Unlocking the flexible organization
Organizational design for an uncertain future
As the drumbeat of business disruption grows, organizations can become more adaptable by unlocking the power of networked teams. Today’s global operating environment is too unpredictable to rely on organizational structures devised over a century ago in order to adapt and respond to new challenges.
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Unlocking the flexible organization

Businesses today operate in an environment that is far more complex and competitive than at any time in history. Markets are increasingly interconnected; businesses have become borderless; and technology continually disrupts business models. These and other factors make managing large enterprises more challenging than ever. Yet organizational structure has not kept up with the pace of change. In fact, businesses today are largely structured the same way they have been for a century.

Most current organizational structures—from the functional designs of 19th century railway companies to more ‘modern’ matrix designs of post-war aerospace firms – are rooted in an efficiency paradigm that seeks to service predictable customer habits and known competitors. This model makes sense in a world where the primary business goal is to consolidate common resources into disparate functions that can produce repeatable outputs. Put another way, when you know what you are doing tomorrow, you can set about doing so in the most efficient way possible.

Today’s ‘exponential organizations’ are not only putting competitors out of business, they are upending entire industries overnight. In the 1950s, the average lifespan of an S&P 500 organization was around 60 years. Now, it’s about 15 years—and continues to decline. Lean start-ups are moving with purpose, speed and agility to reshape markets. By contrast, most major corporations are heavily layered, bureaucratic and stifled by complex webs of reporting lines that weigh-down leadership and smother talent.

In order to compete in this environment, organizational structure should evolve to unlock the potential within enterprises and unleash the latent power in networked teams. Under this new model, predictable efficiency gives way to rapid adaptability. Smaller is actually better. Focused teams, with resources, air-cover and real decision authority will generally be ‘faster to market’ than heavily structured groups that require approvals before each step.

We are not suggesting that an oil super-major or global consumer business giant needs to look like the latest start-up, but we are suggesting that the current designs of these massive organizations often crush the free-flowing energy and culture that makes teams of small disrupters so successful.

This paper explores the four main elements for building a flexible, team-based, networked organization that is capable of competing effectively in a complex environment and adapting quickly to an uncertain future. The findings are based on our observations from our global client base and our experience reorganizing the world’s largest companies.
Unlocking the flexible organization

Steps to unlocking the flexible organization

01 | Protect the core & disrupt at the edge
Find the areas of the organization that require agility and disrupt them with new ways of working

02 | Unleash the networked teams
Realign select existing structures into self-managed, networked teams focused on a specific outcome

03 | Adopt a collaborative systems mindset
Shift mindset away from static ‘boxes and wires’ and embrace the transformative power of systems thinking

04 | Create conditions for flexible design
Create an ecosystem of open talent with a fail-fast perspective and harness social technology as a mechanism to keep the organization connected
The scale of transformation required to create what we call the ‘flexible organization’ should not be underestimated. Many large companies that embark on a major change effort struggle to accomplish their original goals. One of the main reasons is that any transformation effort must overcome fierce potential resistance. To avoid this trap, a phased approach is recommended that incubates the new flexible design on the “edges” of the organization most threatened by disruption, while protecting the successful “core”.

Incubation is a time-tested method for fostering change, especially for large organizations that want to hedge risk and use a “skunkworks” approach to build momentum for transformation before incorporating it into the broader business.

The key issue is to determine which ‘edge’ to incubate. Organizational units facing the following challenges are potential candidates:

- Pronounced technology/market disruption;
- Intense competition from both large players and new entrants aggressively trying to grab market share; and
- Discreet work that is sufficiently separate from broader business processes where incubation can actually work.

Business leaders who begin creating edges that align with long-term disruptive shifts in the market can gain the momentum required to transform their business. For example, a Marketing function could collapse many traditional, siloed roles into outcome-driven teams that tackle topics on the edge. With this approach, the few groups doing core work would not be immediately disrupted, while the new team structure would focus on new work.

Case in point: Google redesigned its organization to protect its successful core and tackle new ideas on its edge. Google is now part of a larger holding company called Alphabet Inc. that organizes business units into two distinct streams. The first comprises Google’s core internet capabilities including Search, Maps, Chrome, and YouTube etc. The second is a new group of companies focused on long-term pursuits, including driverless cars, life sciences and robots. Alphabet’s mission of “improving the lives of as many people as we can” is a far cry from Google’s original goal to “organise the world’s information and make it universally accessible and useful”. It has successfully adapted to the changing environment and continues to grow by incubating new ideas.
Some might call the incubation approach incremental and overly cautious. But for large organizations facing shareholder and other pressures, immediate top-to-bottom transformation simply will not work.

