

**A ROADMAP OF
REORGANISATION
DESIGN & CULTURAL
INNOVATION**

to accommodate business
model creation & transformation



Envisioning
a FUTURE that
WORKS for all of us

About FWCI

The Future of Work Collaborative Engagement Institute (FWCI), is an independent, non-profit research think tank and training & advisory institute advancing futures thinking and helping our members build resilience and make the best of the challenges and opportunities in the shifting boundaries of the new era of workplace.

FWCI is helping organisations create high performing workplaces where employees feel valued and appreciated. We help improve employee wellbeing, engagement, motivation, recruitment, retention and productivity by putting employees in the centre, tracking their expectations and needs to be addressed, and share our findings with our community member companies.

FWCI's mission is to offer HR practitioners and business leaders the opportunity to develop a deeper understanding of the evolution of work and the workplace, and provide actionable insights, and a quality mechanism by which leaders, organisations, and communities aid decision making on critical management issues as to gain mastery over their actions.



A corporation is a living organism; it has to continue to shed its skin. Methods have to change. Focus has to change. Values have to change. The sum total of those changes is transformation.

Andy Grove - Intel

It is time to rethink your business and operating models to sustain your organisation's strategic vision, while capturing new growth opportunities, containing costs, improving efficiencies and overall business performance.

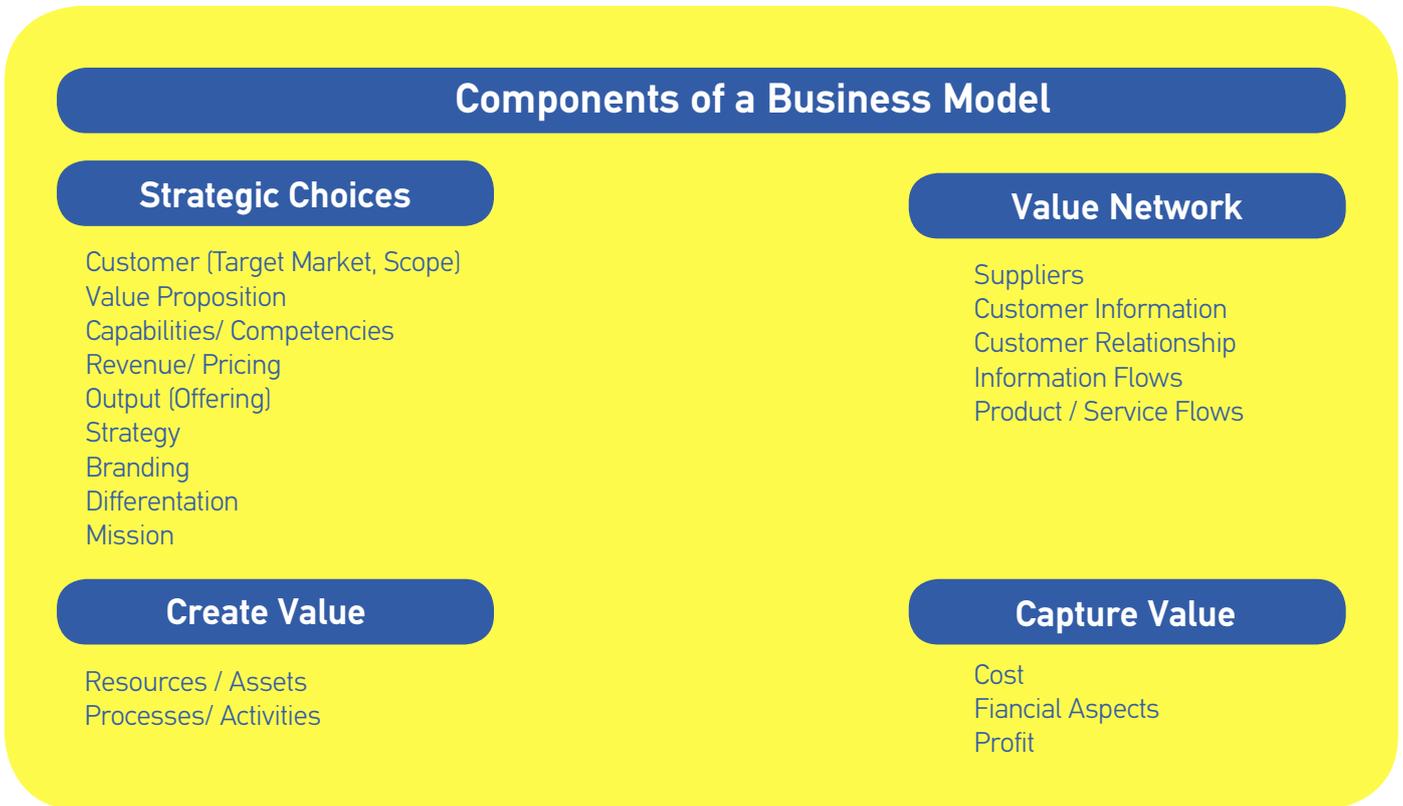
Most corporations understand this, with 93% of the more than 900 respondents surveyed for the [Forbes Insights /KPMG report "Business Transformation and the Corporate Agenda"](#) saying that they have just completed, are planning or are in the midst of a business transformation. The survey revealed that the majority of companies take a strategic approach to transformation by continually aligning their business models with strategy. The rest are split between those who view transformation as a complete overhaul of the business model, and those limiting themselves to transforming specific processes, functions or areas.

