Lecture – 18
New Forms of Organization Design

In today's session, we will look at new emerging types of organization designs and firstly, we are going to look at process-based structure.

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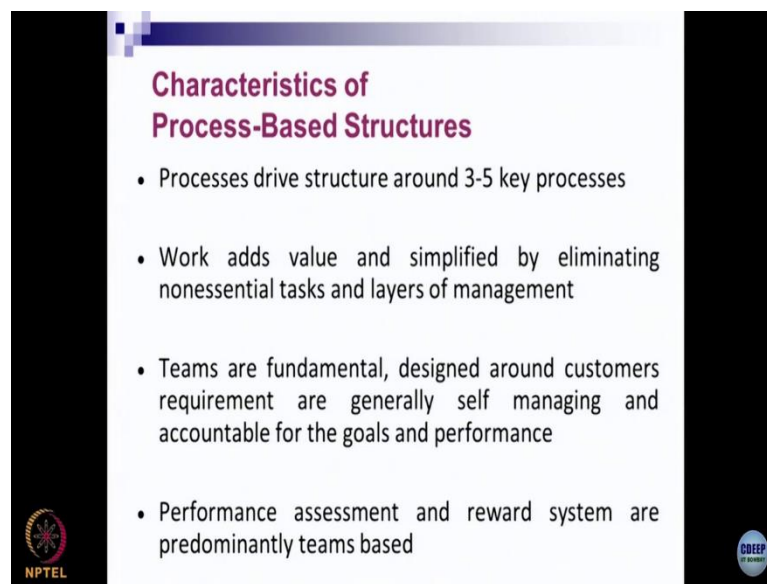
So, process-based structure of the organization is derived after identifying 3 to 5 key processes for any organization. After identifying the key processes, we have to identify what are the value adding things which can be incorporated in the process, how the process can be simplified by eliminating the non-essential tasks in layer of the management.

So, in the process-based structure, we look at what is the core value adding work we are performing and second, how to eliminate the non-essential tasks. Those may be unavoidable and those tasks can be outsourced or can be done through the contract labourers in a contract setting through different organizations. And we also look at how to delayer the management, meaning how the number of hierarchical levels can be reduced.

Very important feature of process-based structure is teams. So, teams are the fundamental of the process-based structure and this structure is designed around the customer

requirement. First, the customer is looked at and we look at what are the requirements for the customers. Based on the customer's requirements self-managing teams are constituted, they are formed and teams are accountable for the goals and performance.

So, naturally when teams are the basic unit of this organization structure, the performance assessment and reward system is also predominantly team based.

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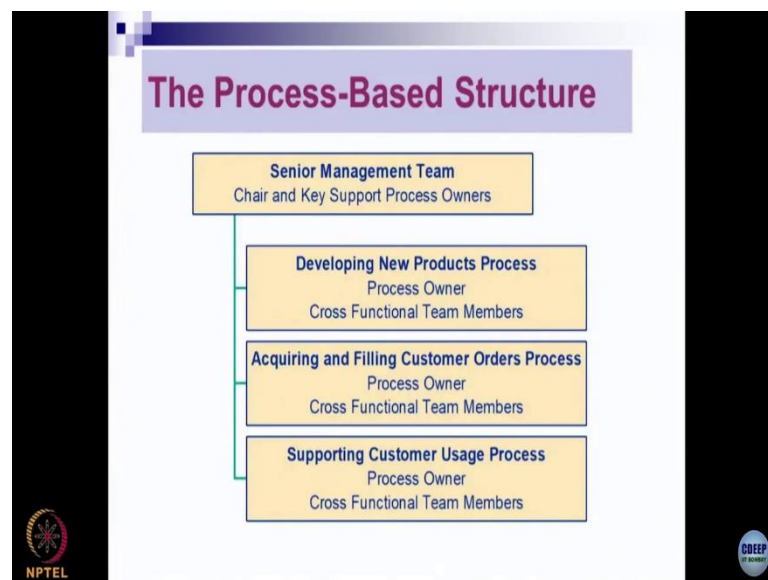
So, this is one example of process-based structure. If you can see the senior management team, which is constituted of the chair and the key support process owners. Please notice that here that the leaders in the organization are not known as department heads or functional heads, they are identified as the process heads. Senior management team is there and different process owners report to the senior management team.