For these companies, it’s not about ‘betting the farm” but making effective decisions about the best places to deploy highly empowered, network-oriented teams focused on adapting to the future.

Once incubation candidates have been defined, the transformation efforts shifts to building outcome-driven teams.

How to incubate and accelerate...

Incubating agility allows organizations to unlock flexible design in some areas of the organization without causing undue risk to the overall organization. Key considerations include:

1. Select an area where immediate success is needed (e.g. start with product areas that are being disrupted by competitors). It’s about getting a big win or preventing a big loss.

2. The incubated group cannot be “too far” from the core. The rest of the organization needs to understand the value and mandate of the team in the context of broader business objectives.

3. Focus the incubated team on pace, use the minimal viable mindset for all decisions (e.g. on products and structures). In this sense it’s important to not worry about building the perfect structure for this team.

4. Ensure the surrounding conditions for success are in place (the appropriate budgets/leadership attention, etc.). Side of the desk innovation rarely produces results.
Unleash the networked teams

Traditional functional organizational structures consolidate scarce talent in siloed teams and then sell access to that scarcity to the rest of the enterprise. Companies that make the decisions to disrupt at the edge should borrow a page from successful start-ups by adopting a new design – one that creates cross-functional, autonomous teams organized by specific outcomes.

These new networks of teams cannot be led by traditional managers. To be successful, team members should be inspired by confident, knowledgeable leaders who can provide cross-functional coaching and development with a focus on team dynamics to drive the desired outcomes. Instead of becoming another version of a tangled matrix organization, this new model of networked teams should be transparent, digitally aligned, scalable and adaptable.

Spotify, the music streaming service launched in 2008, today has more than 60 million active users in over 60 countries. Spotify attributes much of its success and rapid growth to its ability to apply agile concepts to its organization design.

The basic organizing unit at Spotify is a “squad” – a small, cross-functional team that is organized around a customer/product outcome, such as the home page experience and functionality. Organizing by outcomes and creating small start-ups within the company enabled Spotify to re-invent the matrix organization in a way that doesn’t slow down decision making by adding layers of bureaucracy.

Companies like Spotify have grown up in the digital age and designed their organizations to be nimble while placing the customer at the centre of all product decisions. They accomplish this by unleashing powerful teams of employees that work cross-functionally to achieve clear outcomes.

Based on our work in designing powerful, agile organizations, we have identified several common traits of companies that are successful in adopting a “networked teams” model:

- **Define Objectives and Customer Needs:** Outcome-based teams need clearly defined outcomes to be successful. These outcomes will likely be tied to strategic objectives or ongoing business decisions related to product development, service offerings, customer segments, new businesses, geographies etc. Is there a specific customer experience that needs attention? Is the company trying to break into a new market?

- **Redefine Work Based on Cross-Functional Outcomes:** Once the objective is defined, work should be organized into self-managed teams dedicated to achieving it. Functions should be broken down into cross-functional teams focused on discrete corporate objectives that change over time. To achieve maximum adaptability, work and capacity should flow to support fluctuating demand.

- **Adopt a Flatter Design:** Once teams are established, it’s important to prevent reporting lines from growing organically and without purpose. In an outcome-based organization design, the concept of “span of control” begins to shift to a “span of support” model. Leaders are measured not by how many people report to them, but by how many employees they can mentor and coach. By removing the “control” from management, leaders can spend more time guiding more employees, rather than overseeing and approving work tasks.

- **Build on Core Principles of Agile Management:** The principles of agile management should be explored and embodied to make organizations more flexible. This approach puts the customer and outcomes at the centre of every decision. It achieves adaptability by failing fast and delivering work frequently. Agility is achieved by stressing collaboration over individual contribution; promoting frequent and fast face-to-face meetings to identify issues and make decisions; focusing on self-organization where possible; and regularly reflect on how to be a more effective team.

- **Evolve Leadership Style to Deliver Team Autonomy:** Unleashing networked teams requires changing the way companies think about management and oversight. Teams must be empowered to identify improvements, make decisions, take risks and hold each other accountable without constantly relying on ‘management’. Managerial oversight still makes sense for confidential or sensitive areas, or in cases where the benefits of faster decision making don’t outweigh the benefits of delivering repeatable operational results with scale.

