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How Many Managers Should a Company Have?

The answer is obvious -- as many as you need. Having the right number of managers helps things work smoothly in any organization. But if you either don't know what this number should be or don't know how to determine it, the best decision is to err in the direction of less rather than more.

Lean organizations with the right number of managers are clearly more effective, usually more focused on core business results and react to change more easily and faster. They are also more efficient and have lower expense ratios. This translates into more customer and stakeholder value, more competitive pricing, better long term financials and faster growth. The end result is more jobs and more secure employment for everyone.

There are also advantages to the managers, themselves, in lean organizations. Because they are leading large instead of small units, they learn and practice their management skills in an atmosphere where they can truly be effective and excel. A manager receives a completely different set of experiences when leading a small unit. This difference reminds me of a mid-western saying; "You can't learn how to be a farmer from having a garden." Too many managers with potential for senior management positions are wasted each year because they failed to get the right experiences and learn their craft properly because they spent their time in small units that failed to give them the experiences they needed.

How does your company stack up against truly lean and well managed insurance companies? Here are a couple of tests you can use to see how your company compares:

- Add up the number of managers you have in your company, from the President to the first line supervisor, and divide this number into the total number of non-management employees. (Do not include administrative assistants in this last number. They have a unique relationship with their executive and should be excluded from this calculation.) If your ratio is smaller than 9:1 you have an opportunity to make considerable improvements.

- Next, look at your Operational areas. These are the areas that deal with customers (departments or functions like Underwriting, Claims, etc.). The ratio of employee to manager in these units should average at least 12:1. If it doesn't, you probably have an opportunity for improvement.

If the value and advantages of being lean are so obvious, why do so few companies attain this goal? In our practice we've found several, common organizational dynamics that cause inefficient organization structures. Here are a few and how to combat their effects.

1. Goals and standards based on "past practices" instead of "best practices". The biggest obstacle for change is always tradition. Organizations have the same inertia you studied in physics in school. i.e., a body at rest tends to stay at rest. If you've always had an average low "span of control" in your company, for example 5:1, it takes considerable effort to change it to 12:1. You can even find consulting firms that recommend you stay at the lower numbers because that's what some other companies are doing. But if you want to be the best, you have to compare yourself against the best . . . and then try to be better. If you want to be mediocre, compare yourself against an average.

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2. A poor or unclear definition of what a manager should do and be accountable for. The most common problem in this area is the belief that "working managers," managers who spend most of their time doing the technical work of their units, are efficient and the best use of your human resources. This is almost never true. (One of the few exceptions is when you have a small unit of people and no way to make it larger except to go out and hire unnecessary people.) Managers should be responsible for and spend their time making sure their units attain and surpass their work standards, keep their expenses within allowable limits and have happy customers. A manager's role is a support position, designed to help the employees in the unit become more effective. Managers serve their units. Companies with "working managers" tend to have two or three times the number of managers as companies who have separate technical leaders.

3. No Separate Career Path for Professional and Technical Leaders. Insurance is a technical business. As a matter of fact, most executives come form the technical and professional ranks in their companies. In today's complex world, these core skills have to be maintained and nurtured if you are to be successful. The best and most efficient way to accomplish this is to have separate technical career paths. This results in formally recognizing technical and professional leaders, in the same way you recognize managers as people leaders. This distinction is important. Leaders run your company. Too many organizations believe their managers are their key players and communicate and run their companies through management meetings. Instead, they should be having "leader" meetings.

4. Ineffective, incomplete or poorly managed unit success measures. Too many units measure their success by reporting on the activities they perform and the things they do, instead of the concrete business results they attain. Units that have complete and balanced core success measures and who continually manage their actions to attain or surpass these standards are always more successful. They focus on the core results they need to accomplish and don't confuse the situation with a blizzard of data on sometimes meaningless activities.

5. Human Resource procedures that encourage small units. As you increase the size of units, employees naturally become more independent, creative and accountable for their results. As these new abilities evolve, they should also become more involved and responsible for the management of their careers, their training and skills development. The attainment of unit success measures and an employee's contribution to this success become more important and activities that are extraneous to the unit's primary mission, like special projects, etc. become less important. New ways of documenting and rewarding employees become not only possible but necessary.

Once you identify that there's an opportunity for improvement in your company or department, the next step is to do a more detailed study to identify the specific changes needed. A key to determining how many managers you need is to identify the proper number of employees in each unit. In September, 2002, we wrote a newsletter entitled How Many Employees Should Report to a Manager? It describes the underlying factors within a company that must be present for you to be able to attain optimum sized units. You can review this letter on our website.

Really good companies carefully plan where they need and want to have excess capacity (expense) so they will have the best long term business advantage. They do not allow the organization to increase expenses by creating management bloat. As you can see this isn't just an expense issue, it can create serious impediments to your company's overall effectiveness.

In our management consulting practice we help companies become more effective and efficient. Please visit our website (McDonaldConsultingGroup.com) for other topics of interest.