Building effective organizations
Trends in organization design

Optimizing
- Focusing resources and reducing headcounts
- Removing layers of management
- Work simplification initiatives

Focus on clarity
- Leaders focuses on developing better clarity on business priorities
- HR/Line managers using this opportunity to crisp the edges on role profiles
- Managers seeking people to focus on activities that drive value

Avoiding pitfalls
- Limiting gaps and overlaps in accountability
- Not spreading the organization too thin.
- Overloading and disengaging high performers
- Eliminating headcount, but not the work
- Creating roles which are not doable
- “Incrementalism” in job evaluation activity
So how do we do that?

<table>
<thead>
<tr>
<th>Alternative 1: The situational approach</th>
<th>Alternative 2: The strategic approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Look at the people who work for you and figure out what accountabilities they could take on based on their strengths and weaknesses.</td>
<td>Understand how your organization creates value for stakeholders.</td>
</tr>
<tr>
<td></td>
<td>Be clear about your required operating model and design roles around that.</td>
</tr>
<tr>
<td></td>
<td>Then identify who the best people are for those roles.</td>
</tr>
</tbody>
</table>
Benefits of the strategic approach

A **sound organization structure** that is aligned with where your business/organization needs to go

Work is focused on activities that **drive value**

**Mitigates the risk of disengaging employees** with unrealistic accountabilities and dysfunctional reporting structures

**Organization design will continue to support** succession planning, career pathing and internal equity
Building an effective organization

**Strategic Context**
- What is the objective?
  - What is the vision?
  - What is the strategy to get there?
  - What is getting in the way?

**Operating Model**
- How to operate?
  - What are the guiding principles?
  - How to manage the organization?
  - What level of centralization is needed?

**Organization Design**
- How to organize?
  - What are the roles and reporting relationships?
  - How to manage key processes?
  - What people and capability are required?

**Implementation**
- How to execute?
  - What is needed to build the organization?
  - How to manage implementation?
  - What are the key accountabilities?

**Engagement**
- How to build commitment?
  - How to build shared understanding and momentum for change?
  - What is the communication and change management strategy?
  - What culture is needed to realize the strategy?
Organizational structure needs to reflect your business strategy and align with the operating model.

It is influenced by:

- Mission and vision for the future
- Business model – how do you create results (whether money or other measures of value) to survive and thrive
- Stage in the business life cycle
- Competitive differentiators for your business
- Key stakeholders such as customers, business partners, regulators
- Alignment and core messages you want to send employees
Strategic Context

- Articulate how you will succeed as an organization
  - Can think in terms of value disciplines - operational excellence, product leadership, customer intimacy*

- Outline how you need to relate to stakeholders.
  - “We are here to…”
  - “We will accomplish that by…”
  - “And to do that we need to…”

- Use that strategic context summary as your “sanity check” as you progress through the design process

*Treacy and Wiersema, after Porter
Define operating principles based on your strategic context

- Core operating units
- Major business processes
- Governance structure

Four key questions:

1. What is your **engine** for value creation and growth?
2. How should you **segment** your markets and channels?
3. How can you design business and management processes to **achieve synergies** across the portfolio?
4. What corporate **governance** model needs to be in place to steer the organization?
Operating model - example

End Consumers

Customers

Distribution Channels

Core Business Processes
- Meeting Demand
- Planning Supply and Demand
- Creating Demand
  - Marketing
  - Manufacturing
  - Etc.

Enabling Processes
- Transactional Processes
- Advisory Services
- Governance and Policy
  - HR
  - Finance
  - Etc.

Portfolio of Business Units
- Product or service groupings
- Geographies or regions
- Customer segments
02

Organization Design
Aligning organization design with operating model

Design organization structure based on your business strategy and your operating model

Common structures are generally driven by:

- Function
- Geography
- Product
- Customer
- Process
- …or a combination: Matrix or Hybrid
“Globalization and consolidation in our industry have combined to create a dynamic global marketplace. To lead in such an environment, you have to be big and small at the same time. You need to be a global company that can operate like a small local business in every part of the world. Our new structure helps us do that.”

A.G. Lafley, Chairman, Procter and Gamble
Organization design measures

How will I know if there are flaws in the organization design?

- Span of control
- Relationships in job size
- Managerial added value

Flags or indicators:

- Size of support groups relative to the organization
- Noise, complexity and confusion around job definitions and accountabilities
- Clarity feedback measures for leaders

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Where to start?

