

10Minutes

on organizational DNA



July 2014

Does your organization's DNA enable or impede your strategy?

Highlights

Organizational DNA's eight components undergird your operating model and determine how well your business executes its strategy.

The design of knowledge and information flows and the assignment of decision rights are more critical than reshuffling the organization chart.

Don't overlook the less tangible—but equally important—informal organizational levers like norms and networks.

Begin by figuring out what type of organization you are, so you can identify the biggest barriers to executing strategy.

Your strategy is only as good as your company's ability and willingness to execute it. The key to unlocking that potential? Your organizational DNA—the combination of formal and informal traits that determine your company's identity and performance. If you can isolate and analyze the elements of your organizational DNA, you can get right to the root causes of breakdowns in execution and truly deliver on your strategic intent.

Never has that ability been more critical. Strategy&'s Org DNA Profiler® survey—and the insights gleaned from more than 220,000 responses covering more than 250 companies over a decade of research—can help you see inside your organization and diagnose with precision the gaps and impediments to effective execution.¹

Armed with that knowledge, you can then focus on the relevant DNA levers—for example, how you divide responsibilities or motivate people to contribute—that unconsciously influence the thousands of decisions your employees make every day. By aligning those myriad individual actions with your strategic objectives, you can unleash superior results. It's that simple...and that complex.

The gap between strategy and execution

- 1. CEOs see the gap...** Seventy-eight percent of global CEOs surveyed by PwC expect to transform their organizations, yet only 54% are satisfied with their ability to execute on their strategic vision.²
- 2. ...and are re-organizing.** Four out of five CEOs in PwC's annual global CEO survey recognize the need to change their operating model and have either developed or implemented a change program.³
- 3. Missing capabilities.** Two out of three senior executives in a recent Strategy& survey admit they don't have the capabilities needed to create value in the marketplace.⁴
- 4. Weak execution link.** Only 44% of the 100,000-plus respondents to Strategy&'s public online Org DNA Profiler® survey agree that their organizations "quickly translate important strategy and operational decisions into action."⁵

1 Strategy& is a member of the PwC network of firms.
2 PwC Global Performance Alignment Survey Database, 2013.
3 PwC, 17th Annual Global CEO Survey, 2014.
4 Strategy&, Capabilities-Driven Strategy Survey, 2014.
5 Strategy&, Org DNA Profiler® survey, 2003-2014.

At a glance

Understanding—and then optimizing—the eight components of your organizational DNA helps you design an operating model that can more effectively execute your strategy.

Formal

How we make decisions

- Governance forums • Decision rights
- Decision processes • Decision analytics

Decision rights

How we encourage people to perform

- Monetary rewards
- Career models
- Talent processes

Motivators

How we process data and knowledge

- Key performance indicators and metrics
- Knowledge management systems
- Information flow

Information

How we allocate work and responsibilities

- Organizational design
- Roles and responsibilities
- Business processes

Structure



Informal

Norms

How we do things around here

- Values and standards
- Expectations and unwritten rules • Behaviors

Commitments

How we inspire people to contribute

- Shared vision and objectives
- Individual goals and aspirations
- Sources of pride

Mindsets

How our people view the world and their work

- Identity, shared language, and beliefs
- Assumptions and biases
- Mental models

Networks

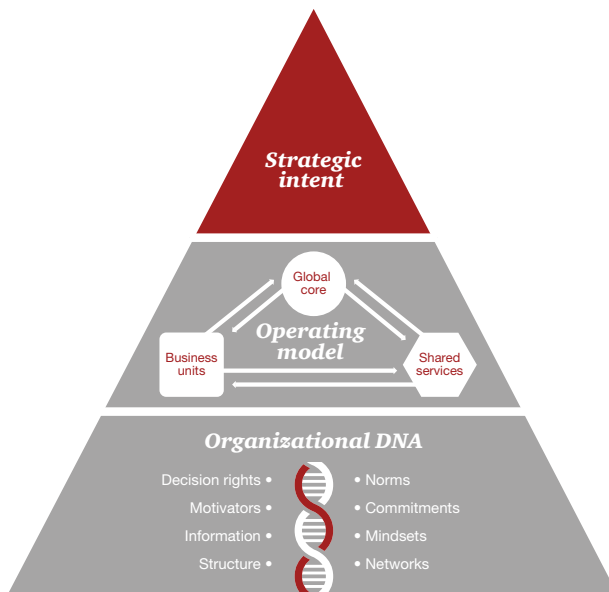
How our people connect beyond the lines and boxes