Organisations are experiencing challenging shifts in their business environments, as a result of technological advances and changing patterns of customer demand. This in turn shortens the viability of their business models. However, small and medium sized enterprises (SMEs) pay little attention to business model innovations. And make an effort to identify both, the environmental factors that create the need for business model changes, and the internal capabilities to implement them successfully.

As SMEs constitute up to 99% of companies in most industrialised economies, and are responsible for the bulk of employment opportunities, such challenges pose a significant economic risk.

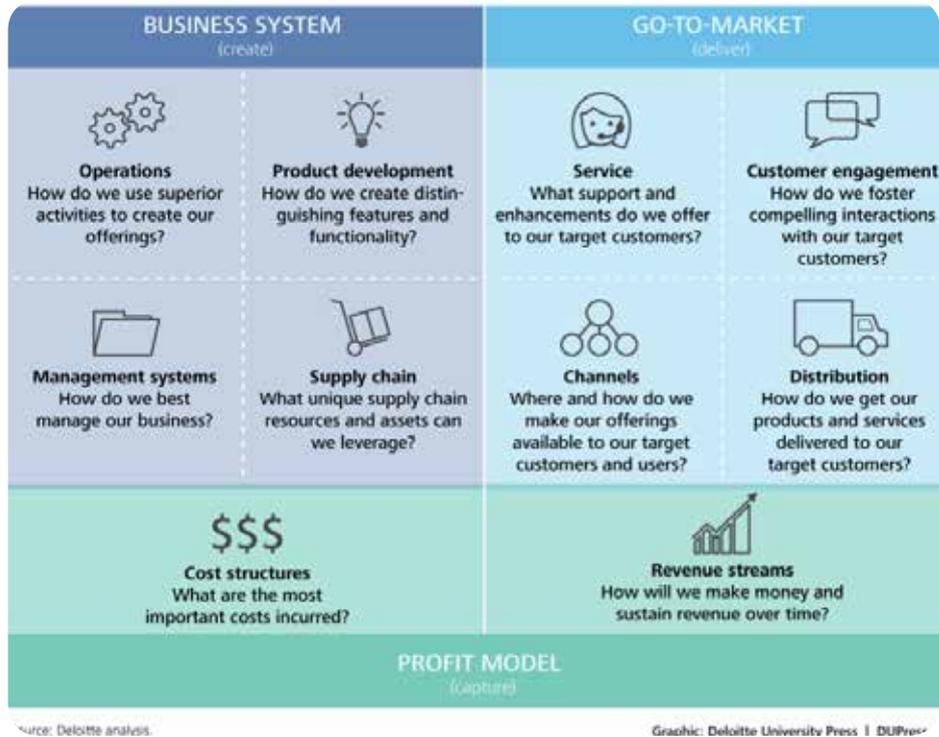
Features / Components of a Transformative Business Model