So, in this example which is drawn from Worley and Cummings book on Organization Development and Change, developing new product processes is one process; acquiring and filling customer orders process is another process; supporting the customer is another process. All these processes are actually multifunctional. In the new product development, people from the different branches of the engineering may be involved, people from the marketing and finance will also be involved, people required for the HR processes may also be involved.

So, generally the processes are cross-functional or multifunctional and the heads of those processes are called process owners, they report to the senior management.

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Like any other organizational structure this also has advantages and some challenges or disadvantages. Very important advantage of the process-based forms of organization is that it focuses on the resources for the customer satisfaction. So, here the design from the very beginning happens to be customer focused, customer specific.

Process-based structure improves the speed and efficiency. You might remember we discussed about the four challenges of organization design. One important challenge is how to make people from the different functions to converse and interact and not lead them to develop a silos mentality of operation. In the process that challenge is addressed to a great extent.

Here people from the different functions, different types of expertise work together with the core objective of satisfying the customer and because of this there is an improvement in the speed and efficiency of the delivery of products or services.

Processes and process-based form of organizations are good at adapting to the environmental change. When there is an environmental challenge maybe political environment or technological environment or regulatory environment organization has to perform and organization has to respond.

But if organization is operating in the form of different departments that response may be delayed because of the requirement of the interdepartmental communication. Whereas, in the process where focus is on the customer the probability of responding to the environmental change is much higher that is why process-based forms are generally found to be good at adapting to the environmental change rapidly.

Process-based structure reduces the boundaries between department. We have already explained that. In the process the individual identity of the department reduces a great extent and that confluence reduces the boundaries between the departments. Process-based structure increases the ability to see the total workflow. The very design of the process is from the perspective of what we call outside-in; meaning we look at the customers, their requirement and based on that requirement we design the internal processes.

So, this natural outside-in view increases the ability of the process-based form to see the total workflow and how it impacts my customer and how it impacts my business. Process-based structure enhances the employee involvement, how? It enhances the involvement because employees are able to see the impact of their work on the customers or their clients. When people are able to see the impact of their work outside, then naturally their involvement and their engagement in the organization and in work is likely to go up.

Since there are less number of departments, since there is more flexible communication less number of boundaries in order to develop a specific product or offer a specific service to the customers the process-based structure reduces the cost or reduces the overhead.

So, these are some of the very important advantages of process-based forms of organization. That is why you see so many organizations are process-based. Most of the KPOs means Knowledge Process Outsourcing organization or BPOs – Business Process Outsourcing organizations are generally defined in terms of the processes; they are designed as a process-based forms.

But there are some disadvantages as well of the process-based forms of the organization. Number 1, the process-based form can threaten the middle managers and the staff specialists. In any organization there are some people who develop a deep expertise and deep speciality as well. Generally, in the process-based organization, people having multiple perspective, people with multi-dimensional competencies are preferred and, in

that environment, very narrow specialists at times do not find the opportunity to express their talent.

Secondly, process-based structure requires changes in the command and control mindset. Here since generally the process-based organizations are flatter, a department hierarchy is less, people are supposed to take the accountability of their work and teams are supposed to take the accountability of their work. So, teams are fairly autonomous in the process-based structure and some people who have a habit of receiving command for taking any action, they may find it very difficult to operate in this kind of environment.

At times when there are very closely identifiable processes in the process-based organization there is a duplicacy of the scarce resources. Process-based organization also requires new skills and knowledge to manage the lateral relationships and teams. Since in the process-based organization the number of hierarchy is less and people have to interact laterally within the organization they need to develop the skill of negotiating, influencing, inspiring in their lateral interactions.

It means people have to get things done through the people over whom they do not have formal authority. They might be at the same level of hierarchy, but still you need to get things done so that both of you can satisfy your customer.

In that kind of environment people need to develop the capability of influencing, interacting and getting things done in the lateral relationships and that is not a disadvantage, but this is an inevitable situation where not everybody is able to demonstrate their full capacity.

Process-based organization may take longer to make the decisions in the team. If teams are very autonomous, if there is a very high level of democracy in the teams, at times teams are not good at reaching to the decisions very quickly. In a command and control, decision may be reached quickly depending on leader's proactivity.