- Relationships and collaboration
- Teams and other working units
- Organizational influence

Start with a capabilities-driven strategy

First strategy, then operating model

As companies increasingly compete with differentiating capabilities, they must retool their operating models and organizational DNA to execute effectively on that strategic intent.



Source: Strategy& and PwC

Companies today are more global and dramatically more complex than they used to be, as are the competitive markets and regulatory regimes in which they operate. Changing demographics, resource constraints, technological advancements, and market volatility have created a context in which thriving—not only in today’s environment but tomorrow’s—requires strategies linked closely to your distinctive capabilities.

Applying a capabilities lens

A distinctive capability is the ability to consistently deliver a specified outcome, relevant to the business, through the right combination of processes; systems and tools; knowledge, skills, and behaviors; and organization. Something you do better than anyone else is thus difficult for others to replicate. It could be sharp-penciled supply chain management or a world-beating way of running clinical trials, or an intuitive flair for ergonomic and elegant device design. Identify your most differentiating capabilities and align them into a mutually reinforcing system. Then focus your strategy, product/service portfolio, and investment resources around that system.⁶

This focused and coherent strategy will only lead to sustainable success if you have the right operating model—one that enables execution. In other words, once you establish clarity on “who you are” and “what you do,” you have to define “how you do it.” Organizational design determines behavior. When the various elements of an organization’s DNA are inconsistent with the broader objectives of the business, that inherent conflict affects the day-to-day actions of individual employees—the essence of execution. It leads perfectly competent people to

chronically underperform. Conversely, a company with an operating model aligned to strategy is like an engine firing on all cylinders, fueling productivity and innovation.

Don’t copy your competitors

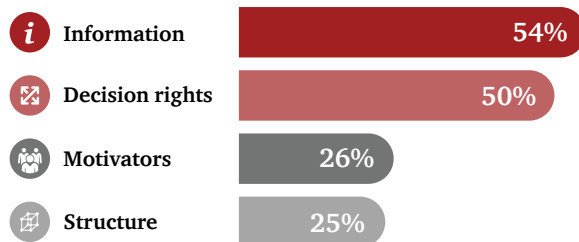
The operating model that is appropriate for one company may not work for another. It depends on your company’s “way to play”: the value proposition you offer customers. Don’t reorganize your company around your lead competitor’s needs. One retailer, for example, may be focused on opening a new store or franchise every 24 hours to provide convenience and consistency to its global customers. Another might be intent on providing a high-touch, full-service consumer experience. These require very different operating models. The first would be organized to drive consistency and near-constant real estate transactions. It would have a highly centralized corporate center with strong decision-making authority and rigorous, one-size-fits-all policies and procedures. The other company would deliberately push information and decision-making to the individual store level and motivate store managers to connect with their communities in tailored and locally relevant ways.

⁶ Cesare Mainardi and Paul Leinwand, *The Essential Advantage: How to Win With a Capabilities-Driven Strategy*, Harvard Business Press, 2011.

Reorganizing goes well beyond the org chart

The most important formal levers

When it comes to delivering on strategy, how organizations process data and knowledge and make decisions matter most.



Average Strength Index Score (out of 100)

Most reorganization efforts start and, all too often, end with structure. Companies move the lines and boxes on the org chart, shift reporting relationships, change the spans and layers...only to discover that the changes don't stick. The organization reverts back to its old way of doing things within the year. To truly and sustainably change behavior, you must address all the elements of an organization's DNA.

