



Organizational Transformation

Design Your Organization to Match Your Strategy

by Ron Carucci and Jarrod Shappell

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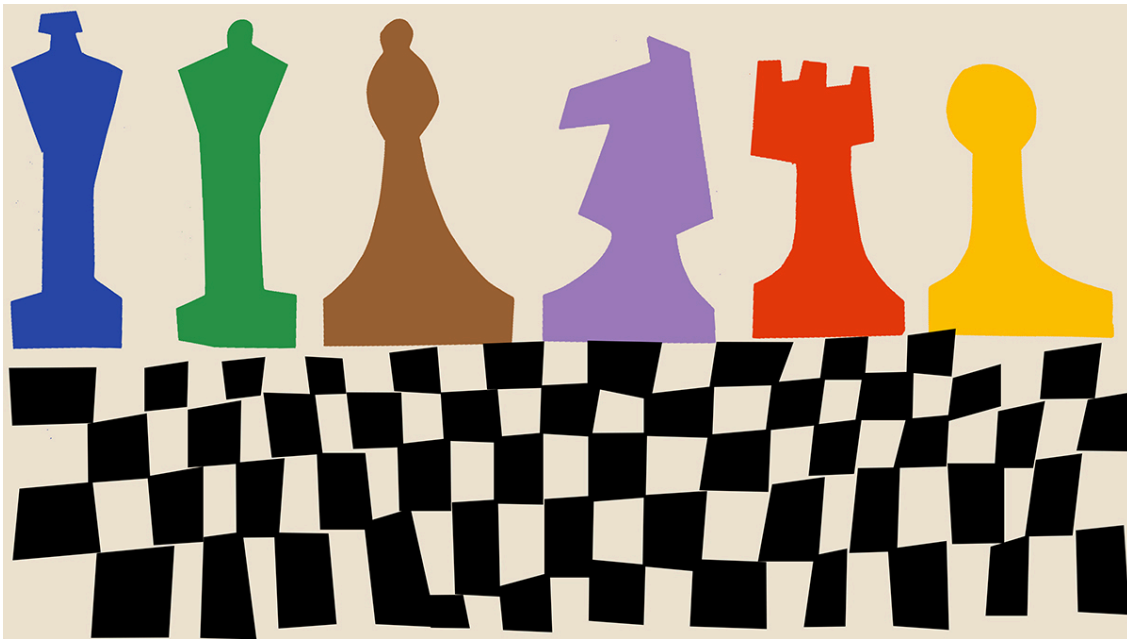


Illustration: Lucy Jones

Summary. An organization is nothing more than a living embodiment of a strategy. That means its “organizational hardware” (i.e., structures, processes, technologies, and governance) and its “organizational software” (i.e., values, norms,... [more](#)



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Research suggests that only 10% of organizations are successful at aligning their strategy with their organization design. Some of the problem is a gross misunderstanding of what the word “alignment” actually means in this context. Most leaders naively assume that it means rigid processes that cascade goals from top to bottom, launching intense communication campaigns that promote top priorities, and shaping budgets to support those priorities. For example, one large manufacturing company we’ve observed invests countless hours every January having employees input goals that correspond to their boss’s goals into their HR system. But employees noted, “It’s all cosmetic. We write goals we have no idea if we can achieve, but as long as they appear linked to our boss’s goals, they get approved.”

The problem is that such processes leave alignment to individuals and ignore the systemic organizational factors needed to make strategy work.

An organization is nothing more than a living embodiment of a strategy. That means its “organizational hardware” (i.e., structures, processes, technologies, and governance) and its “organizational software” (i.e., values, norms, culture, leadership, and employee skills and aspirations) must be designed exclusively in the service of a specific strategy.



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reorg?” Ivan had recently taken over the division and his predecessor had attempted a botched reorganization, so the CEO was understandably concerned about more churn. Ivan responded with: “Well, we have a new set of strategic pillars, including launching a new hardware product bundled with our software. We need an organization design that can deliver.” The CEO’s response was telling. He said, “You mean every time we change the strategy, we need to change the organization? Why can’t you just force alignment by tying everyone’s goals to the same outcomes?”

Unfortunately, it’s not that simple. When it comes to executing strategy, alignment means configuring all of the organization’s assets in the service of your stated strategy and making sure there is no confusion about what each part of the organization does to bring it to life.

If you’re embarking on executing your company’s strategy, here are six ways to make sure your organization is designed to do it successfully.

Translate differentiation into capabilities.

