Organisation charts as organisation models

By Andrew Campbell

The typical organisation chart does not tell you much about how the organisation is supposed to work: the organisation model. Normally, charts are drawn in layers: all the people reporting in to a boss are on the same level, and so on down the structure. Because there are multiple layers, the charts often extend to multiple pages.

If an attempt is made to distinguish between people reporting in to the same boss, it is normally done using pay grades or titles. So that those with an SVP title are higher up the chart than those with a VP title and so on.

This simple format is partly a result of the simplicity of the computer programs used to construct the charts. But, it is also a result of not knowing a better way.

A good organisation chart can achieve the following:
- explain who reports to whom
- communicate information about the operating model of the organisation and
- define the relationships that should exist between people who report to the same boss and with others who do not report to the same boss.

The operating work

The first step in drawing a richer organization chart is to define the operating work; and to decide how the operating work is divided up into functions or departments or divisions.

The operating work consists of those activities that are directly involved in creating or delivering value to the customers of the organisation: typically activities like product development, supply chain, operations, service and sales.

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There are three ways to divide up the operating work:

- as a value chain, where each "box" is a function that needs to link closely with the other functions to successfully deliver the output (e.g. buy, make, sell or buy, cook, serve);
- as units (or business units) where each box in the chart can deliver value to its customers without working closely with other boxes (e.g. geographic units or product units or units focused on market segments). This allows more decentralization of decision making and initiative. Typically, within a business unit, the structure at the next level down is a value chain; or
- into a matrix, where the organization is structured into units, but the units have more than one boss (e.g. a geographic and a product boss); or where different dimensions of units, such as product units and market units, need to work together to deliver value to customers. A "front/back structure" is one where both product units and geographic units are each set up as profit centres and trade with each other in a market-like manor.

So lets look at a restaurant example. The team of people who run the kitchen within a single restaurant might be structured into units – the first course team, the main course team and the sweets team. Each can prepare its output without close coordination with the other teams.

The restaurant would typically be structured as a value chain: for example with functions for buying, cooking, serving and marketing.

A chain of similar restaurants would be structured into units, with each restaurant as a profit centre.

A group of restaurant brands would be structured into units. Each brand would be a separate business division. So, from this example, one can see that the operating work is structured in a different way at different levels in an organisation.

If the operating work is structured as a value chain the relationship between the functions is that of a "tight team". Profit can only be created or customer satisfaction delivered by an integrated effort from all the functions. Monday morning meetings or something equivalent are needed to ensure regular coordination between the functions. This has implications for the leader of these functions.

He or she will be "hands-on": frequently involved in easing tensions, deciding priorities and guiding action.

If the operating work is divided into units, the relationship between the units will be much looser. Coordination does not need to be as close: each unit can operate with a good degree of independence. Monthly or quarterly meetings may be sufficient to achieve coordination.   Also, the leader of the units is likely to be "hands-off".   Because he or she is not involved in coordinating across units on a daily or weekly basis, much more can be delegated to each unit within the constraints of defined policies and strategies.

Supporting the operating work

Once you have clarity about the operating work at any level, the next challenge is to define any parts of the structure needed to 'support the operating work', yet still at the same level.

Obviously the boss or leader plays a vital supporting role. But there are often also some other activities that exist to support the operating work. Finance, HR, Legal and IT are typical support activities.

There are four kinds of support activity:

1. Policy or control functions: these functions set, impose and monitor policies. The rest of the organisation is required to implement and act within the policies. Examples are accounting rules from finance, people management rules from HR and IT rules.

   Policy functions are typically small and staffed by experts.

2. Coordinating and championing units: these are units whose role is to influence the operating managers. They are like policy functions but they do not have the power to impose. They have to rely on persuasion. If the operating units all involve manufacturing, the championing unit might be lean manufacturing. If the operating units are structured by product, the champion unit might be global accounts.

   Often one of the roles of a champion unit is to facilitate coordination. Where a number of business units operate in one country but report in to their global product divisions, there is often a country manager whose job is to coordinate the business units in the country, but whose power is limited.

One of the features of the champion unit is that it has responsibility that is greater than its authority. It is expected to influence, but does not have the power or resources to execute.

Like policy functions, champion units are typically small and staffed with experts in the topic.

