Sirius & Company

When the strategy collides with the structure

Sukhendu Pal

w: Siriusandcompany.com

e: enquiries@siriusandcompany.com

A company's ultimate goal is to liberate the emotional energy by aligning its strategy with the organisational structure to unlock its full potential. With that process under way, people in the company can take on together the hard but rewarding work of building a high-performance and collaborative company. A strategy also allows a company aligns its value chain by integrating design, development, manufacturing, sales/marketing and talent strategies. So, how could a value chain, which cuts across the company horizontally, operates when the company is organised in rigid silos and the left hand doesn't know what the right hand is doing? Find out how?

As companies leave the great recession behind, it's time for the CEOs to start looking for growth and unlocking the hidden potential of their companies. Based on our work with large multi-national and global companies, and our research on how the world's most admired companies are organised or structured, we found that smart CEOs are using 3 compelling sources of growth: Innovation, Intelligence and Integration to burst the silo mentality in their companies (see Figure 1).

Innovation is creating new offerings that customers want and value. And, it is not just confined to developing new generations of products, services, channels and customer experience, but also conceiving new ways to structure the organisation and reinventing processes and business models.

Intelligence is establishing structural mechanisms and processes that allow employees to improve their focus on the customer by harmonising information and activities across business units. It means encouraging people in all parts of the company using cultural means, incentives and the allocation of power to work together in the interest of customer needs. And, developing a company's intelligence depends on ensuring that enough people in the company have the skills to deliver customer-focused solutions and defining a rewarding career path for employees with those skills.

One way to achieve intelligence in a company without discarding existing silos is to develop boundary spanning roles over the current structure and charge them with integrating the company's disparate activities to customer needs.

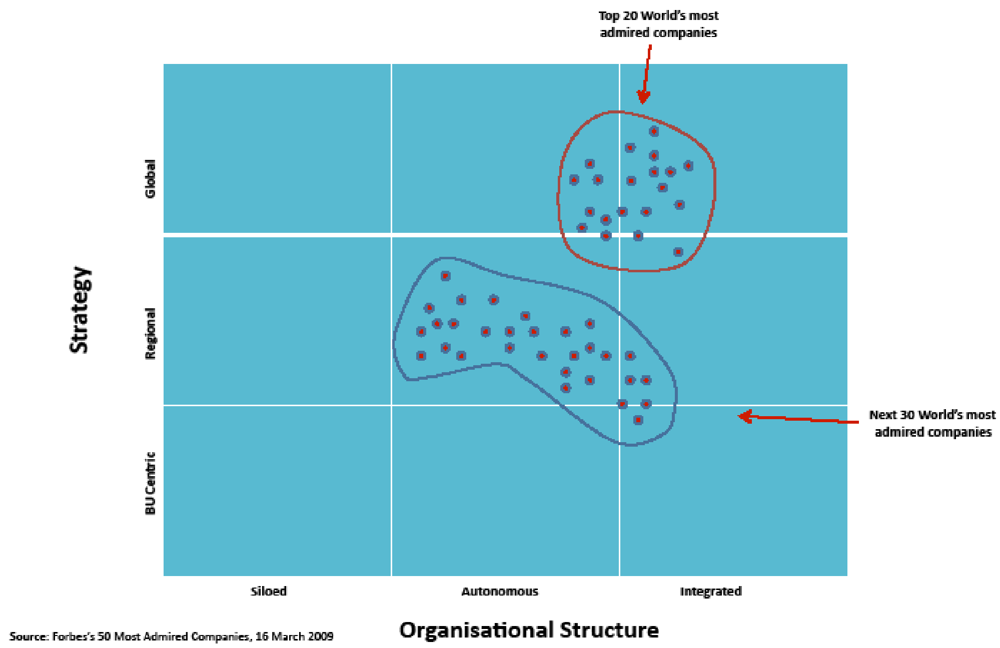

Figure 1: *Leaders and followers*

Integration is making the multiple business units, functions, and far flung foreign subsidiaries of large companies work together to increase capacity, improve performance, lower cost structure, increase productivity and discover opportunities for improvement that do not appear until a horizontal view across business units are taken. Together, innovation, integration and intelligence allow a company to engage with more customers and bring more goods and services to market. Successful innovation often depends on the ability to coordinate efforts intelligently across organisational silos, because innovations only reach sufficient scale and impact when integrated into the larger operations of the company. Neither pursuit is optional, in good economic times or bad, because stagnation on any of these three fronts can doom a business, and success in all three is the best guarantee of thriving.