According to the HBR article: *'The Transformative Business Model'* by Stelios Kavadias, Kostas Ladas and Christoph Loch, looking into what features/components make a business model transformative, contest that the definitions of "business model" may vary, but it essentially describes how a company changes to create and capture value and eventually determine the company's success. The features/components of the business model define how the company will organise itself and whom it will partner with to produce value, including the customer value proposition and the pricing mechanism, and specify how it will structure its supply chain.



According to PwC article, *'Business model transformation and outsourcing'* a business model consists of three components:

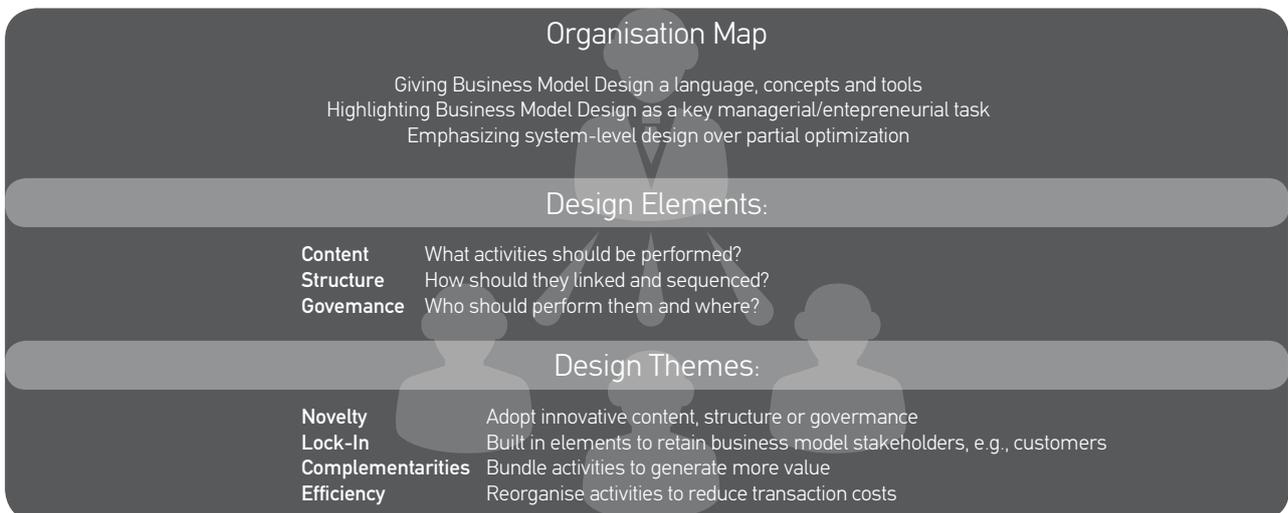
- A value proposition describing the value or benefit the organisation creates for its customers and business partners
- A value creation architecture describing the product or service the organisation offers
- A revenue model describing what business transactions an organisation uses to profit

