business.

¹ Eight Traits of Resilience: Chorn, 2006

² Strategic Alignment: Chorn, 2004

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So, what is the process for linking the value creation of an organisation to its design and structure? This article outlines the four major stages and decisions in this process:

1. Identify the strategic arenas in which you will operate
2. Design an appropriate set of customer interfaces with which to service the customers in the arenas
3. Carefully consider the use of shared services within the organisation
4. Set up the Corporate Centre and consider an Office of the CEO.

These stages follow the schematic figure 1.

1. Identifying your key arenas

An arena is a market segment / customer group to which you provide a value proposition. It is, in effect, a unique combination of:

- customer group / market segment
- product/service
- value proposition.

The value proposition³ is important in defining the arena since it characterises customer needs and preferences, and also defines the manner in which you add value to this customer group.

In general, value propositions fall into several categories as depicted in figure 2.

As a general rule, your value proposition can consist of one or two of these categories, as long as the combination is not diagonal. Diagonal combinations are very difficult to deliver as the resource requirements are not compatible⁴.

By considering the value propositions you seek to deliver to your major customer groups, you will be able to identify your key arenas. These form an important part of your overall business definition. Indeed, the definition of your arenas is regarded as the logical starting point of strategic planning and management.

³ A value proposition is defined as the value you add to a customer by supplying your product / service. It relates to the way in which your product / service is able to solve the “problems” of customers by adding value to them.

⁴ The issue of diagonal value propositions is related to the issue of focus. It is very difficult to achieve a diagonal focus within a value proposition. See Strategic Alignment (Chorn, 2004) for further detail on this issue.

