Human resources executives play an important role in transforming organizations toward higher performance. We have found that critical success factors for a successful transformation include the capability and commitment of both the head of the organization or business unit involved and the corresponding human resources executive or business partner.

We have also found that there is one significant opportunity that is often missed. This is optimizing organization design. This is one of the best opportunities for human resources executives to have significant impact, but also appears to be one of the least utilized approaches.

For the past 25 years, our firm, Capelle Associates, has focused on optimizing organization design. We have completed over 100 large scale projects and 24 research studies which show that optimizing organization design leads to better employee satisfaction, customer satisfaction and financial performance.

The book *Optimizing Organization Design: A Proven Approach to Enhance Financial Performance, Customer Satisfaction, and Employee Engagement*, includes 23 of our 24 research studies, including a number of studies with measurements from before and after optimizing organization design occurred. The research also utilizes our benchmarking databases of over 59,000 manager–direct report relationships and over 13,000 employee satisfaction responses.

Based on our work over the past 25 years, we have come to define organization design as the alignment of five factors: positions, accountabilities and authorities, people, deliverables and tasks. We believe that this set of factors is both comprehen-
sive and specific. For example, to get work done, one creates and aligns positions; ensures that they have appropriate accountabilities and authorities; gets the right people in the right positions; and ensures that they are doing the appropriate work (deliverables and tasks).

Optimizing organization design begins with understanding strategy and culture (which are also important factors in improving organization performance), as well as the nature of the work itself. It provides the foundation for transforming organizations. To the extent that organization design is suboptimal, transformation will be weakened. In fact, we can take that a step further. To the extent that organization design is suboptimal, all strategy implementation will be weakened.

Examples of suboptimal organization design include manager and direct report positions not being properly aligned (too close together and doing the same work, or too far apart and not connecting); cross-functional accountabilities and authorities not being strong enough to break down silos across the organization; people not being put in situations that allow them to use their full capabilities; employees not doing the complexity of work commensurate with their compensation (being overpaid for the actual level of work); and professionals and managers having too many tasks that could/should be done by someone in a lower level position (usually just as well for less money).

On the other hand, an example of the benefits of optimizing organization design comes from Allstate Canada. They went through a comprehensive improvement, which included all five alignment factors. Eight years after the original work, they still had the alignment in place (with continuous improvement over time), had ongoing improvement in employee satisfaction scores, were selected as a Top Employer, and outperformed the industry on all key performance metrics. This is one of four case studies in our book.

For human resources executives, optimizing organization design has an added benefit. It provides the foundation for most human resources practices. For example, the measure of complexity of work and resulting vertical alignment of positions (discussed in the next section) provides a framework that can be used for position evaluation, compensation, career planning, employee selection and promotion, and managerial leadership training.

We will discuss each of the five major alignment opportunities, as well as one critical aspect of position alignment: manager–direct report alignment.

**Position Alignment**

Position alignment, which some would call organization structure, involves aligning positions both functionally and vertically. The functional alignment is directly related to strategy, and includes decisions on factors such as geography, product/service, function and market/client. It is usually necessary to determine the primary alignment, as well as the secondary and perhaps tertiary alignment. For example, if market/client is the primary way of aligning, a secondary way might be by geography. The secondary and tertiary ways of organizing should be supported by a strong set of cross-functional accountabilities and authorities. This is important for getting work done across the organization.

The other type of position alignment is vertical. We consider organizations to be stratified human systems. The vertical alignment, or hierarchy, can be seen in differential titling, differential compensation and reporting relationships. We believe that a critical question for executives is how to make this stratification as efficient and effective as possible, and avoid the micro-managing that can be an issue. While many discuss how many layers an organization has, there is a more powerful and useful term called stratum.

There is a body of knowledge going back over 50 years (Jaques, 1996; Craddock, 2009) which shows that there is a universal pattern of organization strata. Each stratum is fundamentally different in the nature of work, the complexity of work, and the capability that someone requires to work at that level. This would be analogous the different states one finds in moving from ice to water to steam. The complexity of work in a position can be measured in two ways. The first is time span, which is the deliverable with the longest target completion time. The basic idea is that the higher up the organization one goes, the further out should be the time span (although positions at all levels also have deliverables of shorter duration). The second way of measuring complexity is the information processing requirement for each stratum. The basic idea is that individuals require higher levels of information processing capability to deal with the greater complexity at higher levels in an organization. For example, Stratum 2 professional work requires a diagnostic processing capability that is not necessary at a Stratum 1 level.