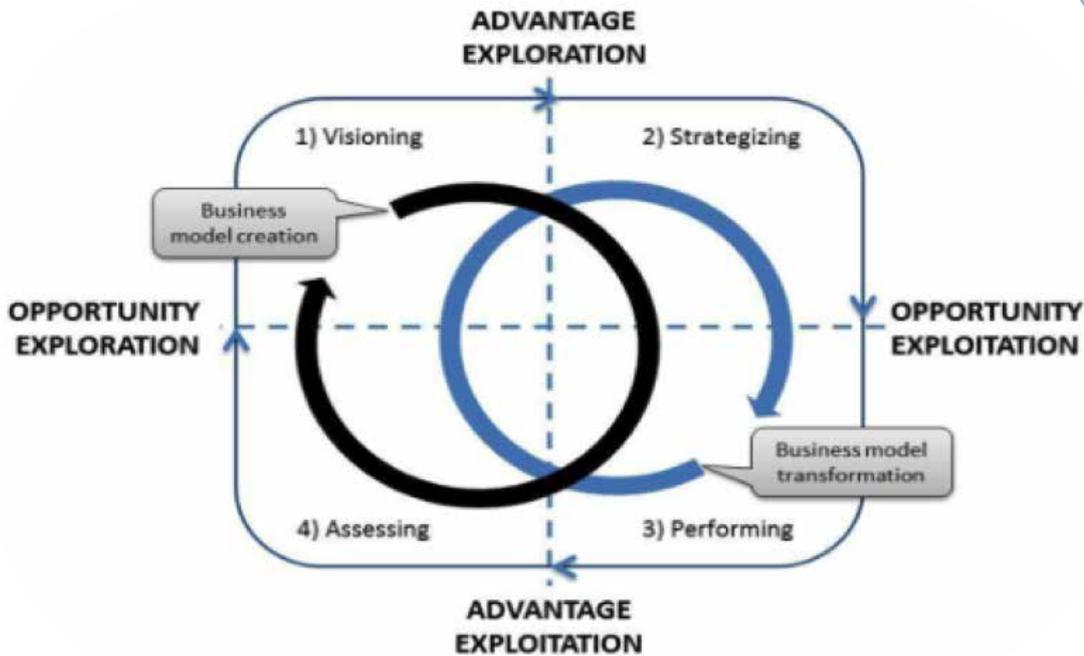


Deloitte analysis posits a similar concept:

Three frameworks for business model creation and transformation

Zott and Amit contest that through focusing on activities, helps defining company's business model. This activity system framework is depicted below.





Ahokangas and Myllykoski in their research built a conceptual framework for business model creation and transformation.

This framework consists of 4 drivers: visioning, strategizing, performing and assessing, with each being related with opportunity and advantage exploration and exploitation, that frame the business model creation and business model transformation. Visioning refers to intentions, purposes and objectives of business. Strategizing has to do with planning and implementing the content and process of the business model. And performing is concerned with doing business with the business model.

Adapting to changes: Capability-based Business Model Transformation

According to a research paper: *'Capability-based Business Model Transformation'* by Martin Henkel, Ilija Bider, Erik Perjons, Stockholm University, organisations operate in ever changing environments.

Organisations facing changes in their operating environment, or wishing to improve, need to adapt its capabilities and business model to changes in the environment. To adopt their capabilities to meet new demands from customers and in order to increase their efficiency. To change their processes, personnel and their use of resources. To support change, there is a need to understand and analyse an organisations capabilities in order to perform changes.

Failure of an organisation to adapt to changing environments can impact its profitability and even its existence.

CEB's research on business model transformation suggests that organisations face 2 main types of challenges: organisational resistance, whereas the business model change never happens or is fragmented, and whereas the business model launches but never creates or captures value.

Adapting to changes, first an organisation needs to know its current state from a resource based view, in the form of tangible and intangible assets under the control of the organisation. These resources include the products an organisation owns, its personnel skills, its processes, and the information it controls. In other words to assess its capability, defined as the ability of an organisation to manage its resources.

Value creation through cultural innovation

According to Norbert Haehnel research article *“Value creation through values in Business Models”* contests that Business Model Innovation offers the opportunity to transform the value proposition, value architecture and revenue model of an organisation, and a chance to rethink your human values system and introduce cultural innovation in building a caring company that customers love, employees’ value and investors are excited about.

Business model transformation goes beyond change

High performing organisations identify and develop a clear and shared meaning of values, purpose, priorities and direction, so that every employee can connect to and contribute.

Fred Kofmann has defined an organisational map for the definition of a shared meaning of values :

Organisational Map			
	(I) Individual Personal Self	(WE) Relationship Interpersonal Community	(It) Task Impersonal Organisation
Product Result (Have)	Well-being Meaning Happiness	Solidarity Connectedness Belonging	Mission Accomplishment Profitability Growth
Process Behavior (Do)	Thinking Feeling Acting	Communicating Negotating Coordinating	Selling Delivering Planning etc.
Platform Structure (Be)	Mental Model: Personal Values, Beliefs, and Practices	Culture: Shared Values, Beliefs and Practices	Capital: Administrative, Technical, and Economic Infrastructure

Values are the fundamental building block of a workplace culture, and a core element in business model transformation that goes beyond change, to reorganisation design, supported by leaders who foster a culture that embraces a sense of shared purpose.