In a team-based situation though the quality of decisions are generally better than in the situation where there is a one person who is commanding and rest of the people and large number of people are following, in comparison to that situation in the team based situations quality of decisions are generally better. But, at the same time since team is constituted of people of the similar level of hierarchy, everyone has the opinion, everyone can express
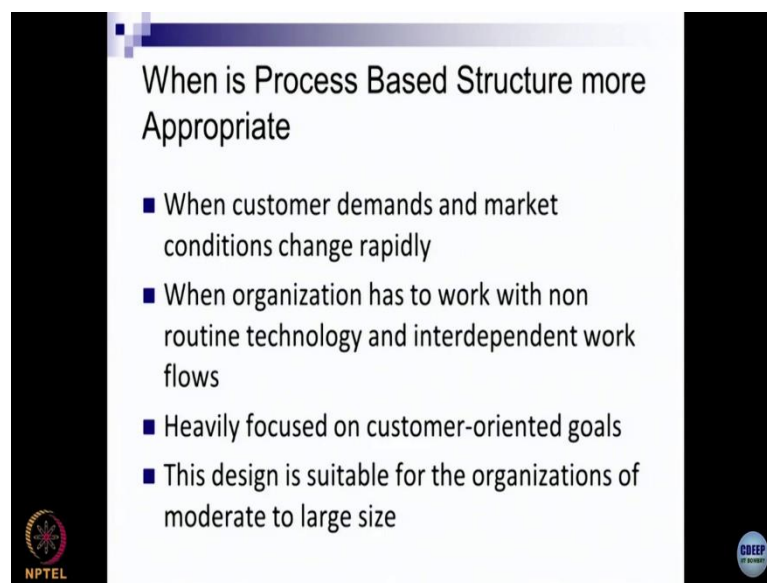
their concerns and their thoughts and opinions and because of that teams may be delayed in making decision.

These things can be avoided by identifying the leaders pertaining to a specific level of accountability. If we specify the accountability of the people at different level pertaining to the impact of their work or the scale of their operations, this challenge can be handled.

And, last but not the least in the process-based organization there can be ineffectiveness if the wrong processes are identified. If wrong processes are identified, we may end up having lot of duplicacy of the resources, lot of people with the similar competencies that might be the scarce competency might be working in the different teams wherein their competencies could be used across the teams.

So, this is one example where process-based forms of organization can be ineffective particularly when the wrong processes are identified. With all these advantages and disadvantages the question comes when is the process-based structure more appropriate.

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So, there are certain situations where process-based structure is more appropriate. Number one when customer demands and market conditions change very rapidly? In that situation our functional or divisional organization which is divided in different functions or departments and not in terms of the processes oriented towards satisfying the customers, process-based structure may not operate best.

So, when the customer demands are high and the market conditions change very rapidly that is where the process-based structure is more appropriate. That simply means in a more predictable environment we need to promote a speciality and where the specialities need to be promoted process-based structure is not the most appropriate one.

Secondly, when an organization has to work with non-routine technology and interdependent workflows, that is connected to the previous point that when organizations are operating in an environment where technology is very rapidly changing. And, lot of interdependent workflows are required then it makes all the sense for people responsible for different expertise being put together at the similar level of hierarchy to satisfy the customer's requirement. In that situation process-based structures are more appropriate.

Last, but not the least when we have customer segments which are powerful enough which have a specific requirement, but those requirements are very significant to be fulfilled for the organization. When there is a heavy focus on the customer-oriented goals, when you have very powerful customers who have specific requirements in terms of technology, in terms of the interdependent tasks and workflows, that is the situation when the process-based structure is more appropriate.

This design is suitable for the organizations of moderate to large size. A very small organization may find it difficult to design their organization according to the processes. So, process-based structure is suitable for the moderate to large size of organization. The example of the process-based organizations as I mentioned before are most of the KPOs means Knowledge Process Outsourcing firms and BPOs meaning Business Process Outsourcing firms. Large number of IT and ITES companies in India are operating with the process-based structure.

Very large organizations in the IT sector are generally the combination of the divisional structure and the process-based structure. In-house IT support services, many multinational organizations like Barclays bank or General Mills, they have in-house, they have a shared service operation where their IT requirements are being taken care of by their Indian subsidiary.

Separate IT firms are established which are catering to the internal requirements of large MNCs. In those shared services organization as well, we see more process-based structure operating.