**Case study**

**Creating Agility in Banking Organization Design**

The global financial services industry, slowly recovering from the economic downturn, is facing massive disruption from fintechs and other unconventional players that tailor to customer experience, digital interfaces and rapid time to market in product delivery. Recently, a large multinational bank worked with Deloitte to design a new operating model to increase delivery speed and inject start-up characteristics into its thousands of functionally aligned technology employees. The main organizational recommendation was removing functional organizational silos that made hand-offs slow and resulted in costly interactions. Deloitte proposed a solution that divided work into product focused outcomes and positioned long-standing cross-functional teams around each outcome.

A scaled model of organizing by outcomes harnesses the power of cross-functional teams and social interactions and provides clear structure required to manage large, complex organizations. It is important to note that structure based on a network of teams must be controlled and structured in a large organization, additional support mechanisms were put in place including functional learning communities and a robust portfolio management team to oversee future demand and team productivity to ensure the organization could adapt to complexities over time.
Adopt a collaborative systems mindset

A corporate structure based on networked teams looks nothing like the traditional, two-dimensional, hierarchical organization chart made up of 'boxes and wires'. Truly agile companies are complex systems that require a holistic understanding of the connection points between teams in order to be successful.

Adopting a systems mindset is an essential step in building a nimble, flexible, team-centred organizational structure.

A successful organization can no longer simply be the sum of its functional parts, no matter how efficient or well-designed those parts might be. With entire business models under siege, the best-designed Marketing, Sales or Finance function will have little use. Transformation efforts should address the “whole” organization, rather than a myopic emphasis on adopting the latest design thinking within an individual function.

All too often, we are asked to provide benchmarks and best practices for single functions like Marketing. Benchmarking has its uses, but it can also be one of the most risky endeavours in a redesign because companies often just end up adding the inadequacies of other companies to their own.

At Deloitte, we often say that organization design is more than “boxes and wires” precisely because complex issues such as authority, decision-making and employee interactions cannot be dealt with through the blunt instrument of structure and reporting lines.

One of the most promising ways of unlocking the latent power of existing social dynamics is by shifting organization design towards multidisciplinary teams that are empowered with the right skills, decision-making authority, and freedom to adapt to market developments without being forced to go up multiple “food-chains” to obtain sign-off.

In some respects, the era of the visionary leader, the heroic manager and the perfect structure needs to give way to the well-oiled system that harnesses the power of many managers at once. This is the essence of utilizing a systems mindset in organizational design.

To compete successfully in today’s fast-paced, ever-changing business environment, organizations should share risk and harness collaborative action. Connected teams are smarter than the individuals that comprise them.
Taking steps to adopting collaborative systems thinking...

We know that systems thinking is important, but it is difficult for human beings to think beyond their immediate function because of existing reward and performance structures or the “guild” that they come from (e.g., Marketing, Finance), so a first step in achieving a holistic perspective is shifting our leadership mindsets.

1. Strive to constantly think beyond your immediate function, viewing decisions and implications from the total lens of the organization.

2. Have the courage to make decisions that benefit the whole organization (and may be at odds with your own domain).

3. Shift your focus to outcomes, always thinking about the customer, end-user, citizens etc. and the overall mission.

4. Have humility around the constraints of human ingenuity and leverage the wisdom of crowds in problem solving.

5. Recognize that the most effective teams operate as collaborative units, meaning group metrics need to outweigh personal metrics.

6. Leaders need to model the behavior.

7. Have a reinforcing metric and reward system.
Create the conditions for a flexible organization

A new organization design alone is not enough to achieve the flexibility today’s global companies need to compete. The network of teams must be empowered and supported through purpose, leadership talent, technology and processes.

**Purpose creates a common vision and shared culture**
As organizations seek to unlock flexibility, a common purpose will become one of the most important threads holding teams together through a shared culture. A purposeful vision and mission statement can create a gravitational force to connect networked teams to shared goals.

**New leadership mindset makes the model work**
A flexible organization based on cross-functionality and self-management requires a new type of leadership. The days of the non-motivating, complacent manager are over. Specifically, flexible organizations need leaders who understand how to guide, encourage and enable team members, rather than controlling, overseeing or directing them. Effective leaders in this new model should be able to think beyond individual functions; operate without command and control behaviour; create diversity; stimulate collaboration; while coaching employees and enabling teams to succeed. Organizations can use research tools to identify and develop leaders who can drive this environment.