The one sentence mission statement of many CEOs is all too easy to formulate and familiar. But, the capacity to translate such a defined strategic vision into people, organisational structure, products and processes is often a genuine competitive advantage. The capability to align company's operating strategy to its organisational structure enabled Apple to use technology to bring content to a mass market, allowed Walt Disney to revolutionise children's entertainment and John Lewis to become one of the most successful retailers in the UK.

Yet, most large or multi-national companies' organisational structures are remarkably similar and out-dated: excessive decentralisation and autonomy of business units and almost complete devolution of decision-making rights. This type of organisational structure has been espoused so often and with such conviction that one might even refer to it as the conventional wisdom. Like most conventional wisdom, however, this structure does not always serve companies well, especially as they navigate ways to grow in uncertain markets. In fact, the decision-making rights are so entrenched in business units that in most companies' left hand rarely know what the right hand is doing. Many companies view decentralisation and devolution of decision-makings are same things when they are actually not. Decentralisation is handing over the mess and giving employees at the front-end a mop and bucket to tidy it up with. Whereas, thoughtful devolution of decision-makings empower front-end employees that can create value. We have found that responding effectively in uncertain markets requires more, not less, direction from the centre. What's more, in many cases, we found that companies' strategies are in direct collision with their decentralised structures.

In the last three years we carried out research on the structure and financial performance of the 100 companies in Europe, the USA, China, India and Japan. We discovered a wide range of business units and overseas subsidiaries structures and composition. We also found that many senior executives believe that companies with autonomous business units are in close touch with customers, and faster to make decisions and, perform better. That's why CEOs slash head office staff whenever they try to cut costs or improve performance. But do totally autonomous business units really perform better? Most surprisingly, we found no evidence that a totally autonomous business unit or an overseas subsidiary is associated with superior financial performance. On the contrary, the companies that reported above-average profitability (measured by both the return on capital employed and total shareholder returns) had corporate centres that were lean, strong and lasting, on average, 20% smaller than the head offices of companies of similar size (in terms of total employees) and with significant influence over business unit decisions. We also found that companies with too many silos and autonomous business units are running with excessive risks, often bringing the brand reputation down to an unacceptable level.

When strategy misaligned with the structure

Although innovations aimed at creating new markets clearly have strategic importance for an organisation's profitable growth, we all know that many of them result in only temporary success or fail outright. Just ask yourself this question: Which company pioneered or created the video recorder? The answer is almost always Sony or JVC. When we ask which company first developed the personal computer, the answer is almost always IBM or Apple. These are, of course, the wrong answers. The video recorder was created by a company called Ampex. The PC was created by a company called MITS (Micro Instrumentation and Telemetry Systems). We remember Apple, IBM, Sony and JVC because they are the ones that first achieved strategy alignment and with it commercial success, establishing their brands in that market space. In 10 years time, what company will we remember as the pioneer of online music, Apple or Napster?

The key lesson here is that senior executives should not get carried away with marketing slogans and sound bites. Because, they will mean little or nothing when their strategy collide with the organisation structure they're reluctant to change. The real difference between success and failure of a company is its alignment of strategy with the structure. Until senior executives learn this lesson, billions of pounds will continue to be wasted on marketing slogans that fail.

Strategy and structure clashes increase risks disproportionately

Many companies not only mismanage their risks internally but impose the negative consequences on others. Consider the turmoil caused by just a few financial institutions. In good times, it's easy to play down risk. Optimism abounds when markets are growing and revenue and profits are up. Yet it is in good times that senior executives need to be most watchful for signs of impending danger.

Such is the paradox of success: it has an uncanny way of setting a company up for trouble, not from competitors or regulators, but from within the organisation itself (see Figure 2). For example, the toxic assets at the heart of the financial crisis smelled bad even during the boom, for anyone who bothered to take a sniff. When common sense fails in so spectacular a fashion, it's not just a gap in basic risk assessment procedures practiced in the company's various silos, it's a symptom of a systematic and cultural collapse.

The most serious gaps are related to people's roles, a company's structure and its decision-making processes. Understanding, defining, and actively managing a company's risk appetite requires a core of executive directors on the board who possess solid business and risk expertise. And risks and brand reputation cannot be managed in silos as companies such as Lehman Bros, big six energy companies in the UK, BP and Goldman Sachs have found out in recent years.