To consider examples of time span, we will start with an employee in a Stratum 1 position who may have time spans ranging from one day (i.e. one shift at a time) to several months (providing support on skill acquisition). An employee in a Stratum 2 professional or first level manager position may have a time span ranging from three to twelve months (e.g. analyzing an issue or opportunity and taking the lead on fully implementing an improvement). A director in a Stratum 3 position may have a time span of 18 months to develop a sales territory, including geographic scope, individual capability development, product/service mix and market/customer focus.

An executive in a Stratum 4 position may have a complex deliverable with a time span of two to five years. Examples could include mergers and acquisitions, culture change, and longer term talent management. It is interesting to note that Stratum 4 positions have a paradox. On the one hand, you can’t know exactly what it will look like in several years. On the other hand, if you don’t start today, you won’t get there. Stratum 4 positions require a higher level of risk management capability.

It should be noted that, with this method, one can also determine how many strata an organization should have based upon the complexity of the work of the organization (there can be up to eight strata in global, multi business organizations). The objective is not to “reduce layers” as is often mentioned. The objective is to have the optimal number of strata to get the work done. Too many and too few both lead to weaker performance. For example, we did work with the In-
ternational Federation of Red Cross and Red Crescent Societies based in Geneva. Based on our assessment of the required complexity of work, our conclusion was that they did not have enough higher-level capability to deal with other global organizations like the United Nations. This was an issue related to the information processing requirement rather than skilled knowledge. We recommended, and they agreed, that they should have an extra stratum to deal with this complexity. Their performance increased significantly, based on this and a number of other related changes.

Manager–Direct Report Alignment

Strata provide an important tool because we can measure the complexity of work, determine how many strata an organization have, and place every position in the appropriate stratum. Strata also provide the foundation for the manager–direct report alignment. The basic idea is that every employee should have a manager exactly one stratum above, both in terms of the complexity of work done and the capability to work at that level.

There are three possibilities for manager–direct report alignment (see Figure 1). The first is that the manager–direct report alignment is correct. The manager is exactly one stratum above, both in the complexity of work done and the capability to work at that stratum. The second possibility is compression. The manager and direct report are doing the same level of work and are in the same stratum. Of course, an organization chart doesn’t tell you this; it is just boxes and lines. It is not until you actually measure the complexity of work that you can determine if this is the case. In a compression situation, the manager will likely micromanage and the direct report will likely not be able to use his or her full capability.

This is a good example of the relationship between employee satisfaction and financial performance. The direct report is unlikely to be very satisfied. As well, the organization is paying extra money to the manager. However, since the manager is working at too low a level, the organization is not getting a very good return on this investment. The third possibility is a gap. The manager is more than one stratum higher than the direct report, which creates a disconnect. There is a missing position in between the two positions. This situation is usually treated as a performance problem for one of the two positions. However, it is a structural issue since there is a missing position.

The manager–direct report alignment is critical to having high performing organizations and successful transformation. Our research shows that optimizing organization design leads to better employee satisfaction, customer satisfaction and financial performance. Intuitively this would seem to make sense. However, we also found that one sub factor of organization design directly leads to these outcomes. That sub factor is the manager–direct report alignment. We would not have expected that one sub factor by itself would be robust enough to lead to these outcomes. However, this factor does that.

We believe that manager–direct report alignment is a necessary but not sufficient condition for effective managerial leadership. One still needs other important dimensions such as delegation, coaching, etc. However, it is difficult to imagine how one can have optimal managerial leadership when the manager–direct report alignment is in a gap or compression situation. Buckingham and Coffman (1999) have conducted significant research showing the importance of relationship with the manager and how it is related to productivity, profitability, retention, and customer satisfaction. The important relationships among these factors (employee satisfaction and loyalty; customer satisfaction and loyalty; and financial revenue growth and profitability) have also been demonstrated by Heskett, Sasser & Wheeler (2008).
Accountability and Authority Alignment

The vertical and functional position alignment provides the structure for an organization. However, optimizing organization design is about far more than organization structure. Another significant step is the alignment of accountabilities and authorities. This includes the accountabilities and authorities that are typically delegated down through an organization. This would be for all positions including first level employees, individual contributor professional positions, managers, supervisors and managers-once-removed (which have important mentoring roles). Some accountabilities and authorities would be position specific and some would be generic (having more generic managerial accountabilities and authorities contributes to more consistent managerial leadership and better opportunities for manager development). We often find when we go into organizations that these accountabilities are not clear and there is not sufficient differentiation of the different position types. Further, the authorities are very seldom specified. This leads to considerable uncertainty and reduced work performance.