3. Shared services: these are activities that could be carried out within each operating unit, but have been centralized for reasons of economy of scale or skill. The relationship is a service one: the operating unit is the customer and the shared service is the supplier. One way to think about shared services is to imagine that the operating units have outsourced some non-critical activity to shared services. Often this is not how the shared service unit was set up, but it describes well the type of relationship that should guide behaviour.

   Shared services are typically large and staffed by middle level managers and juniors doing transaction work.

4. Core resource functions: these are also functions that could be part of the operating units. The activity has been centralized because it is a scarce source of advantage that is shared across the operating units. It is often a capability, such as technology skills; but can also involved a resource, such as a patent or a brand. Core resource (or core capability) functions normally only exist when the operating work is divided into operating units or a matrix. They do not exist when the structure is a value chain.

   The relationship between a core resource function and an operating unit is that of a partner rather than a supplier. This is because the core resource function has responsibilities that go beyond just doing what the operating unit wants.   The core resource function is trying to do what is best for the whole organisation. Examples are central research, central brand management and, sometimes central sales or central supply chain.

   Core resource functions can be large, and will be staffed with a combination of experts and more junior staff.

Drawing the organisation model

Once the organisation has been divided into operating work and support work, and decisions have been made about how to structure the operating work (value chain, units or matrix) and what roles to give each support activity (policy, champion, service or resource), it is possible to draw an organisation chart in the form of an organisation model. The advantage of the model is that it communicates information about the relationships that need to exist to make the organisation function well.

The way to do this is to start by positioning the operating work in "boxes" all on the same level of the chart. Then draw a horizontal connecting line just above these operating boxes. Then draw a vertical line, from the horizontal line, to the boss or leader. Make this vertical line long enough to allow additional boxes to be added to the left and right of this line (see exhibit).

How to draw an org model

Operating Work
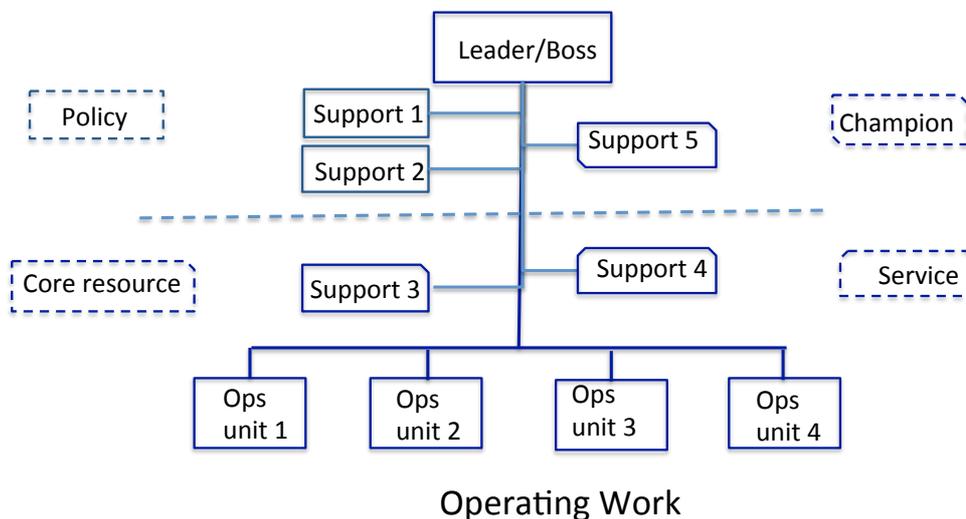
The support activities are then positioned in one of four positions – top left is policy, top right champion units, bottom left core resource and bottom right shared service. The two types of guiding activity (policy and champion) are nearest the head of the structure. The

two types of operational support (core resource and shared service) are nearest the operations. The more powerful activities (policy and core resource) are on the left of the vertical line. The less powerful (champion and shared service) are on the right. As one American manager summarised, "kick ass on the left and kiss ass on the right"!

Functions, such as finance, HR and IT, typically contain at least two or sometimes three or even all four of these support roles. This can make it difficult to decide which of the four positions to place them in.

There are two responses to this dilemma. First, place the function in which ever of the four roles represents the dominant role within the function, but recognise that, within the function there are different sub roles. Second, consider splitting the function into its separate roles. For example, many companies are achieving significant improvements from separating shared services from policy functions. The reason for the success is that the skills needed to manage these different support roles are very different. The same is true for champion units. They are often more successful with a separate reporting line rather than reporting to a function head who has policy responsibility. There is, however, less evidence about the value of separating policy from core resource roles, and these are often combined in functions where they both exist.