The Gulf of Mexico oil rig disaster in April 2010 has highlighted the difficulty of managing risks in a highly decentralised business. This catastrophe illustrates the increasing degree of interdependence within the business units and beyond. Modern business is by its nature complex. Commercial arrangements between companies have created a web of supplier complexity, unknown even 15 years ago but essential today. Such complexity must be properly recognised rather than oversimplified so that the true risks flowing from complex processes, organisational structures and supplier arrangements are properly understood and managed from the top and not from hidden and often unaccountable silos. Decision makers in companies rarely think disasters will happen to them. But they do. CEOs should map interdependencies and risks across BUs; create incentive systems that operate over several years to avoid the "next quarter" mentality.

Managing tensions

Synergy or stand-alone business unit performance? Efficiency or excess? Growth or profitability? Long or short term? Ethical or business as usual? All companies struggle to reconcile these tensions. But in any given company, few are more important than the others, and it is those few tensions that need managing (see Figure 3). Corporate level strategic flexibility is not merely staged integration, and the increasing interdependence of operating business units is never a foregone conclusion. Instead, business unit

Figure 2: *Shame of silos*

autonomy is combined with strategic constraints to ensure that strong businesses - competitive in their own right - have the ability to integrate when the opportunity arises.

The goal is to make sure the company is in a position to move nimbly when opportunities for integration emerge. Another aspect of exploiting flexibility is to have malleable compensation structures that can reflect rapid changes in the degree of inter-BUs cooperation. Any framework for thinking about corporate strategy is built on an understanding of how BUs interacts with one another and how they interact with the corporate HQ. However, powerful product, country, and functional silos are jeopardising companies' performance. Because of silos, companies misallocate resources, send inconsistent messages to the marketplace, and fail to leverage scale economies and successes. All of which can threaten a company's survival. The unfettered decentralisation that produces silos is no longer sustainable in today's business environment. It's up to CEOs to break down silo walls to foster cooperation and synergy. This isn't easy since silo teams guard their autonomy vigorously.
A major challenge of creating business strategy is to develop organisational structures that will help to execute the strategy and overcome the parochialism and power of silos. Organisational structures and processes need to be developed that will create silo integrating, whereby people can enhance cross-silo information flow and develop and implement programmes across silos. To stand out in a highly competitive and often commoditised market, companies must understand what customers truly value. The only way to do that is to break down the traditional and entrenched silo mentality of business units and unite resources to focus directly on customer needs. Customers today expect responsive product development, order fulfillment, service, and administrative backup. That requires a company's operations to be coordinated and internally transparent. CEOs know this but frequently are deterred from accomplishing it by entrenched silo mentalities of their business units and a lack of executive courage.

There's an old saying heard over and over "Why fix it, when it's not broken?" That is why there is a reluctant to make even simple changes in the way most large businesses are organised and operate. When inconsistent performances from the business units are presented to management, they are denied, as happened so often in the days leading up to the recent Great Recession. And, it is denial by senior management that nothing is broken is the cause of greatest concern. It is the unwillingness of senior executives to admit a truth that ought to be apparent and is in fact apparent to many others – that is, it's far better to fix things long