1. Determine key roles and reporting relationships
   - Span of control
   - Managerial added value
   - Relationships in job size
   - Job shape

2. Define job accountabilities for key roles
   - Watch for gaps, overlaps and interdependencies between roles

3. Determine people requirements for roles
   - Technical skills
   - Behavioural competencies

4. Design management and leadership team structures
   - Membership and terms of reference
How do we optimize span of control?

Recognize that span of control can be a key driver of cost and efficiency

Appropriate span of control depends on

- Complexity and diversity of the work being managed
- The nature of the leadership role, its challenges and expectations
- Career pathing channels and succession planning arrangements
- Work culture of the organization
Span of control alternatives

**Common**
- 3-5 direct reports
- Balance among direct reports
- Management delegation
- Succession usually possible

**Broad**
- 6-10 direct reports
- Imbalance among direct report positions
- Management decision making tends to be centralized
- Succession possible but would be a real stretch
Span of control alternatives

**Very Large**
- 10+ direct reports
- Large differentials among direct report positions
- Management decision making highly centralized
- Succession virtually impossible

**One on One**
- One direct report
- Supervisor and direct report function as a team
- Usually a temporary grooming position for direct report
- Typical if strong focus on upward or external stakeholder management
Relationships in job size matter

When a job is significantly larger than those that report to it

- Communication gaps often arise
- Leaders either lose their strategic focus or don’t coach effectively
- Succession is problematic

When a job is marginally larger than those that report to it

- Leaders and direct reports often stepping on each other’s toes
- Tends to be overlaps in accountability
Managerial added value

**Integrator**
- Integrates functions to achieve collective objectives
- Expect a greater difference in job size between the Director and direct reports
- Functional diversity generally means smaller span of control

**Span Breaker**
- Functional similarity places emphasis on monitoring, coaching and control
- Performance is the sum of its parts
- Should be able to manage a wide span of control
Managerial added value …Continued

**Portfolio**

- No requirement to integrate the work of direct reports for collective performance
- Direct reports are often reasonably autonomous specialists
- Leader often owns one of the areas of accountability or is a seasoned manager

**Extra Pair of Hands**

- Can indicate an unnecessary layer of management
- May be necessary where CEO is retiring or focused on M&A activity
Defining role accountabilities

Role accountabilities should be designed in view of the overall organization structure including:

- The core purpose of this job – what value does it offer the organization?
- Intended relationships between this job, its manager, peers and other jobs with which it interfaces
- Potential overlaps, gaps and interdependencies in role accountabilities
- Alignment of accountabilities to overall role type
Organization and role clarity is king

Most Admired Companies do a better job of implementing their strategies

- Strategy well communicated to management in the company:
  - Most Admired: 92%
  - Peer Group: 72%

- Strategy well communicated to employees:
  - Most Admired: 67%
  - Peer Group: 50%

- Managers understand their roles in implementing strategy:
  - Most Admired: 79%
  - Peer Group: 58%

- Employees understand their roles in implementing strategy:
  - Most Admired: 51%
  - Peer Group: 32%
## Accountability Matrix

<table>
<thead>
<tr>
<th>Strategy/Policy</th>
<th>Corp. Function</th>
<th>Field Support</th>
<th>Business Mgmt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develops forecasts of HR requirements</td>
<td>P</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Ensures organizational structure and culture are aligned with business strategy</td>
<td>P</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Design of Programs/Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develops systems to identify the human resources available to the organization.</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develops succession plans for key personnel.</td>
<td>P</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Designs advanced management development programs.</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensures awareness of available management development programs.</td>
<td>P</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>Develops programs to align organization culture with strategy.</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructures organization where appropriate.</td>
<td>S</td>
<td>C</td>
<td>S</td>
</tr>
<tr>
<td>Reviews and evaluates the effectiveness of OEMD programs.</td>
<td>P</td>
<td>C</td>
<td></td>
</tr>
<tr>
<td>Implementation of Programs/Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discusses succession plans and determines suitable candidates for promotion.</td>
<td>S</td>
<td></td>
<td>S</td>
</tr>
<tr>
<td>Delivers advanced management development programs.</td>
<td>P</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implements culture support programs.</td>
<td>S</td>
<td>S</td>
<td>S</td>
</tr>
<tr>
<td>Implements changes to organization structure.</td>
<td>C</td>
<td>C</td>
<td>P</td>
</tr>
</tbody>
</table>

**Primary:** Direct and controlling accountability  
**Shared:** Explicit joint or shared control  
**Contributory:** Consultative, advisory or supporting impact  

