

Interview: Dr. Ron Capelle on Organization Design

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Given the importance of organization design, it is surprising how little is written about it. The paucity of material reflects a paucity of theory, research and practice. One of the few experts specializing in this area is Dr. Ron Capelle, who heads Capelle Associates Inc. His firm has developed a research based approach that builds upon the work of Dr. Elliott Jaques.

David Creelman spoke to Dr. Capelle.

DC- Why don't organizations spend more time on organization design?

RC- Executives tend not to value organization design in the way that they should. A lot of executives feel the key is getting good people, and if you have a problem you just throw more good people at the problem. The trouble is that most organization designs are impediments to employee performance. They are not intentionally designed that way, but that's the effect they have. So one of the most critical questions for executives is how to design the organization so that it becomes an effective framework, not an impediment.

Organization design isn't a panacea but the research is very clear: better organization design is linked to better financial performance, better customer satisfaction and better employee satisfaction.

DC- If I'm a CEO or division head how do I start thinking through the organization design issues?

RC- The starting point for organization design, beyond the business plan, is understanding the positions and how they are aligned. The positions need to be aligned vertically in terms of setting up the right layers. There also has to be functional alignment.

Getting the positions right creates the spine for the organization. If the spine isn't aligned properly, then

everything else is going to be sub-optimal. This includes clarity of accountabilities and authorities, matching people to positions, team working, etc.

DC- Let's talk about getting the vertical alignment right—which presumably brings us to the work of Dr. Jaques.

RC- The work of Elliott Jaques is a seminal part of what we do. In particular he developed two scientifically based methods which we use to determine vertical alignment. His time-span measure assesses the complexity of work and lets us determine how many layers there should be and put every position in the proper layer. His method for assessing the information processing capability of individuals gets the right people at the right levels.

The single most important factor in organization design, based upon extensive research that we have conducted, is the manager – direct report alignment. More specifically, managers should be exactly one level or "stratum" above their direct reports, both in the complexity of work they do and their processing capability to work at that level.

We find that only 50 per cent of manager – direct report alignments are appropriate. When you understand that vertical alignment is a core factor, and everything else hangs off of that, then that's quite an atrocious waste of human resources.

Another thing we find is that when you go into an organization that has excessive cost controls, the time-spans are often compressed because no one's doing the

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longer-term work. People are being micro-managed and not able to use their full capabilities. The organization might look like it's profitable in the short term, but it's often really bleeding the balance sheet to get the profit.

DC- How do you go about assessing the complexity of work?

RC- The main part of this method involves interviewing all managers to determine the time spans of their direct reports.

DC- When I spoke to Dr. Jaques he gave the impression he could talk to someone for 10 minutes and put a number on their level of work. It can't be quite that easy.

RC- I think Elliott spoke that way because it was easy for him. Certainly for someone to assess time-span, their own capability needs to be commensurate with the complexity of the problem. We only have consultants with a minimum of 15 or 20 years of experience and who have generally come out of industry at the Vice President level.

DC- That gets to the distinction I wanted to make. There are methodologies that any bright MBA can follow. There are other methods which are powerful in skilled hands, but are not simply a matter of following steps A, B, C. I've always felt that using time-spans to get the vertical alignment was a critical step but you had to have a pretty good understanding of organizations to apply it correctly.

RC- A method like time-span assists judgment; it's not a substitute for judgment. You are absolutely right about the capability of the consultant. Part of the complexity is understanding what is. What is even more complex is determining what should be.

DC- Are there some types of positions where the time-span approach doesn't work?

RC- When it's difficult to get the time-span we often find it's because the position is not well designed.

Other times you have to

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get beneath the surface to understand the real work. For example, at first glance a surgeon may seem to only have a time-span of an hour because that's how long an operation takes. But, if one looks at patient care that's a very different time frame. You have got to really understand the nature of the work to come out with a time-span that is appropriate.

DC- We've been talking about positions, let's talk about matching the right people to those positions.

RC- You can have that done by a trained outside assessor; however, when an organization is properly aligned a manager, with minimal training, can make those judgments as well as an outside assessor. Our preference is to get the positions aligned, and then use a process where the manager once removed—that is, the manager's manager—and the immediate managers meet in a group to talk about the next level down. That process is cascaded down through the organization.

In matching people to positions you look at a person's information processing capability, their skilled knowledge, whether they value doing that work, and any other required behaviors. We prefer that those matching decisions be made by inside managers rather than an outside assessor because a fundamental accountability of managers is to make those decisions. All you need to do is give managers a method that allows them to do it more effectively than they were able to do it before.

DC- Let's move on to the functional alignment. Once you get the layers right, what do you do?

RC- In big organizations one of the significant issues is how to decide what the business units are, what the functions are, and so forth. Basically, all organizations need to do three things: they've got to develop their products and services, they have to deliver their products and services, and they have to market and sell their products and services. It doesn't matter if you're a "mom and pop" corner store or a big organization; you have to do these three things. As well, you need to have properly designed support functions and those include finance, human resources and information technology.