The Five Tensions Every Company Faces

	Integrated Versus Silo	Efficiency Versus Excess	Growth Versus Profitability	Long term Versus Short term	Ethical Versus Usual
Things to manage	• Create and execute an Integrated strategy where customers are at the core • Major player versus local player • Have the ability but lacks courage and conviction for renewal and reinvention • Why fix it when it's not broken mentality. • Business Unit centric strategy • Survival of the fittest culture • Unable to manage powerful political barons in charge of BUs	• Eliminate duplication • Focus on agility • Concentrate on exceptional customer service than marketing slogans • Focus on sharing • Performance orientation • Reluctance to share • Excessive customisation at the expense of standardisation • Unwillingness for renewal • Late follower of "best practice" when leaders implement "next practice"	• Focus on boosting growth • Reward employees for growth in market-share • Innovation, integration and intelligence at the core of growth strategy • Loss of control of costs • Eroding margins • Focus on boosting margins • Short on top line growth • Focus on customers who are only profitable today • Little idea on "Cost-to-Serve"	• Focus on building for the future • Short on performance today • Listen to customers • Focus on current earnings • Cuts into investment • Focus on maximising from customers today rather than value creation • Unable to retain customers for long haul • Customers are adversary • Eroding future performance	• Focus on all stakeholders not just the shareholders • Brand based on ethical mind and honourable practices • Seen by investors, employees, customers and other stakeholders as an admired company • Pay lip service to the environment within which it operates • Reward greed and selfish behaviour • High turnover and low moral
Symptoms of tension	• Debates about accountability versus authority versus ownership • Few voluntary interactions among BUs or between BUs and the corporate centre • Swinging between decentralisation and consolidation • Strong separate culture identifies BUs or functions • Risks are managed in BUs with no oversight or effective control across the board • A culture of finger pointing and blame	• Debate about "we've always done it this way" against "new ways" of doing things • Build distinctive competency in people • Lean and lasting approach • Reluctance to standardise • Hiring of shadow staff • Duplicate high value/large scale procurements in BUs are common • Consolidations are seen as centralisation by the backdoor • High spending on technology compared to leading competitors • Below average return from technology investments	• Oscillating between a growth push and a productivity push • Low or falling share price relative to the leading competitors • Decreasing market-share • Giving priority to reducing costs in difficult times and to boosting growth in boom times • Reduction in customer per product and/or service, and increasing complexity • High unit cost or cost-to-serve relative to leading competitors	• Swinging between a focus on an integrated strategy and a focus on execution • Increasing reliance on profitability instead of growth to achieve profit growth or vice versa • Difficulty in achieving profit targets without delaying investments • Low or falling investment compared with leading competitors and relative to profit growth • Investment following profit; investing at same times and on similar things as competitors	• Debate about what's ethical and honourable and the minimum company needs to do to comply with regulations • Open and willing to learn from past mistakes • Listen to all stakeholders and make changes to company's values and composition of the board • Absence of good and modern governance practices • Non-executive directors lack competency and toothless • Closed culture • Over confident and over powering CEO and board members • Greed is good mentality

Figure 3: *Manage tensions transparently*

before it gets broken beyond repair. It is far better to bring real cohesion among business units and rather than seeing bigger and more powerful business units bullying other business units to get their way, and keeping the status quo – that is why it is better to fix it when it's not broken. So, the question is: why do so many CEOs are comfortable with denial when they can clearly see that silo mentality is damaging their business as large business units are simply wasting too much money doing things their own ways? This is because it is often easier, safer, and more comfortable than confronting a problem, when the tenure of a CEO is becoming shorter and more intense, and the margin for error or underperformance is narrow. And when personal compensations can be maximised by delivering average or poor results without integrating business units, why change mentality rules.

From command and control to coordinate and cultivate

To manage effectively in this new era, we need to move beyond the military mind-set of "command and control" to a much more flexible "coordinate and cultivate" mindset. To coordinate is to organise work so that good things happen, whether CEOs are "in control" or not. Senior executives may be able to do this just by creating a crowd of competent people who are motivated to solve their problem, even if no one in the crowd works "for" them at all. To cultivate is to bring out the best in a group of people through the right combination of control and freedom. Senior executives need to understand and respect the group's natural tendencies at the same time they try to shape their actions. Managers cultivating organisations sometimes may need to take drastic top-down actions like closing divisions. But at other times, their main work is just to help groups of people find and develop their own strengths.

A way forward

The smart CEOs need to adopt next practices and not the best practices commonly adopted by competitors. Next practice is disciplined innovation that open up new ways of working and are much more likely to come from thoughtful, experienced, self-confident CEOs trying to find new and more effective solutions to intractable problems their industry face. Next practice is aware of existing good practice - its strengths and limitations - but sets out to move it to a new level.

Business unit executives can't waste time when they are with the CEO. Monthly or quarterly reviews of operations are necessary, but the focus of the executive meetings has to be the strategic opportunities that markets offer, regardless of BU lines. In addition to formally scheduled meetings, corporate and BU executives should have frequent conversations that are not cluttered up with operational conflicts. Creating a truly dynamic corporate strategy goes far beyond merely attempting to combine various existing BU strategies. It is not enough for the corporate office to be directive and standoffish. Nor should it attempt to be both simultaneously. Rather, dynamic corporate strategy is something fundamentally different that brings with it a host of new management challenges. As the forces of change impinge ever more sharply on an increasing range of industries, we expect that more and more large and diversified companies will benefit from thinking and acting in ways that create and exploit corporate level strategic flexibility.