However, the biggest opportunity for improvement is usually cross-functional accountabilities and authorities. We generally find that organizations complain about having silos and not working well across the organization. However, virtually none of them have appropriate cross-functional accountabilities and authorities. Most are using some form of matrix organization, which generally lack sufficient clarity or specificity.

Figure 3 shows a stronger cross-functional accountability and authority framework. We will discuss this in terms of an organization wide design transformation.

The crossover point manager is defined as the lowest level manager controlling most or all of the resources necessary to resolve an issue or take advantage of an opportunity. In this case, it would be the head of the organization in scope. One of the most important questions is who the crossover point manager for a particular issue or opportunity is. This role is seldom understood or properly set up. It does not require much time, but the work done is critical to success.

The crossover point manager sets context and prescribed limits for the initiative, and delegates appropriate managerial and cross-functional accountabilities and authorities. In this taxonomy, the cross-functional accountabilities have commensurate authorities. The crossover point manager should also set up an issue resolution and context clarification process. This is important for continuous improvement of the work.

An example would be if the CEO of an organization decided that she or he wanted to significantly improve the complete organization design. The CEO would be the crossover point manager (controls all or most of the resources necessary to be successful). The CEO should set context and prescribed limits (e.g. why we are doing this; what the expectations are; etc.); would likely hold the operational direct report managers accountable for the organization designs within their areas; set up a project executive (often the head of human resources), who would have cross-functional accountabilities and authorities including recommending policies and standards, monitoring, advising, service providing, coordinating, and perhaps stopping work or prescribing work; and set up an issue resolution and context clarification process. This would be an example of an opportunity
to break down silos, so that each area did not just do their own design in their own way, but there was a consistent and integrated approach.

Another example would be if a head of human resources had direct reports for “business partners” and functional “centers of excellence” (e.g., compensation). The head of human resources would be the crossover point manager for the integration of these two areas to ensure and balance the requirements for both excellent functional capability and excellent business partner delivery to the internal business clients.

Using this cross-functional accountability and authority framework adds far more precision, specificity and comprehensiveness than a typical matrix approach. Improvements include the role of the crossover point manager; setting of context and prescribed limits; delegating clear managerial accountabilities and authorities; delegating cross-functional accountabilities, each of which has commensurate authorities; and establishing an issue resolution and context clarification process.

**People Alignment**

In matching people to positions, we find that three dimensions are important. The first is the skilled knowledge required in the position. This includes knowledge, technical skill and social process or people skill. Using all three factors is helpful. For example, people sometimes have very good technical skill but not very good social process or people skill. The second dimension is application—would someone fully apply themselves to all requirements of the position? This can be important when people move from technical or professional positions into managerial positions. Sometimes they don’t really want to be a manager but only move to a higher level position in the organization. In this case, it is possible to lose one of the better technical or professional contributors and get one of the worst managers in one move.

The third dimension provides the most unique added value. This is the information processing capability that an individual has. Each stratum is different in the nature of the work, the complexity of the work, and the information processing capability required. Information processing capability develops in individuals over time. Some stay at a Stratum 1 level all their lives, very high capability individuals can go up to Stratum 9, and others are in between. This becomes an important dimension in promotions. We often find that the best performer in one stratum is promoted to the next stratum. However, the individual may not have the information processing capability required in the higher stratum, which can lead to the Peter Principle (rising to one’s level of incompetence). While information processing capability can be assessed by outside assessors, the research and organization experience shows that, in properly stratified organizations, managers can judge this as well as outside assessors. We find this to be preferable since if puts the accountability where it belongs with the managers. Having this measurement is invaluable in helping people use their full capability without being pushed to failure.

The approach would include a series of talent pool meetings from the top of the organization on down. A manager once removed meets with direct report managers to assess individuals in the stratum below. There would be some minimal education on strata and information processing capability. Managers would make judgments about direct reports. It is interesting that the judgments tend to be quite precise. For example, at Stratum 2 we would expect the diagnostic capability that professionals and first level managers should have. Managers are able to not only make judgements about the stratum of the capability, but also assess it as being at low, medium and high within a stratum. Further, this process can determine which individuals are high potential (which we define as moving up at least two strata in information processing capability during one’s career). This assessment approach tends to be more specific and transparent than most. We often find that organizations that use this approach often modify their high potential lists since many other methods tend to be more vague and therefore end up being more political.

**Deliverables Alignment**

Deliverables alignment involves ensuring that people at each level are doing the complexity of work for which they are being paid. We often find that the complexity of work is below the level of compensation. This is a waste of money and can result in important work not getting done.