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Job shape matters

Advisory Roles
- Guidance and advice to support achievement of results by developing functional capability

Collaborative roles
- Coordination of internal resources relationships with external partners to deliver measurable results

Operational Roles
- Directly accountable for achieving results/outputs through direct control of significant resources

Each role type requires different behavioural competencies to be successful in the role

When shuffling accountabilities, be aware of what you are doing to job shape
# The Role Profile Matrix

## Role type

<table>
<thead>
<tr>
<th>Role type</th>
<th>Advisory Roles</th>
<th>Collaborative Roles</th>
<th>Operational Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Enterprise Leadership</td>
<td>Guidance and advice to support achievement of results by developing functional capability</td>
<td>Coordination of internal resources relationships with external partners to deliver measurable results</td>
<td>Directly accountable for achieving results/outputs through direct control of significant resources</td>
</tr>
<tr>
<td>Enterprise Leadership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy Formation</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Strategic Alignment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic</td>
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<td></td>
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<tr>
<td>Operational</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tactical Implementation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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# The Role Profile Matrix
Roles and levels of complexity

<table>
<thead>
<tr>
<th>Levels of Work</th>
<th>Advisory Roles</th>
<th>Collaborative Roles</th>
<th>Operational Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Enterprise Leadership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise Leadership</td>
<td>Responsible for organization's overall policies, strategies. Goals broadly defined (e.g. enhance international operations). Often confronting unknown.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy Formation</td>
<td>Setting broad strategy for organization/ function, integral to organization’s purpose.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Alignment</td>
<td>Positioning an organization/ function within broadly defined organizational strategy. Scanning environment to anticipate impact of external events</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Implemen-tation</td>
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Implementation
Implementing organization change

Hay Group seven lever model

- Strategic objectives
- Values and culture
- Work processes and business systems
- Organization, team and job design
- Integrated alignment process
- Leadership
- Management processes and systems
- Reward and recognition
- Individual and team competence

Results
Don’t forget employee engagement

Organization restructuring represents significant change

Be prepared to

- Articulate the vision for your new organization and make it real for employees
- Know the work culture you are seeking to develop
- Build the capability and commitment of leaders at all levels to drive through change in their area
- Develop a communication and change management strategy
Tools to support engagement

**Employee surveys**
- To understand the key drivers of engagement in your workforce
- To track the success of organizational change
- To reinforce leadership accountability for leading change

**Culture modeling**
- To understand what culture is needed to realize the strategy
- To identify the gap between current and desired organizational culture

**Organization climate survey**
- To measure how it feels to work in a team against key climate dimensions
  - Clarity, Rewards, Standards, Responsibility, Flexibility, and Team Commitment
Tips for effective organization design

- Organization and role design must always focus on work that delivers value.

- Empowerment and accountability is about leadership, but it is also about designing the right organization structure and roles.

- Gaps and compression in job size relationships are often “red flags” for gaps or overlaps in accountability.

- An organization chart does not depict functional interdependencies and matrix leadership.

- If you reshape a role, the current incumbent may no longer have the behavioural competencies to be successful in the newly defined role.

- Ensure other human capital processes are aligned with organization structure changes.
How Hay Group helps clients

- Audit or review your current organization design or support an organization change project
- Model the behavioural competencies that will drive success
- Assess candidates for new leadership positions in your organization design
- Design rewards strategies, executive and employee programs for the new organization
- Support job evaluation to implement changes to organization design
- Model compensation costs due to proposed changes to organization design
Organization benchmarking and span of control spot survey

- Background for spot survey:
  - A new data source can help answer questions relative to how your executive staffing levels and span of control compares to other large organizations?
  - Do we have the right number of executives relative to other organizations?
  - What is the functional mix of executive jobs?
  - Are the number of direct and dotted line reports too large or too few?
  - What are the principles behind determining how narrow or wide a span of control should be?

- Participating in the study is free of charge.
  - All participants will receive a complimentary report of aggregated findings
  - More detailed sub-cuts of findings will be available at additional charge.
  - All data will be handled by Hay Group with the utmost confidentiality. Only aggregated results are presented to study participants.
Benefits
- Availability of organizational executive benchmarking data and span of control data not available through other source.
- Job size data normalized via Hay job evaluation criteria. This allows you to make consistent comparisons to other companies using a comparable job sizing approach.
- Note: one does not need to be a Hay job evaluation user to participate in this study.

Process
- Data submission kit to be distributed by end Oct.
- Data due by end November
- Results available by early January.