In response to the external pressure, many companies of the world's most admired CEOs have changed their organisational structures and aligned them with their operating strategies. Even where business units have traditionally been highly autonomous, companies are finding that they need to institute horizontal processes and responsibilities to improve operational efficiency, maximise talent and expertise, and raise the level of customer service, particularly where markets overlap. By definition, this can be neither led nor facilitated from any one silo or business unit. It requires a corporate mechanism that can overcome traditional silo resistance through its mandate and capabilities. That's the work of a Lean Corporate Centre (LCC).

Despite all the changes that most large companies have experienced in the last 50 years, the most stubbornly resistant to LCC is senior management of business units. It is not that companies have not tried, but their hearts were not in it. This is because, for most major companies, focusing the LCC on value creation represents a radical departure from conventional wisdom.

Large successful companies in the future will have to support both traditional hierarchical organisation structures consisting of business units to exploit core businesses and networks (such as the LCC) that are better suited to pursuing new opportunities. It will require leaders who can build and lead what we call "dual operating models" staffing innovative networks with talented staff from the existing business units, comprising a "guiding coalition" that can coordinate the strategic direction of network efforts with the overall strategy being pursued by the more conventional business units. Again, it requires a "believer" in the feasibility of dual operating models who is able to lead them with an even hand.

Lean Corporate Centre is not Centralisation by the backdoor

LCC	Dimension	Corporate HQ
• Outward looking and focuses on the big picture and opportunities • Removes internal political obstacles and acts decisively for the interest of the corporate good • Smart at execution and implements strategic actions that improve corporate performance • Speed, precision and the ability to co-ordinate and deliver are hallmarks	Ability to Execute	• Consumed by internal politics and misses the boat on big opportunities • When it acts, it does so reactively and lags behind the competitors • Implementation of key strategic actions is outside its remit, and even when they are, implementation is slow and ineffective
• Smart and highly efficient decision-makers coupled with the ability to reconcile diverse interests • Seek facts and ensure that decisions are facts based • Acts in the best interest of the company first • Expects BU to act honourably and deliver results without exception	Decision-making Ability	• Ineffective decision making and a victim of command and control culture • Make decisions based with insufficient and inaccurate information from the BUs • Spend precious time on revisiting decisions made by BUs that are not consistent across the company
• Rely on open communications and up-to-date and accurate information flow up and down and across the company • Share critical information with the BUs and ensures sufficient mechanisms are in place for BUs to reciprocate the same • Receives all important information from BUs on time which allows the company to respond quickly and improvise, where necessary • Respected by BU leaders	Information Flow	• HQ staff managers and BU managers are rarely "on the same page" regarding key information • BU managers make sub-optimal decisions because their reluctance to share information with HQ staff managers • HQ doesn't receive important information regarding the market and competition in a timely manner and unable to respond quickly
• Develops and agree clear decision making rights with the BUs and other functions, and ensures there is no ambiguity in who needs to do what • Always proactive and scanning the outside world and other industries to improve performance • Not satisfied with "best practice", instead searches for the "next practice" that are central to lasting value creation • Place for the most talented and smart employees of the company before they assume leadership positions	Decision Rights & Performance	• Critical decisions are delayed while the HQ searches for decision makers with enough authority • Unclear ownership and accountability perpetuate inconsistent behaviours • Misaligned incentives among different BUs and HQ functions • Mediocrity is rampant and career advancement and compensation are loosely tied to performance
• Lean and often small • Size doesn't matter • Performance is the key and it matters most – job titles are of little importance • Home of future leaders • Ideal place to attract the brightest and best talent from across the world	Management Layers	• Size is often important • Performance metrics unclear because most actions need to be approved by BUs and multiple layers • Seen as a luxury and not a value added function • Talent attraction and retention is a challenge as it is seen as a bureaucracy that frustrates future leaders

Figure 4: *LCC vs Corporate HQ*

Anatomy of a Lean Corporate Centre

LCC is not the traditional Corporate Headquarter; instead, it is the revolutionary overhaul of the traditional headquarters. It is lean because it is responsible for effective execution of strategy across the entire company. It imparts value and direction to all business units without having the excessive overhead of a traditional headquarter. As we help senior executives implements LCC, we encountered detractors, who initially called it "centralisation by the backdoor" (see Figure 4).

