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WELCOME TO THE LATEST ISSUE OF PARTNERS PERSPECTIVE, A REGULAR PUBLICATION FROM ENNS PARTNERS SHARING HUMAN RESOURCES INSIGHTS THAT WE BELIEVE ARE RELEVANT TO THE CURRENT BUSINESS ENVIRONMENT. THIS ARTICLE OFFERS EXPERT ADVICE ON THE DESIGN OF ORGANIZATIONS FROM OUR COLLEAGUES AT THE CONSULTING FIRM CAPELLE ASSOCIATES INC.

Organization Design: Optimizing Talent and Performance

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A common perception exists that the most important task of a senior executive, to ensure the prosperity of an organization, is to hire talented, motivated employees. However, if little attention is paid to the design of an organization, the talents of executives and employees will not be fully utilized. Even the best and brightest will be prevented from doing their best work if an organization is poorly designed.

WHAT IS ORGANIZATION DESIGN, AND WHY IS IT IMPORTANT?

Simply put, organization design focuses on how work gets done in an organization, and the structure and functioning within an organization. More specifically, organization design is about the vertical and functional alignment of roles, cross-functional and managerial role relationships, matching people to roles, and aligning management systems, processes and tasks to achieve better organizational performance.

There are two ways to think about the alignment of roles in an organization. One is vertical alignment – the number of managerial layers an organization requires and the placement of each role in the correct layer. The other is functional alignment – the grouping of business units in a corporation and of functions (for example, product development, sales, finance, information technology, etc.) within business units.

For any organization to operate effectively and efficiently, there must be the correct number of vertical layers. For each layer to add value, its work must be distinct from the work of all other layers. Traditionally, executives have found it very difficult to establish the appropriate number of layers for their organizations. Some rely on their intuition. Others may use one of the many so-called job evaluation (JE) methods in the marketplace. All JE methods have one characteristic in common: they are all qualitative measures that masquerade as quantitative measures. JE systems may be helpful when used for compensation purposes (as they were intended), but they are most unhelpful when used to establish the vertical layering of roles – an inappropriate use which is all too common.



A survey of the 2,000 largest Canadian companies (conducted by Capelle Associates Inc. in partnership with *The Globe and Mail*) demonstrates the importance of organization design. The survey results indicate a statistically significant positive relationship between better organization design and improved financial performance. Other research conducted by Capelle Associates Inc. demonstrates that organizations with better organization design tend to show higher employee satisfaction, superior customer satisfaction and healthier financial results than those with a poorer design.

CREATING AN OPTIMALLY ALIGNED ORGANIZATIONAL SPINE

The most important consideration in organization design is the vertical alignment of roles between managers and their direct reports throughout the entire organization. Usually, this is poorly done.

The vertical alignment of managers and employees is the spine of the organization. Capelle Associates Inc. has discovered that the manager-director report



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alignment, of all the myriad organization design factors, is one factor that, by itself, can be related to outcome measures such as employee satisfaction, customer satisfaction and financial performance. A misaligned organizational spine adversely affects all other parts of the organization and is a significant barrier to optimal performance – it wastes financial and human resources and creates obstacles to employees doing their work. Given its importance, it is surprising how often the organizational spine is misaligned. Based on research conducted by Capelle Associates Inc. on over 22,000 manager-direct report relationships, more than one-half are misaligned. Two of the most common causes of organizational spine misalignment are “compressions” and “gaps.”

The spine becomes compressed when managers and their direct reports are too close in the level of work they do and/or their capability to do it. Managers in a compressed organization will tend to micro-manage staff. Consequently, employees are unable to perform to their full capability and can lose initiative. Also, decision-making is often slowed if not stifled due to the number of required approval levels. A gap occurs when there is a level missing between a manager and his or her direct reports; they are too far apart in the level of work they do. As a result of the gap, the manager does not provide the appropriate direction and oversight. In turn, employees lose connection to the organization and its mandate, and can drift. Performance issues may be symptoms of a gap.