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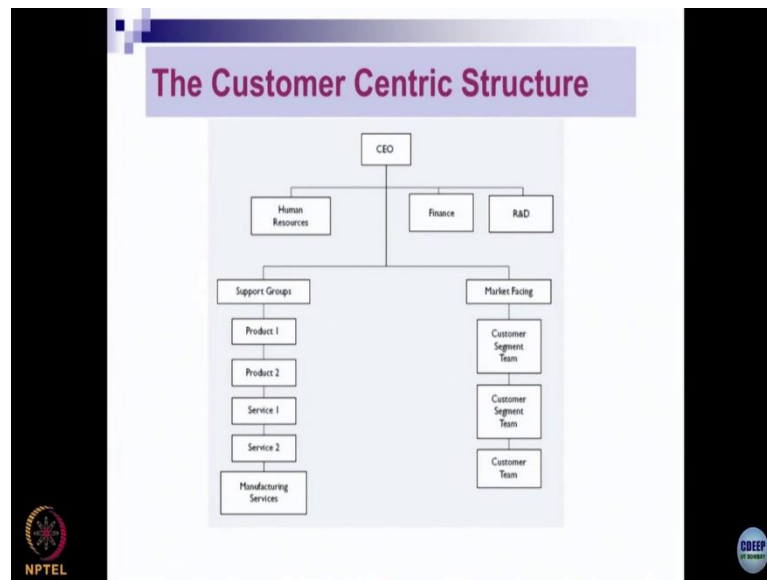
Now, we will look at the next structure which we call customer centric structure. They may sound similar, but in a while, you will understand how the process-based structure is different from the customer centric structure.
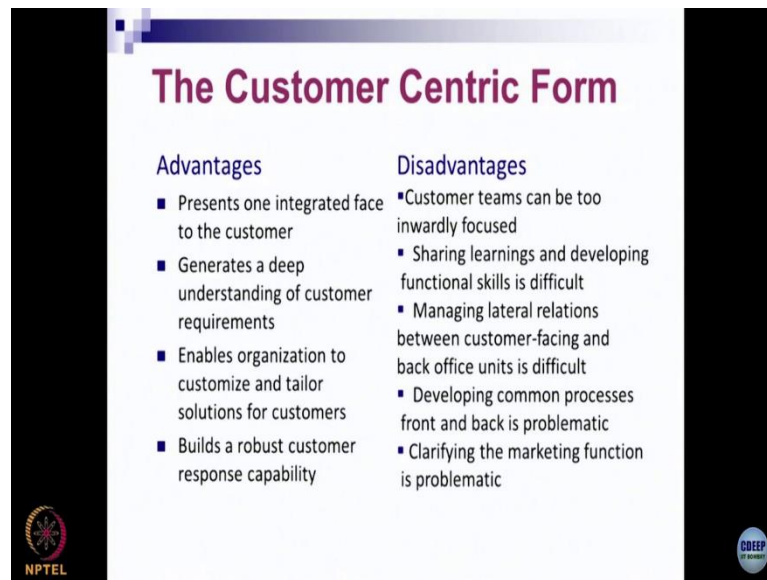
So, if you look at this diagram you can see the head of the organization which is CEO is reported by one market facing group and another support group, along with the finance, R and D, and human resources.

This whole organization is having customer centric structure; that means, a significant portion of the organization is customer facing, who is responsible for serving the specific customer segment and there is another group which is responsible for different products and services.

At the corporate level there is a human resource function, finance function and R and D function. This design has the element of functional structure, but those functions do not continue to remain to the last hierarchical level of organization.

Those functions are more specialized functions which take care of their processes within the organization individually in the remaining in the corporate office, but the biggest part of organization is designed around customer. One segment is related to the support group, one segment is related to the market facing group.

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There are lot of advantages and disadvantages of the customer centric organization as well. The advantage of the customer centric organization is that it presents an integrated face to the customer, not many people in the same organization has to interact with the customer. So, it presents an integrated face to the customer.

Customer centric forms also generate a deep understanding about the customer requirements. Since they are customer focus, the organizations and a particular segment of the organization just interact with the customers on a day to day basis they generate deep understanding of the customer requirements.

It enables organization to customize and tailor the solutions for the customer. Naturally when there is an expertise and deeper familiarity and understanding of the customer requirement, they are able to customize and tailor the solutions to the customers. Customer centric organization builds a robust customer response capability, that is also a natural outcome when one very significant portion of organization is mainly interacting with the customer, they develop the ability for the response to the customer requirement very quickly.