But, later those detractors and skeptics saw the positive difference the LCC makes to their business. Because LCCs add value in different ways depending on a company's strategy and the businesses in which it competes, the appropriate structure, quality and staff functions required differ. There is no standard or ideal model or structure for a successful LCC. To achieve high performance, don't push down all decisions down the business units and fill head office with traditional administrative and functional staff functions (such as, finance and admin, audit and HR) and miss-fit staff from the business units. Instead, focus on matching LCC's structure and roles with the corporate strategy. There are eight key imperatives that are at the heart of the LCC, which are essential to lead a company in the 21st century (see Figure 5).

For all the corporate level activity, the LCC supporting a dynamic strategy should be relatively small. The executives in the LCC are there to help the CEO; they usually have worked closely with the CEO in the past and gained his or her trust. Their importance lies in their judgment, not in their formal roles. But the work involves sometimes daunting challenges because business innovation, intelligence and integration have something else in common - they are still "unnatural acts" in most large companies.

Businesses are better at stifling innovation than at capitalising on it, better at doing similar things in multiple business units wasting millions of pounds, better at isolating local operations than at integrating them for the good of the company and its customers. The larger and more complex the organisation, the stronger the status quo can be in repelling innovation, intelligence and integration.

Therefore, large companies need active, technology-enabled groups to promote innovation, intelligence and integration to overcome obstacles, focuses effort, and let the unnatural acts become more natural. Without such groups, innovation, intelligence and integration won't spread far enough or fast enough throughout a large company to keep pace with smaller, younger, more technology-based competitors to whom innovation, intelligence and integration come much more naturally because their strategies are aligned with their organisational flexibilities.

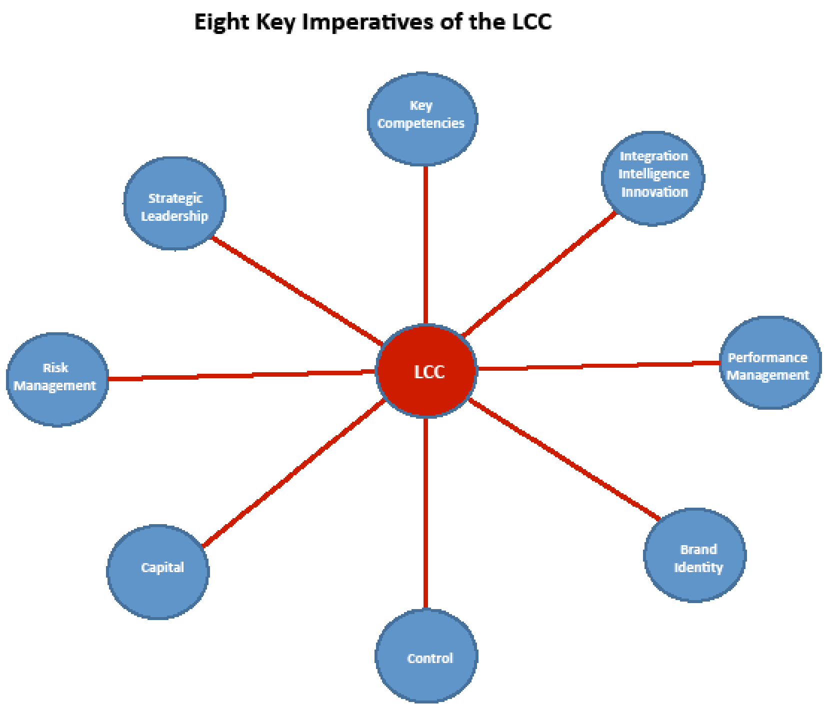

Figure 5: *Key capabilities*

How LCC Works

A LCC mandated with seeking and facilitating necessary or breakthrough business integration projects designed to radically improve the company's performance in the eyes of current and potential customers. Without such assistance, the different silos of a company lack the know-how and incentives to pursue integration initiatives. An effective LCC therefore:

- Manages the corporate portfolio of integration activities and initiatives. This starts with cultivating relationships throughout the company, as well as with customers, suppliers, and business partners, to identify business integration needs and opportunities and direct appropriate resources to them. Most often, these opportunities involve addressing difficulties customers are experiencing, fixing problems that cripple operational efficiency, or identifying breakthrough propositions to improve competitive position.

- Serves as the company's center of expertise in strategy, process management and improvement, complex and critical programme and portfolio management.