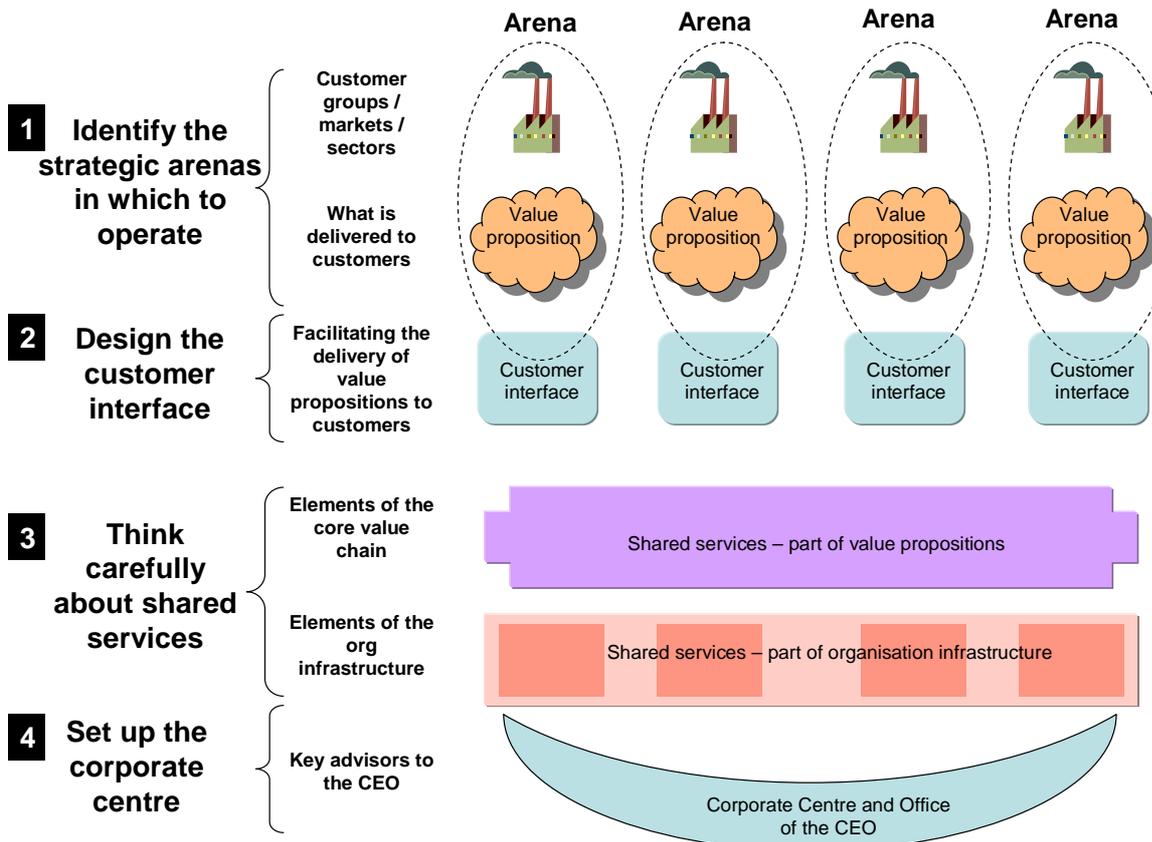


Figure 1: Process of organisation design



Figure 2: Types of value propositions and their combinations

2. Design your customer interface

The customer interface defines the way you engage and access your customers. The aims of a customer interface in a well-designed organisation should be to:

- Create a context that matches customer needs in the arena. This means that the people and processes should be aligned to the type of business conducted in that arena – there should be some understanding and potential to add value to the issues encountered within the arena
- Provide a cohesive solution to the customers in the arena. The interface should “bundle” all the elements of a solution required by the customer – creating a single point of contact and removing the need for multiple interfaces to get the customer problem solved.

Given these aims, you have a choice of a “thick” or “thin” customer interface as depicted in figure 3.

In the “thin” interface, the role is usually played by an account manager who then orchestrates the delivery of the various service elements to the customer – effectively “representing” the customer inside the organisation. While relatively easy to set up, this arrangement can fail to deliver true customer focus as the account manager often lacks the authority and influence to direct the efforts of the various business units / services to meet customer promises.

In the “thick” interface, the outcome resembles a full or partial “business unit” that has been set up to deliver services to customers within an arena. Capabilities are “embedded” within the business unit that allow the customer interface to assume more accountability in delivering against customer expectations. This may require some re-structure of the organisation (and some threat of duplication), but the outcome is a high level of customer focus and responsiveness.

In the final analysis, the two interface options represent polar extremes and organisations will select a position along the continuum that suits them. Each option represents a series of trade-offs that have to be made in the organisations design. Each option has its own benefits and disadvantages.

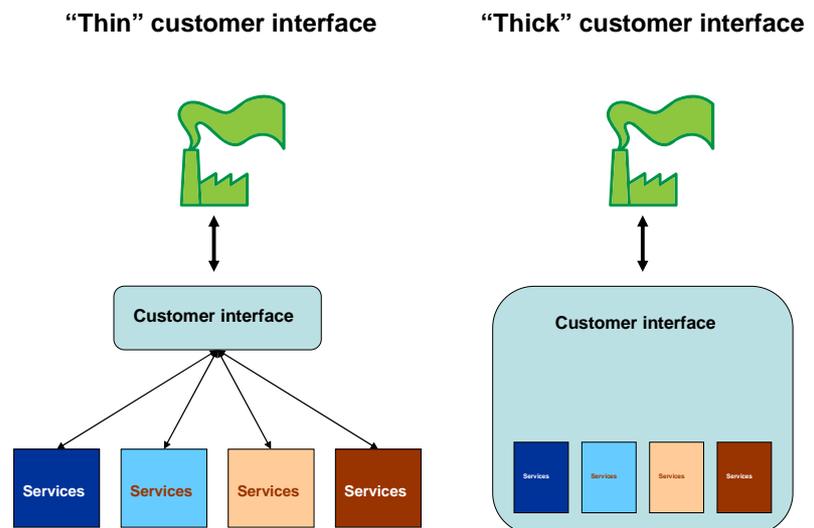


Figure 3: Types of customer interface

3. Think carefully about shared services

The decisions about shared services address this issue of trade-offs in the organisation. The argument for shared services is well known – it centres on the savings achieved by leveraging services and overheads across the organisation. But it often comes at the expense of focus and even customer-centricity.

