

# Designing the Customer- Centric Organization

**A Guide to Strategy,  
Structure, and Process**

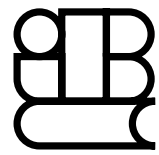


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Jay R. Galbraith

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# Preface

This book is the result of several testy arguments that arose with some long-term clients. When similarly contentious arguments began cropping up in executive development programs, I had to reflect on what was happening. In every case, I was diagnosing a company to be product-centric and not customer-centric—which I was suggesting that it become. The clients took offense because, in their minds, they were customer-centric: they had been working for years to understand and please their customers. I was accusing them of being product-centric, and they respectfully objected. When I persisted, they testily objected. The content of this book is the result of my attempts to help these clients become truly customer-centric—particularly when they think they already are.

A historical perspective gave me a better understanding of my clients' objections. Companies in the 1960s and '70s—espousing clichés like “The customer is always right”—also believed that they paid attention to the customer. This perception was first shattered by customer preference for higher-quality Japanese products and then by the appearance of *In Search of Excellence* (1981), whose authors, Peters and Waterman, showed that excellent companies were “close to the customer” and articulated in detail how excellent companies got that way, with practices that far exceeded those of most companies.

Companies now began in earnest to put the customer at the top of their priority list. They defined quality as the customer defined it. They used focus groups to better understand customer preferences. They designed products to be more customer-friendly. They

tracked their progress by continually measuring customer satisfaction. A language developed around becoming “close to the customer” and “customer-focused.” By the end of the 1980s and early ’90s, many companies believed that they were market-oriented, customer-focused, or customer-driven. This is the belief that I encountered in my sea of contentious confrontations. The clients felt that they had been working for over a decade on putting the customer center stage. “How could we not be customer-centric?” they asked. Well, let us count the ways . . .

The capabilities required for true customer-centricity go far beyond just placing the customer prominently on the company radar screen. They incorporate the work that most companies have undertaken for the past ten to fifteen years to become customer-focused, and build on them in specific and sometimes foundation-shaking means. This book represents the hard work, the challenges, and the ultimate successes involved in bringing my product-centric clients into their optimal levels of customer-centricity.

While these discussions with my clients were taking place, I ran across Nathaniel Foote, who was leading McKinsey’s organization design practice. He was working with Russ Eisenstat from the Center for Organizational Fitness. They were interested in the customer dimension of organization, but from the point of view of adding another dimension to an already complex structure. Their project was called “Managing Multiple Dimensions.” Many of McKinsey’s clients were experiencing the moves to customer-centricity, and the consulting teams were asking for help. I joined them, along with Danny Miller, Quentin Hope, and Charles Heckscher, in a research effort to understand the challenges of managing customers, product lines, geographies, and functions under one corporate umbrella.

My part of the effort was to conduct data collection in the form of case studies. I conducted fourteen studies of companies that were enhancing the customer dimension of their organizations. (In the language of this book, they were creating a customer-centric capability and adding it to their existing structures.) This book is a direct

response to conducting these case studies, and the clarifications that came from follow-up discussions with the research team. My thanks to Nathaniel Foote, now with the Center for Organizational Fitness, and McKinsey for their support during that period.

*Breckenridge, Colorado*  
*February 2005*

Jay R. Galbraith





## The Author

Jay Galbraith, an internationally recognized expert on organization design, helps major global corporations create capability for competing. His work focuses on organizational design, change, and development; strategy and organization at the corporate, business unit, and international levels; and international partnering arrangements, including joint ventures and network-type organizations. He is currently examining organizational units that are rapidly reconfigurable to suit quickly changing demands of customers and markets across multinational boundaries. Galbraith consults regularly with international clients in the United States, Europe, Asia, South Africa, and South America.

Galbraith is a senior research scientist at the Center for Effective Organizations at the University of Southern California (USC) and professor emeritus at the International Institute for Management Development in Lausanne, Switzerland. Prior to joining the faculty at USC, he directed his own management consulting firm. He has previously been on the faculty of the Wharton School at the University of Pennsylvania and the Sloan School of Management at MIT.

Galbraith has written numerous articles for professional journals, handbooks, and research collections. His recently revised book, *Designing Organizations: An Executive Guide to Strategy, Structure and Process* (Jossey-Bass, 2002), is a balanced perspective of organization design principles, structures, and processes written for the executive manager. Galbraith, along with Diane Downey and Amy Kates, has produced a very practical workbook for organization

designers, *Designing Dynamic Organizations* (Amacom, 2002). His book *Designing the Global Corporation* (Jossey-Bass, 2000) describes how leading multinational corporations address the demands of their increasingly global customers to provide solutions, not just products. *Tomorrow's Organization: Crafting Winning Capabilities in a Dynamic World* (Jossey-Bass, 1998), was a cooperative project with Sue Mohrman, Edward E. Lawler III, and the Center for Effective Organizations. It is a solution-oriented guidebook for creating organizations capable of competing in the next century. *Competing with Flexible Lateral Organizations* (Addison-Wesley, 1994) explores management through less hierarchical team structures. Galbraith's award-winning *Organizing for the Future* (Jossey-Bass, 1993) is a compilation of ten years of research done by the Center for Effective Organizations. Prior publications include *Strategy Implementation: The Role of Structure and Process* (with Rob Kazanjian, West Publishing, 1986); "Designing the Innovative Organization" in *Organization Dynamics* (Winter 1982); "Human Resources and Organization Planning" in *Human Resource Management*; *Designing Complex Organizations* (Addison-Wesley, 1973); and *Organization Design* (Addison-Wesley, 1977). Galbraith's recent working papers include "Managing the New Complexity," "The Front-Back Organization: A New Organizational Hybrid," "Designing a Reconfigurable Organization," and "Organizing Around the Customer."

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