Organisation charts as organisation models

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 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 boxes in the chart.

The operating core

The first step in drawing a richer organization chart is to define the operating core; and to decide how the ‘boxes’ of the operating core are divided up.

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

There are three ways to divide up the operating core:
- as a value chain of operating functions, where each box needs to link well with the other boxes to successfully deliver the output (e.g. buy, make, sell or buy, cook, serve);
- by operating unit (or business unit) where each box can deliver value in its area of focus with some autonomy from the other boxes (e.g. geographic units or product units); or
- by matrix, where operating units have more than one boss (e.g. a geographic and a product boss) or where different dimensions of operating unit need to work together to deliver value to customers (e.g. a front/back structure where both product units and geographic units are each set up as profit centres and trade with each other in a market-like manor).

The operating core of kitchen in a single restaurant might be structure into operating units – the first course team, the main course team and the sweets team. The operating core of a restaurant would be structured as a value chain: for example buying, cooking, serving and marketing functions. The operating core of a chain of similar restaurants would be structured into operating units, with each restaurant as a profit centre. The operating core of a group of restaurant brands would also be structured into business units. Each brand would be a separate business. The operating core, therefore, may be different at different levels in the structure.

If the operating core is a value chain the relationship between these operating functions is that of a “tight team”. Profit can only be calculated or customer satisfaction measured once the activities of all the functions are combined. Hence the functions need to work closely together to ensure their combined activities are achieving the objective. Monday morning meetings or something equivalent are needed to ensure regular coordination between the functions. This also has implications for the role of 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 core consists of operating units, the relationship between the units will be much looser. Coordination does not need to be as close: each can operate with a good degree of independence. The relationships between the units can be quite distant. Monthly or quarterly meetings may be sufficient to achieve needed 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 business unit within the constraints of defined policies and strategies.
Above the operating core

Once you have clarity about the operating core at any level, the next challenge is to define any parts of the structure ‘above the operating core’, yet still at the same level.

Obviously the boss or leader sits above the operating core in the organization chart. But it is also helpful to position some other activities ‘above the operating core’.

The way to do this visually is to have the operating core boxes all on the same level of the chart. Then draw a horizontal connecting line just above the operating core 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 left and right of this line (see exhibit 1).

How to draw an org chart

So what boxes should hang off to the left or right of this vertical line? Four kinds of support functions:

1. Policy or control functions: these functions set and monitor policies for the operating core. Examples are accounting rules from finance, people management rules from human resources and IT rules. These functions are typically small and staffed by experts.
2. Shared services: these are activities that could be carried out within each part of the operating core, but have been centralized for reasons of economy of scale or skill. The relationship is a service one: the operating core is the customer and the shared service is the supplier. These functions are typically large and staffed by middle level or juniors doing transaction work.

3. Core resource functions: these are also functions that could be embedded in each part of the operating core, but have been centralized because the activity is a source of advantage that is shared across operating units. Core resource functions normally only exist when the operating core is divided into operating units or a matrix.

4. The relationship with the operating core is that of a partner rather than a supplier. Moreover the core resource function has responsibilities that go beyond just doing what a part of the operating core wants. The core resource function is trying to do what is best for the whole organisation. The function has a seat at the table of each part of the operating core as an equal partner. Examples are central research, central sales, central brand management.

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

5. Coordinating and championing units: these are units whose role is to influence the operating core to give more attention to some area of importance. 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. So, where a number of business units operate in one country but report in to their global divisions, there is often a country management structure 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.

Champion units are typically small and staffed with experts in the topic.
The final part of drawing the chart is to place the “more powerful” functions on the left and the “service and influencing” functions on the right of the vertical line. So that policy functions and core resource units go on the left and shared services and champion units go on the right.

Where functions, such as finance, HR and IT, have been centralised, they typically contain at least two or sometimes three or all four of these support functions. This can make it difficult to decide which side of the line to place them.

There are two responses to this. First, place them in which ever of the four roles is dominant. 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 functions. 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 more useful organization charts. So lets look at some examples.

Ashridge Business School has business units – open programmes, tailored programmes, qualification programmes, consulting, conferences and research centres (see Exhibit 2). These are the operating core. Supporting these ‘business units’ are some policy functions Finance, HR and IT. In Ashridge’s case these functions are a mix of policy, shared service and business partner, where policy is the dominant part. For example HR sets policy, does recruitment as a shared service and advises business units as a business partner. Generally this combination does not work well, with the functions being seen by business units as inefficient service providers and ineffective business partners.

In addition to these functions there is a further large shared service function – the ‘hotel’, including offices, bedrooms, catering and gardens.
The only complex part of the structure is the COO role, responsible for Finance and Hotel activities.

Global Welding is a company where the operating core 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 units. It reports to the Product Director, who is the CEO in waiting. He is also responsible for India, to give him some experience of the operating core.

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, but also has responsibility for the brand, which is a core resource.
The final example is of an HR function. In this group-level HR function, all HR staff in the whole organization report to Group HR. As a result, the business partner role is the operating core of HR. The business partners are organized to match the company’s geographic divisions. The central expert functions, such as compensation and benefits (C&B) are policy units, as is the person responsible for HR Strategy and IT. HR Operations and Recruitment are shared services.

Some Group HR functions treat both Business Partners and Expert Functions as part of the operating core. They are set up as a matrix, with both ‘sides’ working together to add value to Business Units. But the design below has a different model – with the Business Partners as the core with the other functions in support roles.

The operating core of a Group HR function, that does not have responsibility for Business Partners, would consist of the main expert and service units – C&B, Talent, Learning, Recruitment and HR Ops. HR Strategy and IT would still be a policy unit.
HR - (BPs are core)

Operating Core