A reorganisation design to align with your strategy when changing to a new business model

Gary L. Neilson, a senior partner with Strategy& Chicago, Jaime Estupinan a partner with Strategy& New York, and Bhushan Sethi a partner with PwC Advisory Services New York, propose a reorganisation design to align with your strategy when changing to a new business model.

A change in the business model, for example from a product-based business model to a customer-centric one, entails to revisit your org chart layers, the decision rights, the new behaviors and digital capabilities needed, cross functional collaborations and distribution channels responsibilities.

You need a roadmap and more importantly know where to begin.

strategy+business

10 Principles of Organization Design

- 1  Declare amnesty for the past.
- 2  Design with "DNA."
- 3  Fix the structure last, not first.
- 4  Make the most of top talent.
- 5  Focus on what you can control.
- 6  Promote accountability.
- 7  Benchmark sparingly, if at all.
- 8  Let the "lines and boxes" fit your company's purpose.
- 9  Accentuate the informal.
- 10  Build on your strengths.

Infographic: Olyo Design/Lars Lektor's

pwc | strategy&

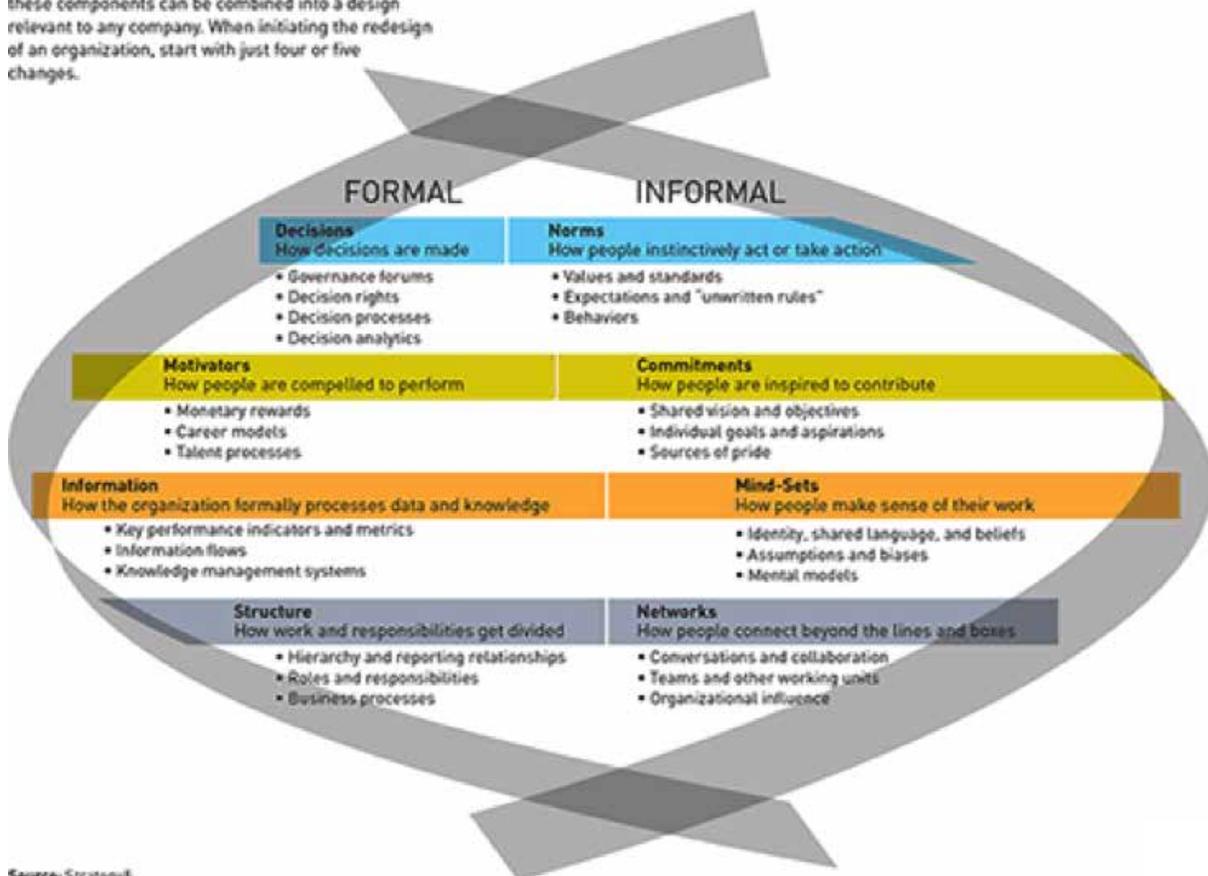
- **Declare amnesty for the past.**