There are disadvantages as well of this kind of organization structure. First is that customer teams can be too inwardly focused. They may focus only on the customers, they may not have a full understanding or better understanding about the internal organizational challenges.

Sharing learning and development functional skill is difficult because generally in a customer facing team there are people who have multi-dimensional competencies. So, in that environment a specialization is not promoted and people with a different kind of a special capability, generally are not able to share their learning and development within the function.

Thirdly, managing lateral relationship with the customer facing and back office unit is difficult. When organizations are operating in a customer centric form there has to be excellent combination of the front desk or the customer facing and the back-office unit. And, that coordination is not something which comes very easily; it has to be developed, it has to be learned.

Next point is that developing common processes at the front and back is at times problematic. Customers have certain requirements, those who are facing the customers they are likely to look at and would like to address the requirement in some way, but the back office may not find it feasible or may find it difficult. In that kind of a situation the altercation or difference of opinion is very likely between the front office and back-office. So, developing common processes across the front and the back offices is not easy.

Last, but not the least clarifying the market function is problematic. Market functions keep changing, customers expectations keep changing and tracking those is not easy. So, having a customer centric form at one point of time may be very successful, but in the dynamic environment the customer centric form may lose out on reading the technological changes, reading the implications of regulatory or psychographic or globalization related challenges which may change the customer's requirement.
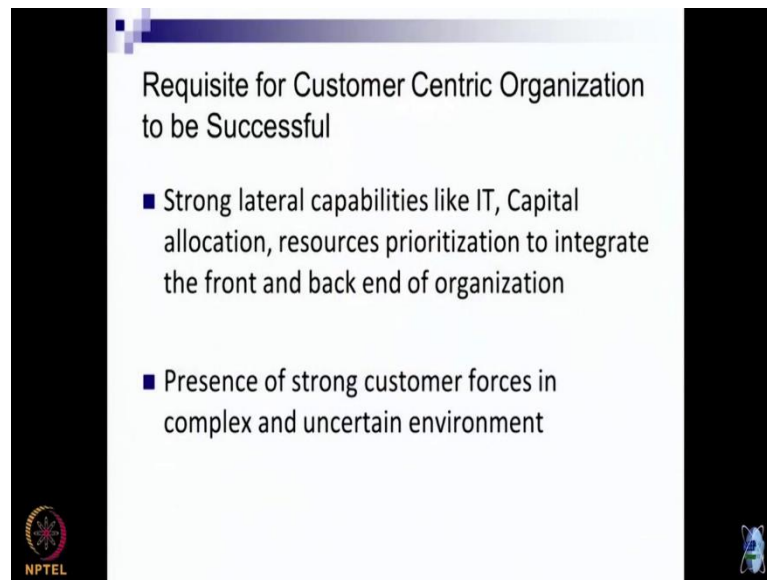
So, in that situation this kind of design becomes a liability. With all the limitations what are the prerequisites for customer centric organization to be successful. Number 1, the strong lateral capabilities like information technology related capability, like capital allocation, like resources prioritization to integrate the front and back end of the organization are the requisites for making the customer centric organization more successful.

Secondly, presence of strong customer forces in a complex and uncertain environment is the situation where customer centric organizations are required and their probability of success is more in comparison to the functional or divisional organization. So, what is the role of OD person, what is the role of the organization development professional in this situation?

OD professionals need to make the organization realize whether the customer's requirement is really specific, whether the customer centric organization is really important, whether the environment is really complicated where it cannot be handled or where the organization cannot carry out its function properly in other forms of organization which are simpler like divisional structures or functional structures.