- Provides key individuals to major business integration initiatives - often leaders and always coaches. These individuals bring a comprehensive, end-to-end perspective to process development, innovating next practices and programmme management. They provide leadership skills in terms of operating model, process thinking and design, organisational transformation requirements, job and skills retraining and new competency and performance metrics.

What competencies do you need in a LCC?

As you charter a LCC, define its work, and anticipate how it should interact with other business units that operate horizontally in your company, start with this list. Ask yourself to what extent your organisation has already mastered the capabilities - from risk management, governance to change leadership that successful horizontal integration requires. Then configure your LCC.

One of the biggest challenges in forming a LCC will be gathering the right staff. A company needs people with a broad understanding of every piece of the business who can look at the company systemically. It also needs people with experience in areas like business architecture with leadership and pragmatic coaching skills, who can guide business units and other partners through the design, implementation, and deployment of newly integrated processes. A company needs people with strategic sourcing and global supply chain management skills. Finally, it needs people with very strong relationship-building skills, because business integration demands more than just a consensus

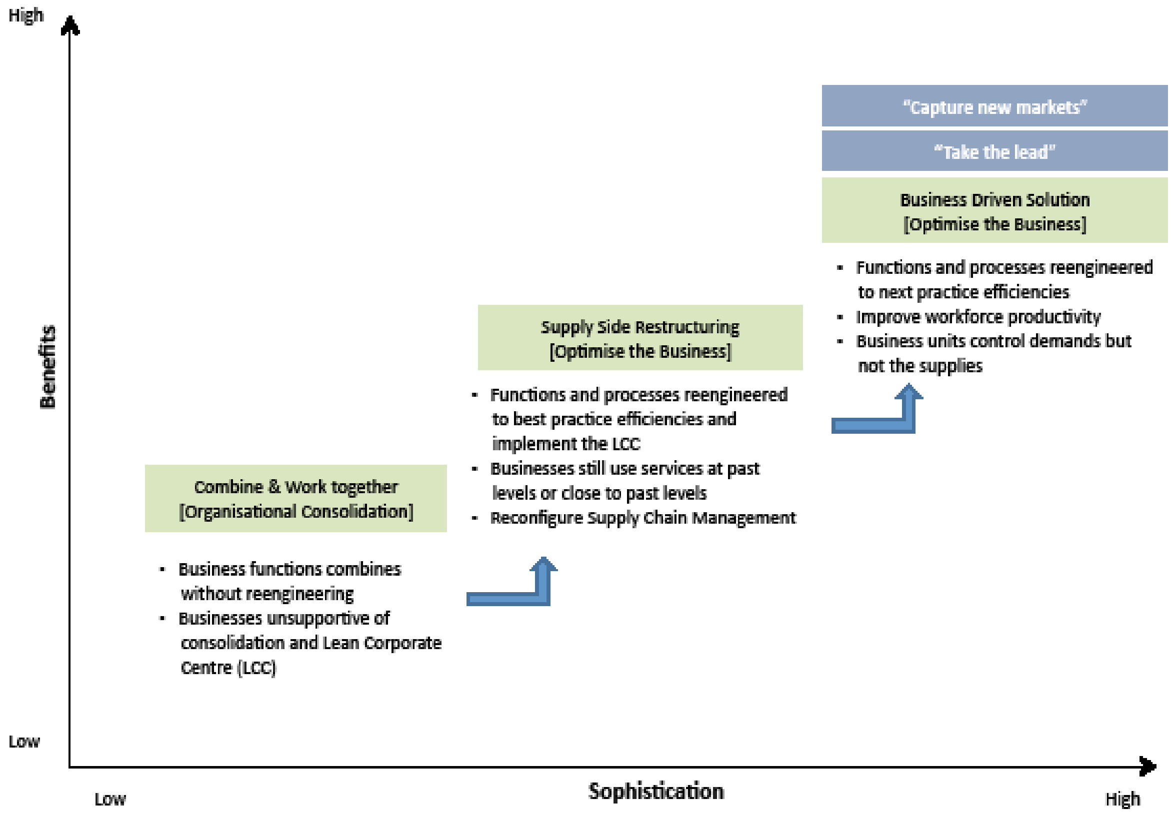

Figure 6: *Greater alignment produces better results*

about how things should work; it demands a commitment to operate differently so that the horizontal entity can become more than the sum of its parts.