The relative costs and benefits are summarised in table 1

Once again we are dealing with a continuum that reflects various levels of trade-off. Organisations will consider the costs and benefits for their situation when making a choice between centralised or deployed services.

4. Set up the corporate centre and office of the CEO

The role of the corporate centre is to develop and monitor the implementation of corporate strategy. Corporate strategy differs from business strategy in that it addresses the development of the whole organisation, while business strategy focuses on individual units within the organisation. Table 2 summarises these differences.

For corporate strategy to be successful, senior managers have to abide by the “twin citizenship” philosophy⁵ which advocates that senior managers have dual allegiances to their business unit (that they manage) and to their overall organisation (represented by the corporate centre).

	Centralised shared services	Deployed services embedded in the customer interface “business unit”
Benefits	<ul style="list-style-type: none"> ▪ Efficiency through shared overheads ▪ Control through standardised service delivery 	<ul style="list-style-type: none"> ▪ Services are focused around the specific needs of the “business unit” and customer group – specific to the strategic arena. Development of high customer-centricity ▪ The services become an integrated part of the business unit / arena and develop appropriate goals and strategies
Costs	<ul style="list-style-type: none"> ▪ A “one-size-fits-all” approach to service delivery may not meet the needs of different parts of the business – particularly when they deliver different value propositions with different strategic logics ▪ The function / service heads are likely to be very involved in operational service delivery – insufficient attention to longer term strategic direction ▪ The services tend to develop functional (rather than business / arena) goals – can result in fragmentation 	<ul style="list-style-type: none"> ▪ The deployment of services may result in duplication of effort in different parts of the organisation ▪ The functional / service heads need to implement a comprehensive framework and set of standards to ensure that the organisation delivers best practice ▪ Coordination of the different customer interfaces / business units requires more effort – can result in a loss of synergy

Table 1: Shared services vs. deployed services

Importantly however, the allegiance to the corporate should always outweigh the allegiance to the business unit, as is the case in any effective federal structure. This is particularly relevant since corporate strategy seeks to optimise the development of the overall organisation – and this process can result in a particular business unit being sub-optimised.

It is a good idea not to have too many service delivery functions operating from the corporate centre. Where this occurs, senior managers are likely to be occupied by many operational matters, usually at the expense of a longer term strategic focus. One way to overcome this is to create a (virtual or real) office of the CEO. This team should act as a resource to the CEO in planning and creating the future of the organisation. It is likely to include functions such as strategy, change management and business improvement.

Organisation Design as an Outcome of Strategy

Implicit in this process of designing an organisation is the notion that the organisation and its structure is the ultimate expression of strategy. What can be more significant than the way the leadership team spends its precious and scarce resources?

By following this process, senior managers can ensure that the design outcome is not an accident or a reflection of other lesser imperatives. Hopefully, organisation design and structure will become more than simply an attempt to balance managers' workload or achieve a smaller executive team.

Norman Chorn
Sydney
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Corporate strategy	Business strategy
<ul style="list-style-type: none"> Focus on “what” arenas / businesses we should be in – the shape of the overall portfolio of activities 	<ul style="list-style-type: none"> Focus on “how” we should compete in the arena / businesses we are in – what is the best strategy to deploy resources and meet customer needs
<ul style="list-style-type: none"> Addresses the allocation of resources across the organisation – ie where funds will make the best contribution to the overall organisation 	<ul style="list-style-type: none"> Addresses the efficient and effective usage of resources – ie how best to operate in this arena / business
<ul style="list-style-type: none"> Developed by the corporate centre managers, representatives from the business units and external stakeholders (such as the non-executive board) 	<ul style="list-style-type: none"> Developed by the business unit managers with support from the corporate centre as required

Table 2: Corporate Strategy vs. Business Strategy

Dr Norman Chorn is a strategy and organisation development practitioner with some 20 years experience in Australia, UK, New Zealand and South Africa.

His work has three primary areas of focus:

- Creating strategy for competitive advantage
- Developing effective organisations and structures – organisational change
- Developing leadership skills, with particular reference to strategic leadership.

Norman.Chorn@centstrat.com

www.centstrat.com