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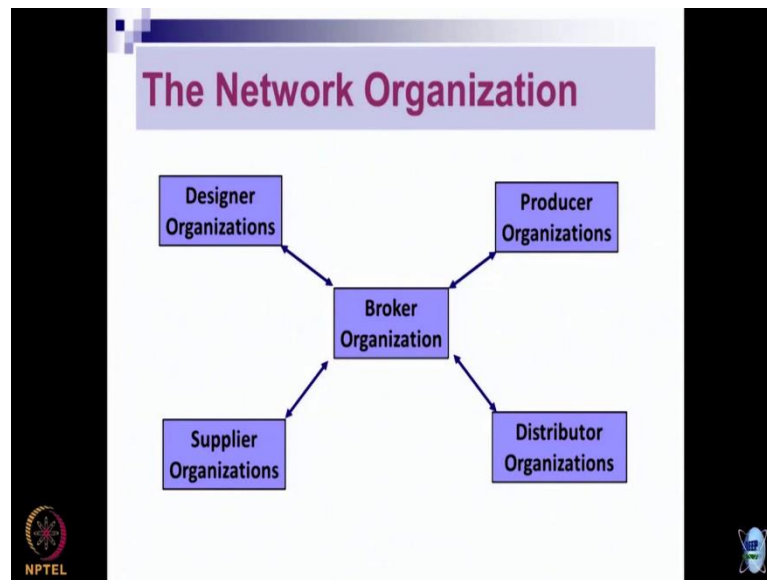
Next type of organization design is called network organization. This is one example of a broker organization. Why it is called broker organization? Because it is the mediator or it is the one connecting point of the different organization. So, a network organization is depicted in this picture where a broker organization is the centre and they have the collaboration and they engage the designer organization, producer organization, distributor organization and supplier organization for the product they deal with.

The benefit of this kind of organization is that we can quickly build the operations, we can quickly scale up the business. You have to just forge the alliances with the organization which have expertise in some specific functions; you get them connected, you find the market, get even a partner who can do the marketing for you and that is how in a very quick time the broker organization can scale up very fast.

Networks can be of various types. Internal market network, where organization is built around many small business units. So, one example is ABB organization. This organization predominantly operates in the five segments like commuting or modern electronics or robotics related functions. ABB operates in a highly technologically advanced segment related to telecommunication, robotics, production and trans-communication.

It has more than 1000 subunits and has more than 4000 profit centres. These subunits and profit centres keep interacting and having the business relationship with each other and that is how the whole organization operates, across the sectors, across the different expertise. So, this is the example of the internal market network.

Another type of network is vertical market network, wherein there are suppliers, there are aggregators, then there are retailers and all this is managed by the corporate office. One example of the vertical market network is Nike, the shoe company. They get their shoes manufactured from various parts of the world. They get the technological help from different experts at the different levels in the organization, they operate for manufacturing of the shoes, collection centre, warehousing and retailing.

So, a vertical market network operates in Nike. So, with some of the suppliers they have a contract relationship with some of the parts of the network they have an employer – employee relationship.

Third example of network is intermarket network, where of the same business houses they are connected in the form of a community, they are operating in different industries, sometime even very unrelated industries.

So, Japanese Keiretsu or Korean Chaebol are the terms used for intermarket network, wherein one brand owns a large number of organizations operating in diverse sectors and they keep interacting and having business relationships with each other. And, this kind of network organization is called intermarket network.

Another type of network is called opportunity network. These are very flexible, quick to operate and quick to respond to the market requirements. One example is of the Li and Fung, it is a trading company of Hong Kong and they are very quick at identifying the business opportunities, changing the customer needs and requirements.