Examples

The above text provides guidance about how to draw organisation charts as organisation models. So lets look at some examples.

Ashridge Business School had 'business units' – open programmes, tailored programmes, qualification programmes, consulting, conferences and research centres (see exhibit below). These were the operating core. Supporting these business units were some policy functions Finance, HR and IT. In Ashridge's case these functions were a mix of policy and shared service, where policy is the dominant role. For example, HR sets policy, does recruitment as a shared service and supports business units through business partners. Without making any comment on Ashridge's functions, this combination is often hard to make work well. The function is often seen by business units as domineering, because it over uses its policy role, as providing inefficient services, because its staff do not consider themselves to be at the beck and call of business units and as being ineffective business partners,

because its staff do not understand the commercial challenges that the business units are facing.

The COO was responsible for Finance, primarily a policy function and Hotel, a large shared service function – including offices, bedrooms, catering and gardens. Rather than put these together under "policy" – the dominant role of Finance – here Hotel has been positioned in the shared service box, with a reporting line to Finance. It is awkward to draw this reporting line on the chart, signalling that it may not be an ideal combination of activities.

Ashridge
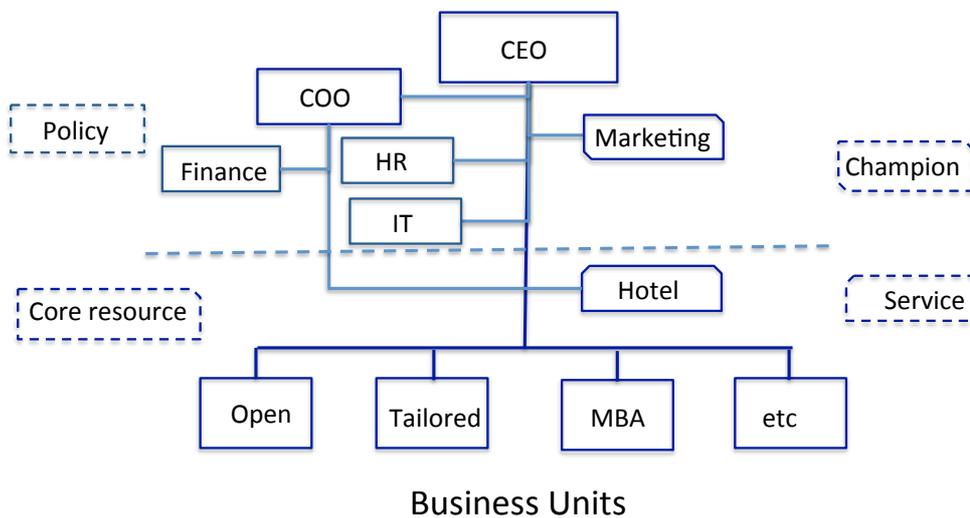
Business Units

Global Welding is a company where the operating work is divided into geographic business units, each responsible for manufacturing, marketing, logistics and sales.   However, product development has been centralized in order to create some global product standardization and economies.   This product development function is a core resource for the Regional business divisions. It reports to the Product Director, who is the CEO in waiting. He is also responsible for India, to give him some experience of an operating business.

Finance and HR are primarily policy units, but contain some shared services. IT is primarily a shared service unit but has responsibility for infrastructure policy. Marketing is primarily a championing unit, aiming to raise the standards of marketing across the group.

Marketing also has responsibility for the brand, which is a core resource.

