The Next Evolution Of Organizational Design

Many leaders understand that having the right organizational design can enhance performance, agility and resilience; however, traditional approaches solely focused on spans and layers do little to address the work being performed and historically have delivered disappointing results. Today, successful companies are beginning to look inside the boxes and into the "white spaces" between them to better understand the key interactions, activities and processes at a more granular level. This is "micro design" and it has proven to be the key to success.

Executive Summary

Most business leaders rethink the design of their organizations as a cost-cutting solution — removing managers and increasing spans of control, only to rehire a year later. Often, this lack of faith in redesign arises from past efforts not delivering what was promised, or from doubting the prevailing abundance of principles, approaches and techniques. Thus, organizational redesign exercises, in many situations, remain a lagging response to external events rather than a proactive endeavor, driven by the conviction of leadership and based on bedrock principles.

In an increasingly dynamic world, leaders acknowledge that organizational design remains a key lever to successfully navigate change and consistently deliver on performance. Yet reorganization implementations fail quite frequently. Why is that? A fundamental underlying reason is that implementing organization design is not just about drawing boxes and lines and moving people and positions inside comprehensive organization charts. The redesign process needs to look beyond layers and spans of control to understand what's inside a box: objectives, accountabilities, competencies, work activities performed, projects people are involved in, risks they manage and clients they serve.

Without a true understanding of the work activities being performed and their related costs, removing a layer of management or increasing spans of control does little to address the problem, and in many cases exacerbates it. Thus, it is not surprising that after having performed several studies on this subject, Hansen (2009) found that as many as two-thirds of all attempts at informal collaboration across formal organizational boundaries fail to produce a positive return. Campbell (2012) concluded that informal collaboration is less effective than using teams with a formal mandate and an appointed manager. Figuring out the underlying system is crucial, and this is the next evolution of organization design — connecting structures to teams and work activities at the most fundamental level. FTI has been helping clients move beyond traditional organizational design activities in order to operationalize and implement lasting organizational transformations.

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Organization as a System — Macro Design

Understanding the organization as a system is the foundation of thoughtful design. Traditionally, the process starts with understanding business strategy and progresses to defining structure (span and layers), and then aligning people (roles and responsibilities). This is what we define as Macro Design. But this, unfortunately, is where most organization design efforts end. While structure is very important, by itself it is a powerful but blunt instrument which doesn't produce long-term results. And focusing just on people does not address any fundamental organizational redundancies underlying the work they perform.

One needs to view the organization as it truly is — a system — with various functions and people continually interacting with one another in complex networks. Through this approach, a holistic view of the organization may be brought to the surface, helping us observe how changes in one aspect of the organization produce changes in another. This is where the next evolution in organization design comes into play.

Rupert Morrison, a recognized author and leader in organization design, drives the point home with the example of the Japanese rugby team.

"Japan is not a rugby titan. They have never qualified before and they've only won a couple of games in their history, and until recently they'd never won a game. None of the Japanese players would make any of the tier 1 nations at all. They're smaller, they're not as fast, they're not as strong. It's not in their cultural DNA.

Until recently, Ireland was the number one team in the world, beating most opponents with huge men, phenomenal team, strong winning record. But Japan beat the Irish. They did not beat the Irish because they had the best people, they don't. They won because [of] their organizational systems, their communication, and how they played as a team."

From the example above, we see that neither structure (both teams had same number players/positions) nor pure talent (Irish were clearly stronger, faster and reigning champs) were the key to Japan winning the Rugby World Cup instead their success story stemmed from something different — the way they approached the work. Sports

teams demonstrate that when everyone knows their role, what everyone else is doing around them and exactly what they are trying to do, the results can be beautiful and appear effortless.

The system does not need to break down and recreate existing macro structures. Rather, dynamism within the overall organizational structure can be induced through detailed micro design. A new focus on micro design enables managers and team members to quickly move away from potentially redundant and duplicative work to mission-oriented projects for a set purpose. This new approach offers a high degree of empowerment, strong communication and rapid information flow.

Micro Design – Going Beyond the Structure

Organizational design solutions popularized recently tend to be top-down, with a bulk of the emphasis on high-level processes, strategy and culture. Exercises guided by such knowledge sources usually provide immediate one-dimensional insights and leaves management with "customized" playbooks charting a path to success. However, expectations fall short when it comes to implementing and delivering sustainable and measurable business performance enhancements. **The key to achieving the promised success lies in linking organizational structure to work activities and business processes and developing an exhaustive picture of how the work really gets performed at all levels of the organization.**

A more granular design is the real heart of the organizational design process. This process grasps the macro vision and connects the people, the teams they operate within and their collaborative efforts to well-defined activities and micro-processes. This crucial linkage then affirms what is truly essential and validates perceived versus real redundancies. The process of micro design goes beyond the peripheral insights gained from standard tools, such as de-layering management levels, benchmarking spans-of-controls and comparing headcount cost metrics to industry peers. Simply using such tools to assess the effectiveness of an organization and cost take-out potential would be like prescribing someone a weight-loss goal solely based on weight without considering height, age, sex and other relevant variables.