One example is their operation in the clothing segment. They quickly interact and establish the relationship with different manufacturers, people responsible for branding, organizations responsible for the supply chain and then they serve the customers with the clothes of latest trend. So, these are the types of the network and their example.
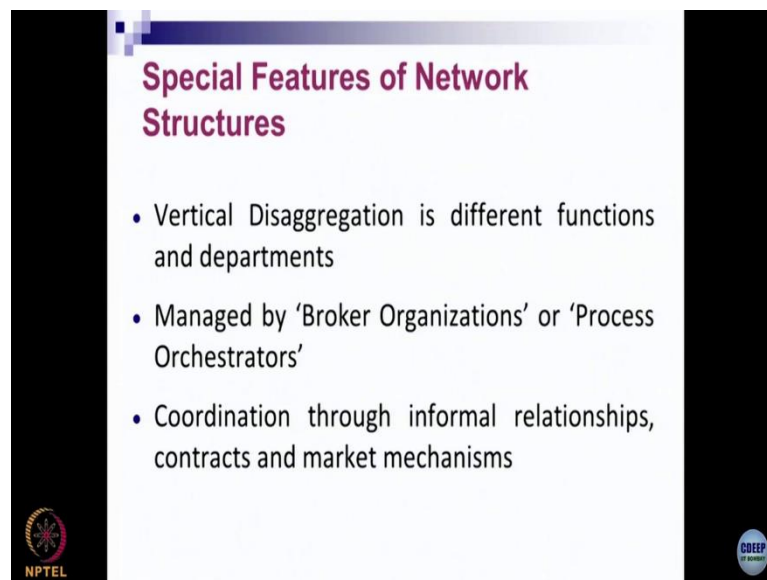
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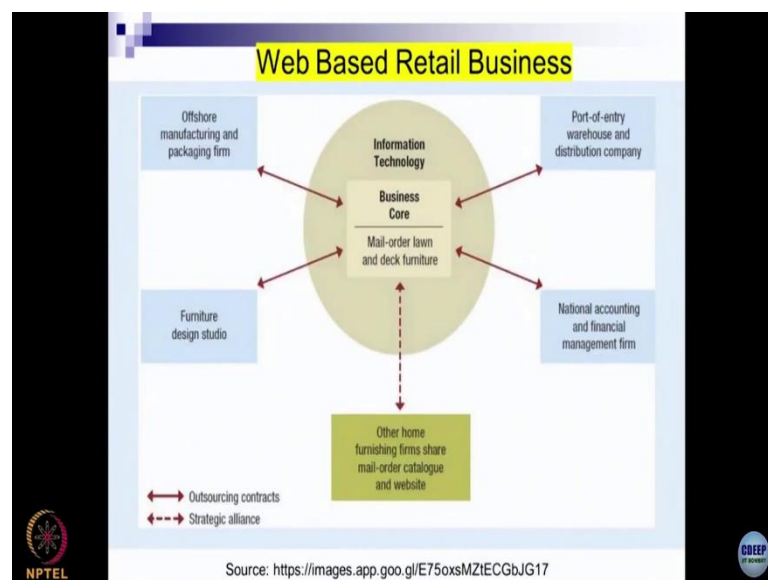
This is the pictorial representation of the web-based retail business, which is example of a network organization. There is an offshore manufacturing package firm; there is a furniture design studio; there is other home furnishing firms share mail-order catalogue; there is a

national accounting and financial management firm and there is a port-of-entry, warehouse and distribution company. So, these are the five very different companies, they are connected through technology and this is connected by a business core and this business core is the face of the organization.

So, Pepperfry is an example of a network organization where the brand Pepperfry you see as the face of a network and who all are participant in this network? In this network, there are manufacturing firms which are responsible for packaging, there are furniture designer studio who design the furniture, there are manufacturing companies which manufacture the furniture given and suggested by the central office of Pepperfry and all that.

And, there is a warehouse which is a different company and there is a national accounting and financial management firm which might be different company and which is working on a contract basis for Pepperfry. So, Pepperfry is a good example of a web-based network organization. Amazon, the famous retail company can also be example of a web-based network organization.

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So, there are special features of network structure. In the network structure you see there is a vertical disaggregation. You might remember, we looked at, in the organization design, the challenges, the challenge about the aggregation: aggregation or integration across the functions. But in the network structure you see very less variety of functions being carried

out in one single organization. So, there is a vertical disaggregation in the different functions and departments in the network structure.

Network structure is generally managed by the broker organization or a process orchestrator. So, process orchestrator maybe a Flipkart, Amazon or a Pepperfry. These are the examples of the organization which engage with a large number of organizations who are responsible for producing their stuff and they use Pepperfry or Amazon as a platform to sell out their product and reach out to the customers.

So, the core of the organization can be called a broker organization or a process orchestrator. Ola, Uber are also example of this category. Through Ola there are lakhs of taxis operating across India and some other parts of the world. Similar thing is with Uber which is operating in so different parts of the world, but they do not own taxis. They are the aggregators with the help of technology. So, this is also an example of a network organization.
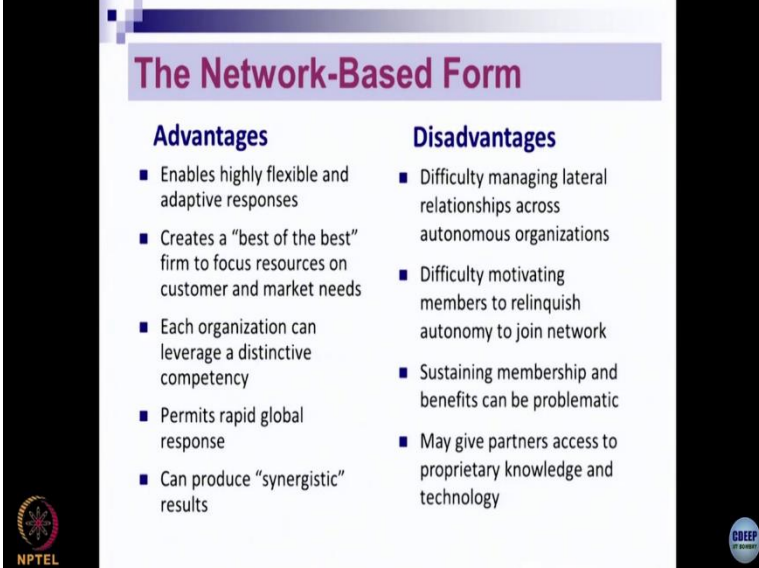
Network organization, the coordination happens through the informal relationship, through contracts and the market mechanism. In the organizations like Keiretsu, Chaebol or many firms operating in India which are community based and generally localized, these are the network kind of organizations where they operate based on their informal relationship. People become familiar with each other and they trust each other and based on the trust they operate their business.