The formal levers of Org DNA

The formal DNA elements are the more visible and concrete tools for realigning your operating model—they can be precisely articulated and codified, even measured. Here's how two companies—one pursuing a strategy focused on superior customer insight and the other focused on world-class innovation—might adjust these levers to enable their strategies.⁷

Decision rights. The customer-insight company will do everything it can to bring the customer into the room as its leaders make decisions, particularly those involving product strategy and investments. That means intensive analysis of customer and sales data and broad, cross-functional input from marketing, IT, and finance. In contrast, the innovation company will employ rapid “plan-do-learn” cycles to bring ideas to life as rapidly as possible, then iterate toward products.

Motivators. The customer-insight company ties its rewards and incentives to consumer acquisition, retention, and satisfaction. It celebrates employees who find ways to increase customer value and loyalty. The innovator creates incentives to foster ideation, creativity, experimentation, speed-to-

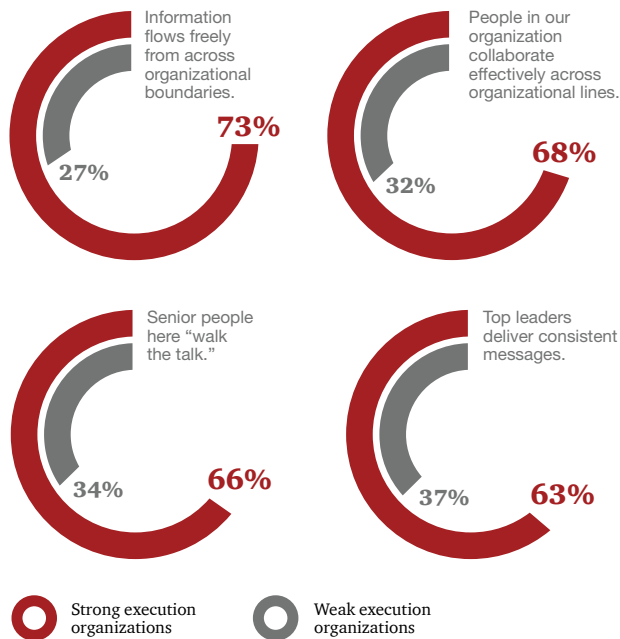
market, and category-defining entries. It explicitly ties rewards and career development to successful product launches and life-cycle performance.

Information. Multi-dimensional big data courses through the customer-focused organization. Multiple sources collect it across the value chain and integrate and analyze it, using robust technology platforms to distill the insights that are the lifeblood of this company. The information infrastructure at the innovation company is set up to support team-based collaboration across internal and external boundaries, using highly detailed and granular information at every stage of the pipeline and product life cycle.

Structure. Innovators have relatively flat organizations with business units aligned to technological domains and lots of dynamic cross-functional teams and external partnerships—all meant to enable rapid-cycle, low-cost development. The customer-focused company anoints a cross-functional executive with responsibility for the customer experience. The executive is supported by customer teams with staff from sales, marketing, product development, and finance.

Engage both formal and informal levers

Organizations with strong execution are more likely to notice and apply informal levers
(Percent of respondents agreeing with statement)



For each of the formal DNA levers, there exists a corresponding informal lever embedded in the organization's culture. While less tangible and harder to wield than the formal levers, an organization's informal elements can have an even more profound impact on execution, because they directly influence workplace habits and relationships. Once you've clarified decision-making authority, aligned motivators, designed information flows, and rearranged the organization's structure, you must activate its informal mechanisms to sustain the change. You do that by focusing on those critical few behaviors that will have the biggest and deepest impact and entrusting a few informal leaders (otherwise known as "pride builders" or master motivators) to inspire high performance among their colleagues and help enable your strategy. Again, here's how companies pursuing a customer insight versus innovation strategy might express these informal elements.