The second issue is how to overlay on that the cross-functional accountabilities and authorities that are necessary to have good working relationships across the organization so you don't get silos. Typically, organizations don't have clarity around cross-functional accountabilities and authorities; in fact, you seldom even find them on position descriptions.

DC- Organizations often deal with that by trying to have

one person accountable for everything or they put everyone on the team to equally share accountability.

RC- Both of those solutions are dysfunctional. There needs to be clear individual accountability but there also needs to be effective cross-functional accountabilities and authorities. Most executives don't understand the importance of the cross-functional accountabilities and authorities. A company that is organized by product says, 'We've got product silos, and it is not working. So what we'll do is organize by customers.' So now they have customer silos instead of product silos. They haven't dealt with the real underlying issue, and therefore get a sub-optimal outcome.

The fundamental issue is how to establish cross-functional accountabilities and authorities so you have a cohesive organization.

DC- How do you avoid going from customer silos to product silos to geographic silos—other than the dreaded matrix organization?

RC- The starting point for organization design is always the business plan. What does a company want to do? How does it want to evolve in the future? Once you are clear on that, you can prioritize. Based on the business plan you can assess the advantages of product orientation versus customer orientation versus geographic orientation and decide what is primary, secondary and even tertiary; then you set up managerial accountabilities and authorities to match that.

One thing executives don't realize is that when you specialize and differentiate you need to spend equal time on how you integrate. Organizations do the differentiation or specialization piece without doing the integration piece. One key is to find the crossover-point manager who's accountable for both sides. The crossover-point manager has a job—to manage the integration. The big problem is most crossover-point managers don't recognize they are crossover-point managers and don't realize they have an integration job to do. Part of this job is to set context and prescribe limits. 'You country managers should do this, but I also want consistency in engineering across countries. I value both.' The context and the prescribed limits define the balance you want to have.

We also set up a conflict resolution mechanism, because there are inherent conflicts in this sort of thing.

Positions should not only have accountabilities, they should also have authorities. So an engineer with cross-country accountabilities should have authorities around recommending policies and standards, and monitoring to ensure compliance. When there is not agreement within

context and prescribed limits, the conflict resolution mechanism helps to deal with that.

Typically what happens is, instead of setting up the system, and instead of the crossover-point manager doing his or her job, the engineer has to go to each country manager where he is told, 'Well, try to use your influence.' The feeling is that if he has really good interpersonal skills, it shouldn't be a problem. However, it's should not be a matter of personality; it should be a matter of designing a system that helps to integrate across the organization.

DC- Besides the failure to manage integration, are there other common problems in organization design?

RC- We've done eight studies on the tasks done by professionals and front-line managers, and on average they spend 50 per cent of their time doing tasks that are at too low a level. That wastes about \$10,000 annually per position.

This is a terrible waste. It's not just that you're paying someone money you shouldn't have to pay to do that level of work, but you also cause morale problems because people want to accomplish something that's significant to them. When they do too much work at too low a level, they get bored.

DC- How did you get involved in using Dr. Jaques' ideas?

RC- I first come across Elliott's ideas in the late '80s. His main book then was *The General Theory of Bureaucracy*, 400 pages long, and no pictures. It was extremely dense and I put it down after 60 pages. However, I was doing organization design and intuitively was using the ideas, so I went back and read the whole thing. It was the single best book I had read at that time, or since, on organizations. His methods around time-span to measure complexity of work, and categories of information processing capability to measure people's ability, are among the few scientific concepts in the whole field.

DC- Is there anything you feel he got wrong?

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RC- The research we've done absolutely supports the fundamental scientific methods that he developed over the past 50 years. Now, there were areas that Elliott was interested in and areas he wasn't. He was clearly interested in how people and organizations operate. He was not as interested in implementation and change in organizations. So his idea that you could send a memo from the boss and change the organization doesn't work in our experience. We find the implementation process is equally important to ensuring success.

I think your earlier comment around it being easy for him was true. He developed these methods and he was genius. For others that's not the case.

The other piece is that part of his strength is that he was a genius who believed in himself, and had the capability to toil in relative isolation for 50 years. That also led to a toughening of the shell, so he didn't suffer fools gladly, and he didn't market his ideas. To him the ideas were just apparent and you should understand them. It's left to others to demonstrate the full extent of the value of his work. The seminal ideas he developed were brilliant. Unfortunately he died last year, but I've always said it would take 10 or 20 or even 30 years after his death for his ideas to fully take hold.



David Creelman is
Senior Contributing Editor for HR.com

Further information
about organization design
research and practice can be
found at www.capelleassociates.com.
If you have any questions about organization
design, you can email Ron Capelle at
rcapelle@capelleassociates.com.