It's time to move ahead and don't look back.

- **Design with DNA.**

The right framework, can help prioritise the [8 building blocks](#), of DNA - the combination of formal and informal traits that determine your company's identity and performance, as depicted below, and in turn help design an operating model that can more effectively execute your strategy.

Grouped into complementary pairs (the four rungs), these components can be combined into a design relevant to any company. When initiating the redesign of an organization, start with just four or five changes.



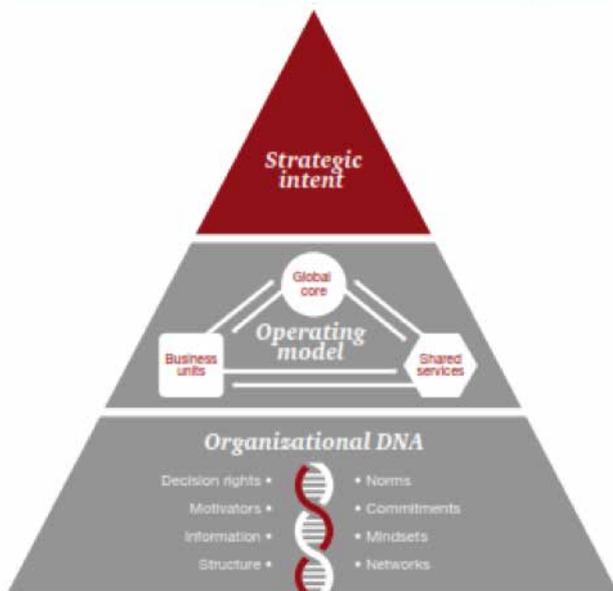
Source: Strategyik

- **First Strategy - Fix the structure last, not first**

Organisational structure should be the last thing you change, to match and support the sequence of interventions – in relation to the building blocks: information flow, clarifying accountabilities, decisions and norms, and motivators - that will lead the company from the past to the future.

First strategy, then operating model

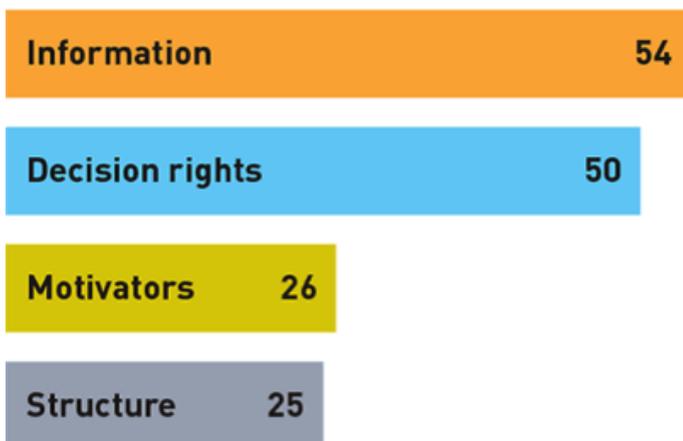
As companies increasingly compete with differentiating capabilities, they must retool their operating models and organizational DNA to execute effectively on that strategic intent.