Harder to see, but just as powerful

Norms. The unofficial but firmly established "way we do things around here." While not codified, taught, or measured, everyone understands them, and they govern the way people experience their work, which makes norms very hard to change and especially powerful proof points if you do. For the customer-insight company a norm might translate as: *We're all about the customer.* In the organization with an innovation capability, the norm might be: *We uncover great ideas through our creative work environment and experimentation.*

Commitments. These are the aspirations employees have for the organization and for themselves. They are informal complements to motivators and—like motivators—can be both positive and negative. For a customer-insight strategy, a commitment might be: *We aspire to know our customers better than they know themselves.* For the innovator: *We want to do what has never been done before.*

Mindsets. Ways of thinking, deeply held beliefs, and unspoken assumptions are prevalent in every organization. They can help people make sense of information, but they can also contribute to "group think." The mindset for the customer-insight company? *We get inside customers' heads, so we can serve them better.* And the innovation company? *We're breaking new ground to beat the competition.*

Networks. Webs of direct personal connection—lunch friends, sports teams, interest groups, and new-hire cohorts—can often be more powerful than the lines and boxes of the org chart. In the customer-insight company, informal networks are used to share customer insights and ideas across sales, marketing, product, and finance borders. In the innovation organization, these networks are global and extend well beyond the walls of the enterprise to encompass other researchers and engineers doing work in the same field.

Key considerations when designing your operating model

The seven types of organizations — which are you?
Find out when you take the Org DNA® Profiler survey at www.strategyand.pwc.com/orgdna.



Source: Strategy& analysis of Org DNA Profiler® survey, 2014
Bases: "Strong execution": 9,162; "Weak" execution": 9,085; inconclusive: 2,259 (not shown)

Executives the world over recognize the need to better connect strategy to execution in today's disruptive competitive environment. The key to making that connection is empowering and enabling the thousands of people who work in their organizations. The eight levers discussed in this 10Minutes can unleash that latent productivity and creativity. So how do you get started?

Identify your organizational DNA

One way to begin is to use the Org DNA Profiler®. This is a five-minute online survey that maps an organization's attributes to one of seven performance profiles—three that execute well, four that execute poorly. The resilient organization, for example, is flexible enough to adapt quickly to external market shifts and remains steadfastly focused on and aligned behind a coherent business strategy. In contrast, the passive-aggressive organization builds consensus easily but struggles to implement agreed-upon plans.

Survey questions concern how organizations behave with regard to both formal elements (decision rights, motivators, information, structure) and informal elements (norms, commitments, mindsets, networks), so it serves as a useful and targeted tool in charting a path to greater organizational effectiveness and enhanced performance. Since December 2003, when the public website was launched, more than 222,000 individuals worldwide have diagnosed their organizations' DNA using the Org DNA® Profiler.

Target the root causes

Based on anonymous employee responses and the demographic information they provide (e.g., department, level), an organization administering such a profiler can determine where the barriers are to effective execution. You don't have to make changes involving all eight levers—some may be working well—but the impact of those you do pull needs to be considered and mitigated, if negative.

Redesign your operating model

Having pinpointed the root causes impeding your ability to execute, you can then design a change program around targeted point interventions. Gear your redesign to where you're going, not where you are today. Most companies rely too heavily on formal levers in redesigning their organizations, but our research shows that companies that balance the formal and informal execute better than those that concentrate on one or the other.

Create a common language and cross-functional teams

Breach organizational boundaries by communicating continually to all constituencies and pulling people from various units together onto cross-functional teams tasked with building the components and capabilities of the new operating model. Organizational DNA can provide a cohesive means of clarifying organizational issues and tying various initiatives together so everyone is moving in the same direction.

If you have more than 10 minutes

See the ideas in practice

A retailer faced increased online competition and changing regulations. A publishing company was transitioning from a print-based business model to providing digital services. Learn how they both dug deep into their organizational DNA in order to better execute on new strategies in the *strategy+business* article, “[How to design a winning company.](#)”

Learn more about what this means for your organization

First, take the Strategy& 28-question [Org DNA Profiler®](#) survey to identify which type of organization your company is. Then learn more about the distinguishing characteristics of those seven types of organizations.

Next, check how your distinct type of organization rates in getting things done with the [Strategy& Organization Effectiveness Simulator](#).

Explore related reading

In *The Essential Advantage: How to Win with a Capabilities-Driven Strategy*, Strategy&'s Paul Leinwand and Cesare Mainardi maintain that success in any market accrues to firms with a coherence premium—a tight match between their strategic direction and the capabilities that make them unique. Based on extensive research, the book provides a wealth of exercises, tools, and company examples from many industries.

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