We find these issues in many parts of an organization, and will use sales as an example. Sales at a Stratum 1 level is transactional—a product or service is delivered and paid for. The time span is quite short, often hours or days. The work is proceduralized, and procedures are used to get the work done. Sales at a Stratum 2 level involve relationship management. A relationship is developed and managed, often with an objective of enhanced opportunities for a broader range of selling and servicing. The time span here is often between three and twelve months. There is a requirement for a diagnostic capability which one would expect in professional positions.

A position in sales at a Stratum 3 level usually involves territory management and the development of the Stratum 2 sales individuals. Territory development tends to have a time span of 12 to 24 months, often around 18 months. What we often find is that this level of work is not being done. The Stratum 3 incumbents are really doing Stratum 2 relationship management work, and “babysitting” rather than developing the Stratum 2 individuals. This relationship is often compressed. The very important territory management work does not get properly done. Checking on the actual deliverables relative to the complexity of work expected can significantly improve the return on investment.

There can be many opportunities to improve deliverables alignment. A starting point would be to determine if an organization has an integrated planning and review system. We often find that there are several systems (e.g. strategic planning for higher lever executives; business planning which is often financial; and performance management which is often run by human resources) that are not integrated.

Another important improvement can be to ensure that the measurement system understands and respects the time
spans of different strata of positions. Organizations tend to use inflexible annual planning systems that are only ideal for individuals in high Stratum 2 positions (with a time span of 12 months). For someone on the front lines, the time span is much shorter, and the systems should be designed to reflect this. What if a more senior executive has a three-year deliverable? It will certainly be chunked into shorter time spans, which is fine. However, the key complexity is the three-year time span. This is seldom really understood as a central part of the planning and review system. It tends not to receive a strong focus, and is often not a part performance discussions. This is a major loss in terms of understanding and valuing more complex work, and in terms of developing and supporting higher level capability.

Task Alignment
The fifth and final organization design alignment is task alignment. Tasks are activities that individuals are accountable for. An individual may have between one and 20 tasks, with a typical range of between eight and twelve. Task alignment is particularly valuable in situations in which there is not clarity between tasks that can be done at a Stratum 1 level (using procedures to make judgments) and tasks that should be done at a Stratum 2 level (requires a diagnostic capability). Areas in which this tends to be valuable includes sales, analyst positions (often the least clear position that we come across in an organization), nursing (interesting that there is a great need to reduce costs but these fundamentals are usually not understood or put in place), and information technology (requires ongoing modification with significant proceduralization of work).

Our research shows that professionals and first-level managers spend about 50 percent of their time doing lower level tasks that someone could be paid less money to do at least as well. It further indicates that even a modest improvement results in average potential annual cost savings of about $10,000 per professional or managerial position. However, perhaps the greatest value comes from the increased satisfaction of professionals and first-level managers as a result of spending more time doing more challenging work.

One example of the misalignment of tasks came from the quality assurance function of a pharmaceutical company that we worked with. There were numerous issues including substandard work, low morale and high turnover. Our analysis revealed that the recruiting policy was to hire the “best people”, and not the people best suited to do the work. As a result, they were hiring PhDs. However, the work was largely bench chemistry, which involved Stratum 1, proceduralized tasks. The high-level staff was bored and frustrated … their greatest joy was changing procedures, which was not consistent with the work requirements! We supported the company in sorting the tasks into Stratum 1 and Stratum 2 positions, and determining the selection requirements for each. Both the work outputs and levels of satisfaction improved.

Optimizing Organization Design
Optimizing organization design provides five main alignment opportunities. These are: vertical and functional position alignment (especially the manager–direct report alignment); accountability and authority alignment (particularly a cross-functional accountability and authority framework to break down silos and get better work done across the organization); people alignment (particularly using information processing capability to reduce situations of people either being promoted to their level of incompetence or not being able to use their full capability); deliverables alignment (getting the right work done at the right levels, and ensuring that complexity of work done is not lower than the levels of compensation); and task alignment (getting the right tasks done at the right levels, which both reduces cost and increases satisfaction).

Optimizing organization design provides a tremendous opportunity for human resources executives to improve organization performance. The research and executive experience shows that it leads to better employee satisfaction, customer satisfaction and financial performance. It provides a foundation for both strategy implementation and human resources management. It also provides an opportunity for human resources executives to step beyond the more traditional human resources role, impact the whole organization in a broader, deeper and more integrated way, and significantly enhance the impact and profile of the human resources function.

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