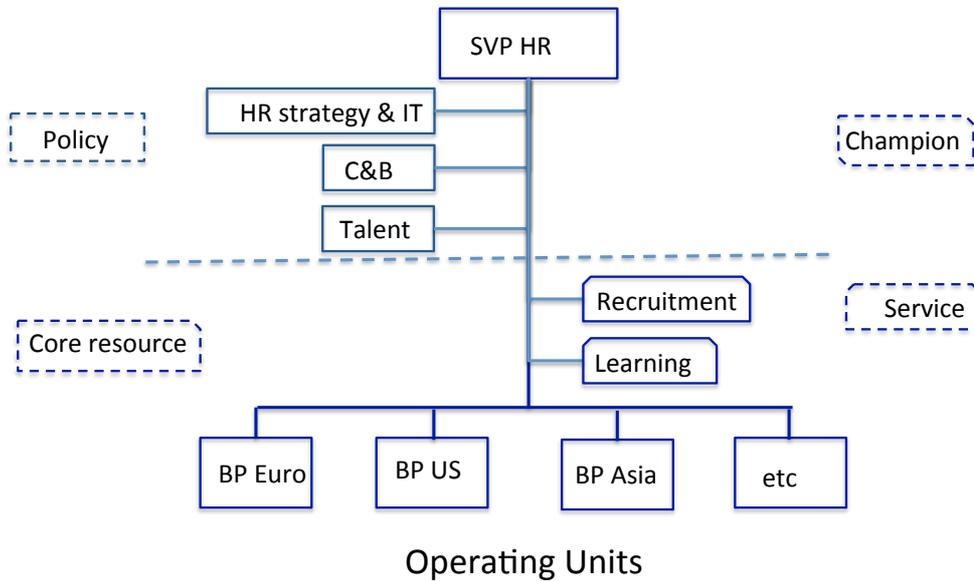# Global Welding

Regional Divisions
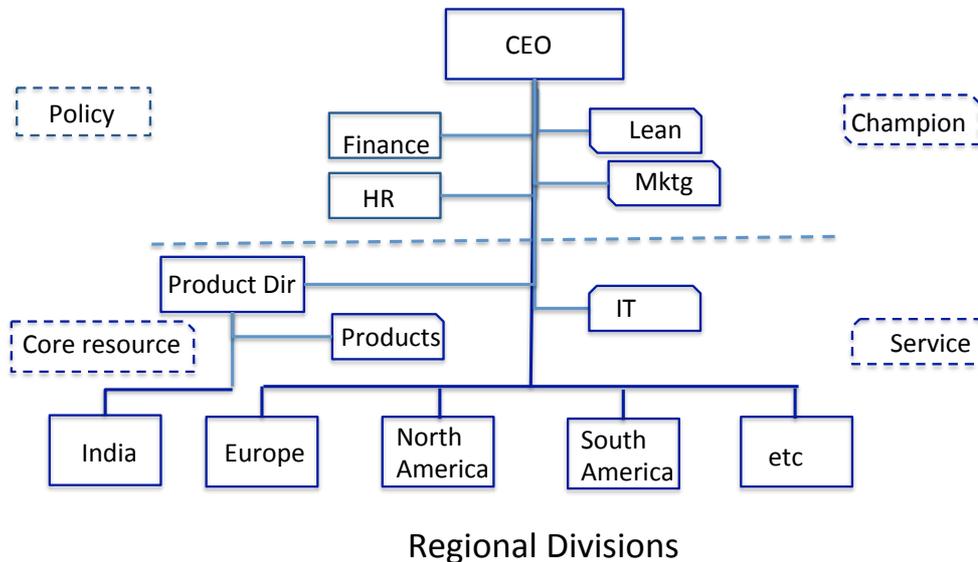
The final example is an **HR function**. In this group-level HR function, all HR staff in the whole organization report to Group HR, which contains business partners, centres of excellence such as Remuneration, and HR operations such as recruitment. This raises the question as to what is the operating work of this HR function. Without clarity about what is the operating work of HR it is difficult to draw the HR structure as an organisation model.

If HR sees itself overall as a shared service, then the operating work is the HR operations teams, such as recruitment and training. If HR sees itself overall as a business partner to the rest of the organisation, then the business partners are the operating units. If HR sees itself primarily as a policy setting unit, then the policy units such as Remuneration are the operating units. It depends on the strategy of HR.

In this example, the HR strategy was to be a good business partner to the rest of the organisation. As a result, the business partner role was the operating work. The business partners were organized to match the company's geographic divisions. The central expert functions, such as compensation and benefits (C&B) were policy units, as was the person responsible for HR Strategy and IT. HR Operations and Recruitment were shared services.

Human Resources


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Operating Units

In some companies the Group HR function has a strategy of being both a business partner and a policy setter. In this case, both Business Partners and Expert Functions are operating units. This makes the structure within HR into a matrix, with both 'sides' of the matrix working together to guide and help the business units.

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Organisation charts drawn as organisation models can be a source of clarity for those trying to understand an existing situation; they can be a source of inspiration for those coming up with new options; and they can be a source of communication for those explaining a new organisation to others.