Source: Strategy& and PwC

Survey responses suggest that changes in information flows and decision rights are twice as powerful as changes in an organization’s motivators or structure.

Average Strength Index Score (out of 100)



Source: Strategy& analysis of Org DNA Profiler survey

• **Make the most of top talent**

Design positions to make the most of the strengths - technical skills and managerial acumen - of top leadership talent, to foster the collaborative engagement and empowerment needed from people below them.

• **Focus on what you can control**

Identify the constraints that hold the company back - regulations, supply shortages, and changes in customer demand that may be out of your control.

• **Promote accountability**

Design your organisation in a way that it's easy for people to be accountable for their part of the work. Information flows, decision rights and motivators have to be determined for effective accountability. PwC research found that among the DNA building blocks, information and decision rights have the strongest effect on improving the execution of strategy. They are about twice as powerful as an organisation’s structure or its motivators, as displayed below.

• **Benchmark sparingly, if at all**

Benchmarking can help you optimise your own organisational design or uncover issues. But in practice, this approach has a couple of problems. However caution is needed when comparing to a competitor set up, as if the competitor has a different value proposition or capabilities different than the ones you prioritised, using it as a comparison may be mistaken.

• **Let the “lines and boxes” fit your company’s purpose**

For every company, there is an optimal pattern of hierarchical relationship, cross-functional collaboration, spans of control and layers in the org chart.

• **Accentuate the informal**

Pay attention to the fluidity of the more informal, intangible building blocks - norms, commitments, mindsets, and networks. The ways people think, feel, communicate, and behave in getting things done.

At a glance

Understanding—and then optimizing—the eight components of your organizational DNA helps you design an operating model that can more effectively execute your strategy.

Formal

How we make decisions

- Governance forums
- Decision rights
- Decision processes
- Decision analytics

How we encourage people to perform

- Monetary rewards
- Career models
- Talent processes

How we process data and knowledge

- Key performance indicators and metrics
- Knowledge management systems
- Information flow

How we allocate work and responsibilities

- Organizational design
- Roles and responsibilities
- Business processes

Decision rights

Motivators

Information

Structure



Informal

How we do things around here

- Values and standards
- Expectations and unwritten rules
- Behaviors

How we inspire people to contribute

- Shared vision and objectives
- Individual goals and aspirations
- Sources of pride

How our people view the world and their work

- Identity, shared language, and beliefs
- Assumptions and biases
- Mental models

How our people connect beyond the lines and boxes

- Relationships and collaboration
- Teams and other working units
- Organizational influence

Norms

Commitments

Mindsets

Networks

• Build on your strengths

Take advantage of the already existing strengths, practices and culture. Open conversations, ask the right questions and reinforce by valuing and rewarding extra effort.

The transformation needs to be continuous, and thus never complete

Robert T. Vanderwerf, Transformation Strategy Leader at KPMG, has identified the following transformation triggers:

• Getting the right strategic vision is critical

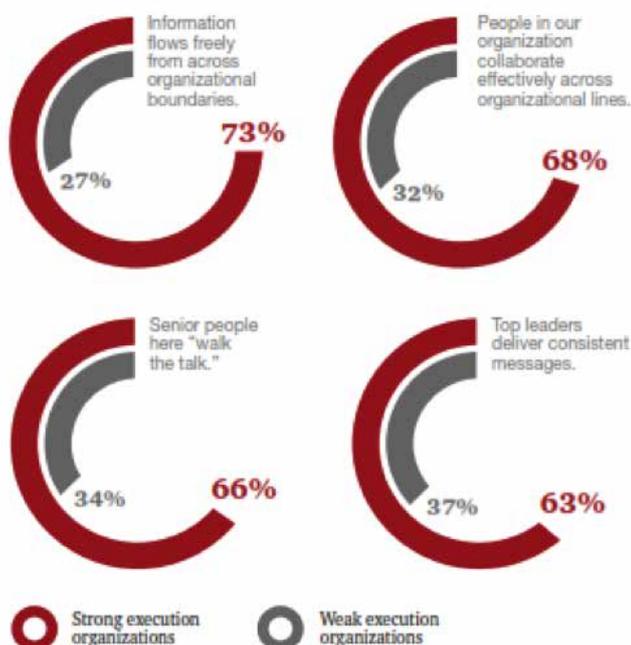
- defining the depth and scope of the changes and the redesign of internal processes and structures.
- being able to anticipate what the customer is going to want and how best to achieve it.