A clear strategy ultimately differentiates you from your competitors. But to ensure that what sets you apart is more than a mere aspiration, you have to build the organizational capabilities needed to actually surpass your competitors.



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In Ivan's case, he needed to build new capabilities that didn't exist in his division, like product engineering, managing outsourced manufacturing, and new ways of going to market. The existing organization was largely designed to deliver software as a service, and had Ivan attempted to execute his strategy through that design, the new hardware product would have been marginalized.

Every strategy will demand unique competitive capabilities that clearly enable your success. This work that forms these capabilities is work you must be better at than competitors.

Separate competitive capabilities from “everyday work.”

Not all work is equal. True competitive work will get you \$5 for every \$1 you invest in it. However, “everyday work” — tasks that can be done on par with anyone else or in compliance with regulatory requirements, or even work that adds no value to the final product — must be resourced according to its strategic importance. Problems occur when your competitive and necessary work get too close or intermixed. In other words, the immediacy of everyday tasks takes away from the focus on competitive work.

This is especially challenging when the definitions of “everyday work” and “competitive work” change. In Ivan's case, the role of product engineering had previously been focused solely on ensuring the division's software could operate on various devices, and the team was buried two levels down within the engineering



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Distribute resources and decision rights to the right leaders.

In the organizations we work with, governance design — which defines who gets to make decisions and allocate resources — is often too complicated or unclear to be effective. For a strategy to be successful, those closest to the most relevant information, budgets, and problems are the best equipped to make decisions. When leaders have proximity to an issue but no authority, authority without the needed resources, or control of the budget but not the people, the decisions tend to follow hierarchical lines. These decisions made at the top may be strategically sound but impossible to implement given how far away they're made from those who must actually execute them.

Ivan recognized that for the division's software and hardware offerings to remain equal in importance and integrated when necessary, he needed a cross-functional team expressly focused on just that. He knew that if everything escalated to his executive team, they would be regularly embroiled in the natural tensions arising from the new organization design.

So, he created a customer success council that included leaders from both product organizations, sales, customer analytics, and those managing the outsourced manufacturing. He empowered them to manage the strategic priorities, trade-offs, and potential conflicts across the organization. This ensured that critical decisions and resources were located with the cross-functional



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The new governance is often no match for the legacy behaviors and processes that remain. Like layers of wallpaper in an old house, sometimes you need to strip down to the sheetrock to make way for new décor. Leaders must not only design new governance, they must also strip away previous processes and governance that are no longer contributing to the strategy's success.

In Ivan's case, his predecessor had set up several councils that had begun gaining momentum in the service of their old strategy. Those needed to be purged to ensure his new governance design could succeed without confusion or undue conflicts.

Understand where the current culture will get in the way.

We've all heard the cliché "culture eats strategy for breakfast," but culture is just one ingredient that enables your strategy's success. Understand the way your thoughts, feelings, and behaviors motivate other leaders to think, feel, and behave in similar ways. And whether you realize it or not, existing values may be rooted in a previous strategy. Consider an organization whose strategy is moving toward increased innovation and has a corporate value of precision. A value like precision could lead to over analyzing and a low tolerance for risk — the very things needed to encourage a more innovative culture.

Ivan's company emphasized results orientation as a key tenet of its culture, but it often reinforced highly individualistic action at



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If you want your values to really matter, you must root them in all organizational decisions. For a company's values to feel integral to the lifeblood of the organization, they must be visibly central to how the organization competes.

Build nimble structures that allow you to pivot.

Too frequently, leaders assume that a few nips and tucks to the org chart are the equivalent of good design. But those are the Frankenstein "designs" that make people in different parts of the organization feel like they work in different companies. They quickly grow stagnant and are more fit for the PowerPoint slides on which they're loosely drawn than for a dynamic business. For your structure to enable your strategy, it must be agile enough to face the shifts, challenges, and opportunities from its marketplace, stakeholders, and employees.

Nine months into his new design, several of Ivan's strategic partners located in Ukraine were no longer able to provide the technical services they'd long delivered. Drawing on the expertise of leaders from across the division, the customer success team was able to quickly test and learn where they could make up for that loss of expertise. They identified multiple potential suppliers across the globe and made the decision to better distribute risk by contracting with four of them. Nimble structures allow for readily addressing these unforeseen challenges by making sure that coordination across the organization is easily achieved.



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organization. Make sure they fit together congruently into a cohesive organization. You'll signal to your people that you're serious about the strategy and avoid the cynical eye-rolling that often accompanies the announcement of strategies that everyone knows can't be executed.



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