

## When the structure is faulty

*Problems and solutions may lie in the way an organization is designed*

BY GINTY BURNS

Increased expenses, high turnover and decreased employee satisfaction are all telltale signs an organization isn't structured for optimal success. But senior managers can usually sense when something is wrong even without those indicators.

After all, they have an eye on the outside environment and know when the organization design needs to be tweaked or reworked to respond to changes. But what they don't always have is a set of principles on which to base organizational changes.

In the absence of such principles, senior managers make the best decisions they can. They may cut a layer of management, or they move, remove and even promote people to mitigate what are perceived to be personality or capability issues. If they are lucky, the strategy works. More often than not, however, the problems remain or are exacerbated.

A detailed examination and analysis of an organization usually uncovers a number of issues that prevent it from effectively achieving its goals. These include:

- poorly defined role accountabilities and tasking, leading to duplicated or missing work;
- excessive layers of management (jam ups), leading to competition for work;
- too few layers of management (gaps), causing more senior

roles to have to "dip down" to solve operational problems rather than focusing on the longer term;

- poorly grouped work, increasing the need to work across boundaries and the potential for breakdowns;
- unclear decision authorities, resulting in wasted time and increased escalations; and
- unclear cross-functional role relationships, resulting in poor internal service levels.

There are some principles to help managers understand how to best structure organizations. Accountability-based principles, also known as requisite organization principles, can be used to determine how many layers of management an organization should have, which roles should focus on what work, where to group work, who should make what decisions and what cross-functional co-ordinating mechanisms need to be in place. (For more information about accountability-based principles, including the five levels of work described below, see the sidebar.)

The two stories that follow demonstrate how accountability-based principles were used to solve some organizational problems.

### An operational management challenge

A marine transportation company was experiencing duplication and conflicts related to operational fleet management. In the absence of clear

guidance, many employees decided to do work — or not — as they saw fit. This resulted in poor teamwork, weak processes and too much competition for the most popular work. And little attention was paid to safety and environmental protection.

Too many managers were able to assign work to front-line employees, creating duplication and confused priorities. In addition, ship managers said they felt over-policed and under-supported by finance and IT, while finance and IT managers believed they were providing good service and auditing to the required degree.

A 2001 organizational review revealed a lack of role clarity and an absence of roles at level three, which involved work focused on process integration. The vice-president of operations had too large a span of control to provide effective oversight to the ships and was forced to abandon more strategic work to dip down into operational work. Further, the ship management workers had never had conversations with finance or IT to outline their needs or even describe how they perceived service levels.

With the problems diagnosed, the organization decided to reduce the vice-president's span of control and put in place some director roles. The fleet was broken into three mini-fleets, each comprising eight to nine vessels, led by a director and assisted by a shore manag-

er. The directors negotiated clear service levels with HR, IT and finance and worked with employees in those areas to determine the right balance of auditing versus service provision. Accountability for safety and environmental compliance was moved outside of operations to allow for dedicated focus and impartiality.

According to the vice-president of HR, breaking the fleet down into three mini-units provided clear advantages.

"It forced ship managers to work collaboratively on specific issues and come up with solutions which, if successful, were implemented as best practices. The thing was just humming."

Part of the success was attributed to having the right people in roles at the right level. The company based the redesign on level-of-work principles where ship managers were held accountable for the level two work of continuous improvement, directors were held accountable for the level three work of process implementation and redesign and the vice-president of operations was held accountable for the level four work of ensuring an effective operating model. Attention was paid to ensuring individuals placed in the roles were capable of doing the work required. Also essential to success was clearly defining

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roles, accountabilities, decision-making authorities and cross-boundary service level agreements.

### A growth opportunity

The CEO of a health services organization set a goal to grow business revenues from \$20 million to \$57 million over five years. Although he had developed a client-oriented culture by investing in his employees and focusing on relationships and quality, the CEO sensed only major change would achieve the required growth.

Further, he was at a stage in his life where he was looking forward to semi-retirement and pulling back from the business and taking on a more advisory role. An organizational review confirmed the CEO needed to

delegate more level four work in order to focus on his level five accountabilities of changing the business model, making long-range policy decisions and determining the most appropriate mix of growth drivers (organic growth, acquisition, franchising and raising capital). As a result, the CEO needed to make changes to the levels below.

Substantial work is often involved in determining what is the right number of layers, how to group the work and how to develop people so they are capable of working at a higher level. However, in this situation, developing people was the key issue. The CEO had all direct reports go through an independent assessment of capability, consistent with levels of work principles, to assess their current level of capability, required fu-

ture level of capability and the time it would take before the individuals would be ready to work at the required level.

Based on the results of the assessment, the CEO was able to design an interim organization with an intentional jam-up — a situation where managers and direct reports operate within the same level. When unplanned, this causes problems as the employees compete for work. However, when planned and on a temporary basis, the situation can facilitate transition. The CEO found the CFO was capable of working at level four and, if provided with adequate opportunities to gain broader business experience, would be able within a few years to take over as CEO at level five. He therefore added level four oversight of operations to the CFO's role as a developmental opportunity.

At the same time, he created a jammed-up reporting relationship at level three within operations, which resulted in the director of clinical operations having managerial oversight of two other director roles. The advantage of this jam-up was that, with fully capable level three direct reports, the director of clinical operations was unlikely to be pulled down into the weeds and would therefore have more time to spend on development as she grew into a level four role. Knowing that success required everyone to be aware of what was being done, why, and for how long, the CEO and the HR department communicated extensively and involved as many people as they could in the decision-making processes. The company is now poised to achieve its goal over the next three to four years.

### When it's over, it's not over

There is no way to tell what would have happened in the above examples if the decision-makers had not used accountability-based principles to determine the right organization design. Clearly, however, the principles provided a solid explanation for the problems, opened managers' eyes to new possibilities and facilitated a quick and effective response.

More than that, given that organization design is not a one-time event, the principles equipped managers with the knowledge to monitor, reassess and tweak their organizations to respond to future changes and challenges. In short, they took the guesswork out of establishing the right work, at the right levels, with the right people to achieve an organization's goals.

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## ■ MANAGEMENT ACCOUNTABILITY

## How many layers of management?

Accountability-based management principles, also known as requisite organization principles, help identify how many layers of management are needed, which layers are missing or are unnecessary, how to group work to ensure effective flow and role relationships and how to equip managers for success. While there is not space in this article to fully explore accountability-based management, the following are particularly relevant:

### Levels of work complexity

There are clearly differentiated levels of work complexity within an organization. The majority of organizations have five or fewer levels:

- **level one:** tactical front-line work, delivering quality and customer service within established variances;
- **level two:** managing a team and improving work processes;
- **level three:** managing managers and developing and implementing processes across teams;
- **level four:** managing multiple teams within a function and developing new customers, channels, markets, products, policies, technologies within a busi-

ness model; and

- **level five:** managing an organization and developing a business model and making long-range policy decisions that affect an organization's culture, markets, products, channels and pricing.

### Four principles

• **Appropriate level of management:** Each role should have a manager operating at the next highest level, so there are no "jam-ups" where multiple layers compete for the same level of work and no gaps where a level of work is not being done.

• **Role-person fit:** Each role is staffed with a person who is capable of, and values, the work at that level.

• **Managerial accountability:** Managers are accountable for overseeing building and sustaining effective teams and for providing effective managerial oversight to each team member.

• **Role clarity:** People need to understand their own roles, the roles of their peers and others they work with cross-functionally and their rights and obligations across boundaries.