• Execution is the hardest part of transformation.

Most companies get the vision right, but the execution is the hard part: more than half of companies fail to achieve the desired business result, according to estimates by Stephen G. Hasty, a KPMG partner, being mainly attributable to lack of alignment across people, process, technology, data management and risk management components.

Organizations with strong execution are more likely to notice and apply informal levers

(Percent of respondents agreeing with statement)



- **The biggest challenge to transformation is seeing the bigger picture set in the future.**

Business leaders must keep transforming for the future.

- **Take a broad view of customer demand.**

Business transformation needs to be aligned with the 'anticipated; customers' needs, as explained in Forbes article: ['How to Decode Customer Demand'](#).

Factors in successful transformation

- defining the tasks and extent of the planned transformation project and laying down what's not going to be changed.

- defining new skills and capabilities required
- defining measurable key performance indicators.
- Employing a good communications strategy to help convince people of the business model transformation value

Outsourcing and shared services can be seen as elements in a process of business model transformation.

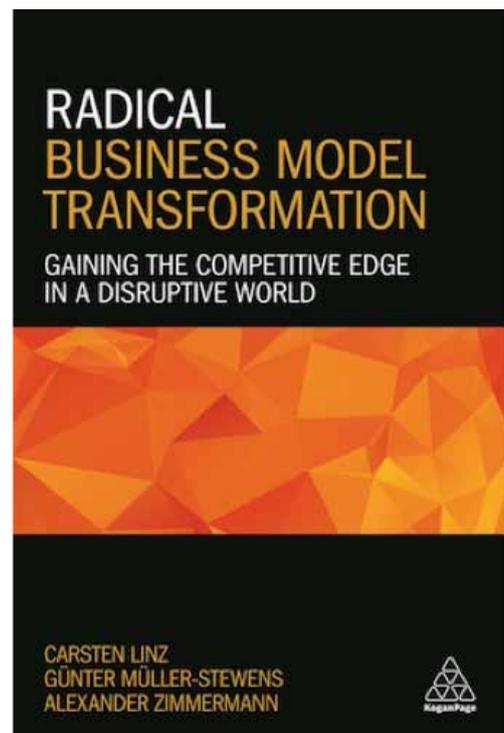
Harvard professor John Kotter has formulated the following recommendations:

- Establish a sense of urgency.
- Create the guiding coalition.
- Develop a vision and strategy.
- Communicate the change vision.
- Empower broad-based action.
- Generate short-term wins.
- Consolidate gains and produce more change.
- Anchor new approaches in the culture.

"Companies that dominated the national market for decades are suddenly confronted with new competitors that are redefining entire industries and hence restricting the incumbents' strategic freedom to shape their future."

A Note on Radical Business Model Transformation

According to PwC article, *'Business model transformation and outsourcing'* thinking ahead business leaders have strategic monitoring and early warning systems in place that allow them to anticipate trends and assess whether their current business model will still be viable in its present form. If they conclude that transformation is necessary, they must decide whether the planned transformation is incremental or radical in nature.



In the book, *'Radical Business Model Transformation: Gaining the competitive edge in a disruptive world'* by Carsten Linz, Günter Müller-Stewens, and Alexander Zimmermann, define the idea of transformation, as a fundamental shift in mission and value proposition, being framed by two key trends: digitisation and the 'as-a-Service' orientation.

When combined, they not only reduce the costs associated with creation and service delivery, they also redefine the distribution of profits.

The critical point to the transformation process entails the need to change, while preserving the valuable DNA of the company/solution.

Radical transformation requires 3 categories of change in order to be successful. There must be a redesign of the front end (customer facing), back end (internal and supplier facing), and in the monetisation of the value proposition.



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