

There is No Right Structure But . . . Some are Clearly Better than Others

Changing your organization structure can be one of the most powerful tools for creating meaningful improvements in any company. Unfortunately in many cases it is either misused or not used at all. The structure in many companies is the one they started with. Few have structures that were intentionally designed and implemented to make them most effective. Those that have taken this step tend to excel.

We have a saying in our firm – “Structure follows, so it can lead.” What this means is that the right structure is always best identified or designed after you analyze and understand a lot of other, more fundamental issues. But once you implement the right structure it can be a very powerful tool for getting things done because it simplifies and streamlines communication, decision-making and workflow.

Creating the best structure for a company is a complex task, requiring a clear understanding of the strengths and weaknesses of various approaches and practical experience in what works and doesn't work. As a start, here are some basic questions you can ask yourself about your current situation. Your answers will help you determine if you need to change or at least look more deeply at this issue.

1. Do you have too much structure? How many layers of management do you have in your company? The fewer; the better. Companies are like athletes. They need to be lean to be most flexible and effective. Too many managers in an organization is like too much cholesterol in the blood stream. They tend to clog things up.

Few companies (or business divisions in large companies) need more than four or five layers, including the President. Over the past decade “spans of control” for managers have dramatically increased. Managers, who had between five and seven direct reports twenty years ago, now have between 16 and 24. And these broader spans produce better results and provide a better work environment for your employees.

2. Do you have the right emphasis and respect for technical and professional ability? Another way of asking this question is – Do your employees have to become managers to become or be seen as successful? Can they attain the same level of respect, compensation and influence by being the Chief Underwriter, Claims Expert, Actuary, Systems Architect, etc.? Does important communication occur through “management meetings” or through “key employee meetings” that include non-management employees?

Having a structure built around a clear understanding of “dual career paths” has many advantages. It is less expensive because it requires fewer managers. It uses the skills of key people better since everyone cannot be an effective manager. It ensures the company retains a proper focus on the core business and technical skills that are essential. Decision-making usually is easier and faster.

3. Does your structure support and emphasize a culture of accountability? Are units and teams specifically designed to accomplish specific core business goals? Do they have the authority and control to accomplish this purpose? Or is there a flurry of involvement whenever something important is attempted?

The best way to test the strength of any structure is to put it under stress. How does your structure help to fix a problem when things go wrong? For example, if you have loss ratio problems in a given product line or geographic area, is any unit or team clearly accountable for fixing the problem or is this a “group” responsibility? Some people think that having “everyone” responsible for a problem really means that no one is responsible. That’s not true. It really means that the CEO is the only person that is truly responsible. If you were the CEO wouldn’t you want others to own and fix this problem . . . employees who are closer to the situation?

4. Does your formal structure incorporate or follow your informal structure? There is an informal structure within every company and at almost every level within a company. Do you understand what it is and how it works? If you don’t, you could be missing big opportunities for improvement. (For more on this subject, visit the Concepts and Ideas section of our website.)

5. Does your structure support the idea that decisions should be made at the lowest competent level within the organization? Are your employees empowered to make decisions and meet their customer’s needs or do they need others involved before anything meaningful can happen? Are authority limits clear and well defined? Are units and teams of people accountable for their results or for just performing tasks? Does your current structure foster accountability or just doing work?

The best organization structures, at least for operational areas, tend to be “customer centric,” that means they are designed specifically to meet the needs of their customers. This includes having people sit in the same area when they frequently need to talk to each other.

6. Does your organization structure have “healing characteristics” built into it? Does your structure help identify and resolve problems?

This is a key characteristic in creating a structure that encourages accountability. The best structures recognize the principal that water always flows downhill. Attempting to get it to flow uphill takes a lot of energy and doesn’t work well. Structures are the same. They should be designed to accomplish things naturally, with a minimum of effort and management involvement. Structures should be designed to give you the confidence that they will help good employees identify problems, encourage great results and make working together easy and more effective. If they don’t, you don’t have the level of elegance you could have.

Having the right structure is a key infrastructure component but it works best when the other fundamentals are also well designed and working well. Peter Drucker, in his classic book entitled Management, said, “The best structure will not guarantee results and performance but the wrong structure is a guarantee of nonperformance. All it produces is friction and frustration.”

In our management consulting practice we help companies identify and attain their full potential. This is our vision. It is why we were created and what we do. Please visit our website (McDonaldConsultingGroup.com) if you want to learn more about our firm.