**The new workforce provides the right talent that scales**
Leaders of tomorrow’s successful organization will hire and inspire a diverse group of employees and should look to non-traditional resources to understand and react to the changing environment. The adaptable organization typically has four distinct groups of employees: 1) the core of executives that drive the focus, continuity and strategy of the organization; 2) the flexible contingent workforce that occupies roles with fluctuating demand; 3) the outsourced specialists or vendors that provide specific services to the organization, and; 4) the community – a modern form of workforce enabled by a connected world where customers and interested citizens can provide direct input and solve problems for an organization.
Collaboration and technology platforms bring the new design to life
To become adaptable an organization’s internal operations including culture, leadership, process and tools need embody the vision of agility and empower teams within the organization design. For many large organizations, the shift from command and control to a self-organized adaptable system is a significant change that requires digital tools to link the autonomous networks of teams. Automating interactions and connections in an organization’s network of teams can make processes effective and efficient and allow the organization to scale without hierarchical command and control. Large, established organizations can increase autonomy and self-management with increased visibility that technology provides.

Processes should allow for the opportunity to fail
Agile management and the start-up culture highlight the benefits of failing fast. Nine out of 10 start-ups fail, but these failures created the learning experiences that lead to even better outcomes. Large, rigid organizations should enable teams to take risks without being held back by burdensome rules and processes. For example, many organizations have strict project approval and funding mechanisms that slow progress and innovation. Rewiring these processes to be outcome driven allows team to make errors quickly and adjust without burning through the entire budget or waiting months for approval to proceed with a new idea.

Case study
Increasing flexibility in an innovation engine

The XPRIZE foundation is an innovation engine, a facilitator of exponential change, and a catalyst for the benefit of humanity through a wide-ranging series of prize competitions. Given their tremendous success and growth, XPRIZE challenged itself on how they could scale their highly flexible organization to meet the increasing demand of prize competitions and rapidly assemble teams of global experts to complete to push the limits of what’s possible.

To address this challenge, the leadership team of XPRIZE worked with Deloitte to assess its employee satisfaction surveys and critical prize operation activities. First, XPRIZE mapped their prize activities against the employee roles conducting those activities to identify areas of constraint and overlap. Next, they conducted rapid scrum sessions to solve for those particular operational and organizational constraints, while preserving operational quality and the flexibility of its employees’ capabilities to efficiently support ongoing and future prize competitions.

The result? XPRIZE was able to identify and prioritize over 14 critical talent, organizational, operational, and technology initiatives improve the flexibility of their organizational capabilities to support their rapid growth. Furthermore, Deloitte is a contributor to the flexible organization structure at XPRIZE by providing its top talent to XPRIZE as part of a fellowship program to help provide bandwidth for strategic projects and improvement initiatives.
“Small teams driven by their passion with a clear focus can do extraordinary things, things that large corporations and governments could only do in the past.”

— Peter Diamandis (Founder of the XPRIZE and Co-founder of Singularity University)
Begin to unlock the flexible organization

Organizations have evolved in stages over time. Formal functional hierarchies gave way to matrices and then to culture-based models. The disruption caused by technological advances is accelerating the speed of this evolution. To be successful in today’s highly competitive, rapidly changing environment, organization must learn from failed businesses and leap-frog to the next stage of evolution: The flexible organization comprised of networks of teams that is agile enough to rise to new challenges, nimble enough to collaborate across functions, and powerful enough to adapt to constant change.

Building a flexible organization may seem an impossible feat, but our experience suggests there are immediate steps that can launch your transformation to becoming an adaptable organization.

• Understand the formal and informal networks in your business.
• Make organization design decisions based on systems thinking and avoid seeing your company as an organization chart.
• Look for initiatives that would benefit from incubating at the edge.
• Identify opportunities to break functional silos, while organizing around outcomes and flattening your structure as much as possible.
• Have a clear vision and vocal Executive commitment to making the new model work and driving culture change.
• Enhance transparency and empower employees to be autonomous to improve decision-making.
• Use data and tools to increase visibility to the networks of complex organization interactions.

The components of a flexible organization exist in nearly every business.

It takes a strong leader with a clear vision and an unwavering commitment to unlock the power of networked teams and create a platform that allows the organization to adapt in a complex, uncertain world.


6. Henrik Kniberg, Scaling Agile @Spotify, October 2012.


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