Network operation also happens through a large number of contracts. So, the contract specifically identifies the kind of services and products being offered by the broker organization and the partner organization and those contracts becomes the governing mechanism of the network organization.

And, last, but not the least it is the market mechanism like giving credit, renting etcetera through which the different partners of the network come together and they form an organization for providing service to the customer. So, customer experiences one integrated service or product, but they are being produced by different organizations, they are being delivered some by different organizations, but they are aggregated and orchestrated by one core, which is the face of the company.

So, Ola the brand you see is the face of the organization, face of the network. Uber is the face of the network; Amazon is the face of the network and that is actually a platform where large number of different organizations are contacting their customers and selling their products and services.

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Network organization like any other organization has advantages and challenges. Advantages that it enables highly flexible and adaptive response. You see a market requirement, you contact a channel partner or a network partner, you get the service and product and make it available to the customer. It is as fast as you can think. So, it is really very flexible way of organizing.

It creates the best of the best firms to focus resources on customer and market needs. When with the help of IT one can make products available and one can make visibility of the product available across the world, then it can promote only the best of the best products. So, when the facility of presenting their great output was not available, even the substandard product could be sold in the local market.

But because there are no local markets and in the global market you can get access, you have familiarity to the products which are the best in category they might be produced in different parts of the world. But in network organization the process orchestrator or the broker is willing to and is capable of providing that product at your doorstep, then it promotes the best of the best firms. It promotes the best of the best product.

Each organization can leverage a distinct competency. In the business environment where network-based organizations are operating an organization can just focus on their expertise.

Without network an organization has to take the responsibility of production, design, delivery, finance, accounting, all these functions, but in the network organization the network partners can just focus on their expertise which may be supply chain, which may be producing best of the class products, which may be about providing the great service. They can just focus on their expertise and through the broker organization or the orchestrator they can be a part of the network and carry out their business.

It permits the rapid global response. As I explained before that with the network organization you can reach out to any part of the world without having actually starting their operation, your own operations there, at a very fast speed. It can produce a synergistic result.

It is connected to point number 3 that the channel partners or the network partners need to focus only on their expertise, only on the product and service or the activities they are the expert, when they have to focus on that it can produce a synergistic result.

There are some disadvantages as well of the network-based organization. First is that there is a difficulty in the network organization for managing lateral relationship across the autonomous organization. Basically, the network partners are at the similar level of relationship. So, the lateral relationship has to be developed.

Difficulty in motivating members to relinquish autonomy to join the network. Not all the service operators may be willing to join a network operator or a broker organization or a process orchestrator.

If the process orchestrator has become very big and the household name as it has happened with Flipkart, as it has happened with Amazon, marketers will have no choice but to connect to them. However, for a new broker organization it might be challenging to convince the other organization who are also autonomous to join the network.

Another challenge is sustaining membership and benefits and that can be problematic. Sometimes the channel partners or network partners may not continue to be the members

of the network, and they have all the right to move in and out of the network and that might pose a challenge for a network organization.

Network-based form of organization may give partners access to the propriety knowledge and technology. And, when there is a close interaction between the network partners, there is a probability that network partners get access to the propriety knowledge of the process orchestrator, broker organization or any other closely involved network partner.

And, that may result in reducing the competitive advantage of one network partner. These are some of the disadvantages or the challenges of a network-based firms.