Compressions are a waste of money. Gaps, on the other hand, can kill an organization. For example, a reduction in managerial roles that had recently been instituted at Barings Bank contributed to the situation that allowed Nick Leeson, a trader, to run amok and literally bankrupt the institution in the process.

Often, when an executive is recruited, at least some type of change is expected. Getting the vertical alignment correct is not only crucial for organizational effectiveness and efficiency, but also for the management of change. A well-aligned organizational spine provides the flexibility organizations need to respond to today's rapidly changing marketplace. In times of economic uncertainty, global markets and rapidly changing technology, this flexibility becomes a vital competitive advantage.



A SCIENTIFIC MEASURE TO DETERMINE THE CORRECT NUMBER OF LAYERS AND TO ALIGN THE ORGANIZATIONAL SPINE

Capelle Associates Inc. utilizes a scientifically based, objective method for establishing the correct number of layers in an organization, and for establishing the correct layer for each and every role. The time span of discretion of a role – which is the measurement used in this methodology – essentially means the longer the time an accountability is carried by a role, the higher that role's level of work. By objectively analyzing the time span of work for roles at various levels within an organization, the number of layers an organization should have can be established, and every role can be placed in the correct layer. A complex, multinational organization may have as many as eight layers; less complex organizations will have fewer layers.

True executive-level positions usually carry accountabilities that extend for two, three, five, ten, fifteen or twenty years – perhaps even longer. A few CEO roles in very large corporations work in “generations.” Does this mean that executives should not be expected to produce results until far in the future? Absolutely not! But it does mean that a well-designed organization is critical for an executive to produce sustainable results effectively and efficiently over a prolonged period of time.

A WELL-DESIGNED ORGANIZATION INCREASES THE LIKELIHOOD OF OPTIMIZING THE VALUE OF TOP-CALIBRE EXECUTIVES

An organization that has optimized its design and, more specifically, clarified the level of work, type of work and accountabilities of roles will find it can more effectively attract, retain and optimize the value of top-calibre executives. When selecting individuals for executive roles, the organization will have the necessary information to focus on individuals who can capably handle the complexity of the work, value the type of work – and therefore will be fully committed to it – and have the necessary skilled knowledge. Other selection considerations include demonstrating required behaviours and any competencies that may have been identified as important.

Establishing the level of a role is critical, since each level of work requires a specific level of individual capability that must match the complexity of the work. For example, true general management work is the first level of what is usually considered an executive-level role. An individual must be able to design, develop and implement two or more interconnected paths to the end objective over a time frame of two to five years. A higher executive-level role requires an individual to manage an entire business unit with full profit and loss accountability, while an even higher-level role requires an individual capable of working at the corporate level to coordinate, integrate and maximize the value of subordinate business units over a time frame of ten, twelve, fifteen years or more.

When selecting individuals for executive roles, and indeed all roles, it is critical to ensure that they have the level of capability required for the complexity of work. If an individual attempts to undertake work that is above his or her capability level, he or she will not be able to perform the work successfully, and will become frustrated and unhappy. Perhaps even worse, the organization will suffer the effects of lower work quality and unmet objectives. The scenario is just as bleak for individuals who are given work below their capability level. Their quality of work may suffer, since dissatisfied individuals are usually less interested in performing work at such a level. Lower employee satisfaction and lower quality work, as a result of a mismatch between individual capability and work complexity, will likely result in lower customer satisfaction and ultimately poorer financial performance.

The conditions necessary to optimize the value of executives include aligning the organization's spine, selecting individuals with the required capability level that matches the complexity of work and providing executives with work that allows them to use their full capabilities. This, in turn, can lead to better organizational performance as measured by improved employee satisfaction, higher quality work, increased customer satisfaction and improved financial performance. If you undertake this task, you are well on the way to optimizing executive talent and organizational performance by design.

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