When horizontal integration is a sufficiently urgent strategic imperative, the LCC should report to the CEO. More commonly, it reports to the COO (or equivalent executive). In fact, we have found in our research that in companies where the CIO is asked to assume an additional business role, it's often to lead a major integration initiative, a horizontal organisation such as shared services, or a management process such as business reengineering or programmme management. But, CIOs are never put in charge of the LCC, and in almost all the cases that we studied, the leader of the LCC is a senior board member of the company.

Who are the leaders of implementing LCCs?

In the last two decades, conventional wisdom held that CEOs should leave business units and overseas subsidiaries alone, so long as they hit their numbers. That's changing. In uncertain markets, CEOs need to provide strategic guidance more effectively and quickly and more often than they used to.

No one needs convincing that in today's turbulent, competitive business environments corporations must be flexible and responsive. A host of forces are stacked against even the most prescient strategist: technology, regulation, and globalisation, to name only three. The question companies now face is not whether they need to be nimble and quick, but how.

Most of the advice on this score is remarkably consistent. Especially in large, complex, diversified companies, the prescription is "more decentralisation" - at the limit, an almost complete devolution of decision-making authority to the operating divisions and those people closest to emerging technologies, competitors and customers. Our research into contemporary diversified companies suggests that, in industries undergoing rapid and difficult-to-predict change, LCC must play an active role in defining the scope of business-level strategy. Furthermore, to compete effectively as a company, it often falls to the CEO and a select staff to drive the timing and nature of cooperative efforts between business units.

Many large corporations have put components of a LCC in place, often starting with a center of expertise in process management. Merck, for instance, has a global services organisation that integrates process, technology, and program management. Lean manufacturing, Six Sigma, change management, and other business improvement services are part of its responsibilities.

One of the most comprehensive approaches we've found is at General Electric (GE), which demonstrates the difference a LCC can make even for a highly diversified corporation. GE is well known for its 25 year history of success with an evolving set of operating model and process improvement methods, including its workout and Six Sigma programmes. Less well known are GE's 20 years of success driving cross-business income-growth initiatives. In the 1980s, the LCC focused on mergers and acquisitions. In the 1990s, its targets were sourcing, Six Sigma, and e-commerce. Now it's centered on the customer, and is responsible for horizontal integration within and across all of GE's major business units. All 20 members of the LCC have both operating and consulting experience; some have been hired from top consulting firms. Individuals typically stay with the LCC for two years and then move into a senior operations capacity elsewhere in the company.

The role of the LCC in creating a strategically flexible organisation has cascading effects on how executives manage other aspects of the company: whether business units are clustered into groups, for example, and how compensation is structured. The result is a set of managerial challenges fundamentally different from those of diversified companies in more stable and slowly changing environments. How well a company aligns its strategy with the structure depends on the sophisticated way it plans to capture benefits from its chosen markets (see Figure 6).

What does all this mean?

With an increasing number of businesses facing unpredictable economic environments and structural conditions, CEOs can no longer afford to follow the business as usual route and letting a silo structure drive the strategy. A company with multiple business units faces difficult challenges. The challenge for smart CEOs is to ensure that a robust debate takes place on the right strategic approach of the company, and subsequently what the right approach for each business unit should be, and then develop the right strategy for that unit and subsequently the structures, marketing slogans and the branding propositions.

These two organisational models—centralised by function versus decentralised by product and region proved durable for a long time, largely because the evolution of business organisation was fairly incremental. Indeed, the product division structure remained the dominant model for many decades. But as competition intensified, problems with both models became apparent, and companies searched for new ways to organise themselves to unlock corporate value. It seems obvious that organisations should be structured to advance business strategies. But many times strategies evolve and change while executives clutch tightly to their old ways of structuring their business units and organising their teams.

In formulating a strategy, a company has to ask itself two fundamental questions: Which markets should we compete in, and how will we gain an advantage over competitors in those markets? It may seem obvious that these questions should also drive the company's organisation structure, but many structures end up impeding market strategy rather than furthering it. Some distribute responsibilities in ways that distract the management team's attention from target customers. Others create divisions among units that make it difficult for them to operate in ways that provide the company with a competitive edge. The penalties of such misalignments can be enormous.

The objective is to make sure the organisational structure is tailored to support these roles by explicitly defining and the corporate-level activities that provide real value to the overall company. This may involve, for example, maintaining strong research capabilities across all business units or implementing a company's digital business strategy. Just as parents play varying roles in families, LCCs play varying roles in different companies.

About the author

Sukhendu Pal is the CEO and Managing Partner of Sirius & Company.