Optimal Organization Design: Making the most of who's left…

Len Nanjad

Partner, COREinternational; Instructor, Organizational Behaviour, University of Lethbridge

Summary: design for now and the future

The principles and practice of Requisite Organization, developed by Elliott Jaques have long since proven predictable patterns in the structure of work and management practices that lead to higher levels of efficiency, effectiveness, and engagement. They are also key ways to integrate the management of innovation into the way of doing things reinforcing a culture of innovation and accountability. Strangely they are still foreign to engineers and leaders whose job it has become to design optimal systems for their peiple to deliver. With applied examples from Oil and Gas, Len Nanjad will discuss how these principles can be used by companies to do more with less on the people front, and be ready to innovate and grow again…sooner than later.

Introduction

Organizational design – the combination of organizational structure, strategic talent management, and management team effectiveness – is the single biggest way to drive delivery of results through your system of management. Here are three fundamental principles, the insights they drive, and three reasons why using them works better than most other organization design approaches.

 When you use the rigorously tested and applied principles of Accountability-Based management, based on the work of Elliott Jaques and enhanced by researchers and practitioners across the world over the past five decades, your people will:

- Increase productivity – e.g. up to 70%
- Accelerate the ability to deliver on business plans that drive revenue – e.g. achieve 4-year targets within one year
- Reduce operating/payroll cost and sustainably lower your organizational cost structure – e.g. reductions of 10-20% of salary

AND improve their level of engagement with their work and colleagues.

Theory and/or Method

Here is how it works.

Three basic principles:

1 Accountability hierarchy: People are accountable for the work of other people, and accountable for adding value through the management of the work delegated to other people. This is the foundation on which most human working organizations are based.

2 Levels of work complexity: Work itself, by nature, separates into discrete and distinct levels of complexity at which managers add value. These levels of work can be measured through expert analysis including the timespan of discretion of the longest task within a role (also called a position or a job). This allows for a rigorous clarification of whether roles reporting to other roles are too close or

too far away from each other in terms of the required complexity of work in the role. These are known as jam-ups and gaps.
These levels also get you to absolute clarity about the numbers of layers of management you need in accordance with your business strategy, and show you how to effectively put what roles at what level.

3 Grouping by results accountability: Work can be classified in terms of what tasks serve the customer (the operational spine) and which ones serve the business itself (support and enhancement.) This allows for clarification of the alignment of jobs for increasing revenue, reducing cost, increasing productivity, quality, innovation, and/or compliance. This also provides clear guidance on what roles should be grouped under which management role above them.

Three key insights:

1 On average, about 56% of roles are misaligned in jam-ups (38% of roles) or gaps (18% of roles) resulting in inefficiencies of at least $2,500 per role per year.

2 The net difference of unclogging jam-ups (38% of roles on average) and filling gaps (18% of roles on average) will result in a lower overall salary cost structure. Even if headcount is not reduced, total cost is better optimized and a faster, higher return of results is attained because the intended goals are more easily met. This can mean millions of dollars in revenue gains on a similar or smaller management headcount. This can sometimes mean net reductions of about 20% of workforce while also being able to innovate and deliver at a higher rate.

3 Grouping of roles to be in alignment with strategy and ability of managers to deliver, often affects the majority of the most senior accountable roles. Poor alignment of groups can create ineffective silos, which inhibits productivity. This is also often a cause of end-to-end process breakdowns and trouble with "hand-offs." Organizational realignment by sound grouping guidance can help yield productivity gains in the general magnitude of about 20% of time or cost or output level. This can be attained simultaneously with process change improvements, and in some cases needs to be done *before* you go ahead with large-scale process overhaul.

Why does this organization design approach work better than others?

1 Gut feel does not work.
Would you design an airplane without an understanding of gravity?
This approach is based on proven patterns of how complex adaptive human systems actually get work done. You become clear on what human system dynamics are at play, and can design with them in mind, not in spite of them.

2 Benchmarked design fails more than it succeeds.
Would you do what everyone else is doing, so you could outperform them?
Having a good idea of how comparable organizations do things is always good information to have, but it does not help you to develop the specific design you need for the particular needs of your strategic imperatives, people, markets and competitive pressures. Your strengths will drive your design more than your similarity to anyone else. In other words, organizational design is a strategic differentiator, not a table stakes chore.

3 These design principles are not taught in most management schools, but the best companies use them either by hundreds of years of trial and error (The Church, The Military) or knowing this stuff.
Can you explain why your organization design will actually deliver on the plan?
Most managers lack robust knowledge of how human systems really work. In fact, these discoveries of human systems are still taught at some universities in the world, but not much in North America.

Examples

The proof in the pudding:

Here are some examples from our recent experience with our clients:

- In one financial institution's national operations group, the senior team used this redesign approach to deliver operational consistency and improvement. The initiative resulted in an initial $7 million annual cost savings while increasing employee engagement scores by 6 percent to the highest level in the company.

- In a pharmaceutical company, restructuring efforts this way resulted in achievement of their year 4 plan in year 1 while also gaining a 4-point improvement in employee engagement.

- A telecommunications company used these structure change principles as a platform for rapid growth. They reduced annual salary cost by about $8 million per year, and achieved a $90 million revenue gain (10% on a $900 million revenue base) within one year.

- The Information Technology and Finance functions of the operations division of a major bank reorganized with this approach and reduced effective size by 15%, contributing to a large portion of an overall cost reduction of $500 million, and achieved a platform overhaul to world-class IT, Financial management and operations standards within the targeted four-year plan.

- The operations of a major oil sands producer used these principles to address merger integration and reduce overall operating cost, increase production while implementing safer, more environmentally sound operating procedures within 12 months, and improved employee morale and engagement.

And, some more examples from Oil and Gas organizations can be provided to be as relevant to the audience as possible.

Conclusions

Changing goals, value proposition, product and market focus, and core work activities require an alignment with the management system (structure, talent, and critical management practices.) This means changing the management system to get results, by design, not just changing behaviours, policies, processes, and applying good communications and training. Sound organization design enables the entire strategy, even the change management itself.

Ultimately it requires leaders who are able, ready and willing to commit to design of their management system to make the intended outcomes inevitable.

Acknowledgements

Ellliot Jaques

The Global Organization Design Society: www.globalro.org

Paul Tremlett, Partner, COREinternational inc.

Michael Brush, Partner, COREinternational inc.

References

Ginty Burns, 2010, **A is for Accountability, A Guide to Accountability Based Management, Second Edition.**

Elliott Jaques, 1994, **Executive Leadership: A Practical Guide to Managing Complexity.**

Elliott Jaques, 1998, **Requisite Organization: A Total System for Effective Managerial Organization and Managerial Leadership for the 21st Century.**