Instead, the process of granular design can be compared to converting an off-the-lot car into a high-performance

vehicle. The approach looks at the ultimate objective and evaluates every component's purpose and performance. Subsequently, it designs and prescribes alternate components, shedding what is unnecessary while keeping the basic framework of the vehicle remains in place. When it is put back together, you can have a superfast track-day car, a versatile off-roader or a purpose-built utility vehicle.

How is this done? Foremost, we focus on dissecting roles and behaviors — the underlying individual pieces of a company's performance. The approach translates vision and strategy into the work that needs to get done by a role and evaluates the extent to which existing skills and competencies execute the work efficiently. The primary focus is kept on the way that people work, interact and make decisions. Second, we attach metrics to each activity and compare how well the work is conducted against set targets.

This approach puts the business in a position to understand, monitor and influence true productivity by ensuring duplications and other inefficiencies are identified and reviewed. Organizational effort can now be directed and balanced as needed, trimming back work where there is too much effort on certain activities, and investing in other activities for growth. When rolled out across the organization, this approach creates executable organizational agility and resilience, i.e., the power to direct organizational efforts through thoughtful design and ultimately drive business performance.

Take for instance a recent engagement where FTI was hired to advise on a merger integration between two $1B aerospace and defense distributors. Here, design and implementation were based on the work activities and competencies of people and teams. Using results from standard tools (like benchmarking and spans & layers) as guardrails, FTI dove deep into the micro design to study how decisions at various levels were actually made on a daily basis and worked with management to prescribe how they should be made in order to be more effective. By linking people data to the work each individual actually performed, FTI was able to quickly highlight aspects of the organization that were previously unknown to management. FTI was able to answer questions for both companies such as: who was doing which activities and where, how much it was costing in aggregate, how fragmented the work was, the level of redundancy, like-

for-like role mapping regardless of title and the level of bureaucracy due to excessive approvals. This exercise required top-level participation but also needed joint involvement from leaders and team members from mid-to-low levels of the organization. Considerations around geographies, markets, etc., were also highly important. Micro-design was the key to quickly and successfully integrated the two structures into a single, purpose built organization and has proven over and over again to be the next stage in the evolution of organization design, where all activities, competencies and objectives are redefined to close the gap between target and actual results to drive improved business performance.

Designing the organization this way helps drive decisions based on the value each employee and team brings, rather than just making decisions based on headcount costs. This is an important difference, since it enables the tracking of the true financial contributions of every person on the payroll. By shifting focus to the work, management teams can now quantify the value the workforce delivers against their costs.

Completing the true picture of the value-adding activities within the organization, the underlying work which gets done and how the business objectives are met fundamentally change the planning for the future of the organization. Discussions and decisions can now be centered around the skills and competencies needed and optimizing headcount investments accordingly. Rather than forcing every function and geography with a targeted headcount reduction, cost reduction can be prioritized according to value added by activities across departments and their constituent teams. The layers and spans of controls become health indicators specific to the business, rather than a singular guideline to set targets that historically leads to critical capabilities and talents being eroded.

Traditional systems and tracking tools are not capable of handling the rigorous requirements of an in-depth organizational design project. FTI combines a versatile analytical tool for micro-design with our experience across a wide variety of industries and clients. We produce a solution that synchronizes design with strategy and optimizes the organization, driving reorganizations that are more effective, efficient and sustainable. Our approach, paired with a robust set of tools and experts, can help ensure success in reorganization efforts.

Enhancing Decision-Making

When everyone knows their role, what everyone else is doing around them and exactly what they are trying to achieve, the result can be beautiful, and the decision-making process appears to be effortless. However, the reality in many organizations is that lots of people feel they need to be part of the decision-making process. That is, in part, because often neither the actual process is defined nor are the accountabilities for making the decisions. Significant time and resources get wasted as employees navigate through a maze of power players, trying to find out what the decision-making process truly is, or misinterpreting responsibilities and accountabilities.

Defining the accountability matrix requires time to: define the process and activity taxonomies; identify the people performing those activities, quantify the amount of time spent on each activity; and finally, link roles & responsibilities to the people and their work activities. Once completed, the results highlight the organization's actual governance model and level of bureaucracy. In some cases we uncover gaps across key activities—either no-one is currently responsible or more often, multiple roles are. In the end, it isn't just about identifying accountabilities for activities but more importantly it is about establishing accountability for achieving objectives, for managing risks or making decisions.

Accountability Matrix Process

Define the process and activity taxonomies

Identify individuals performing those activities & quantify time spent on each activity

Link roles & responsibilities to the people and their work activities

Responsibility gap uncovered?

YES

NO

FINALIZE MATRIX
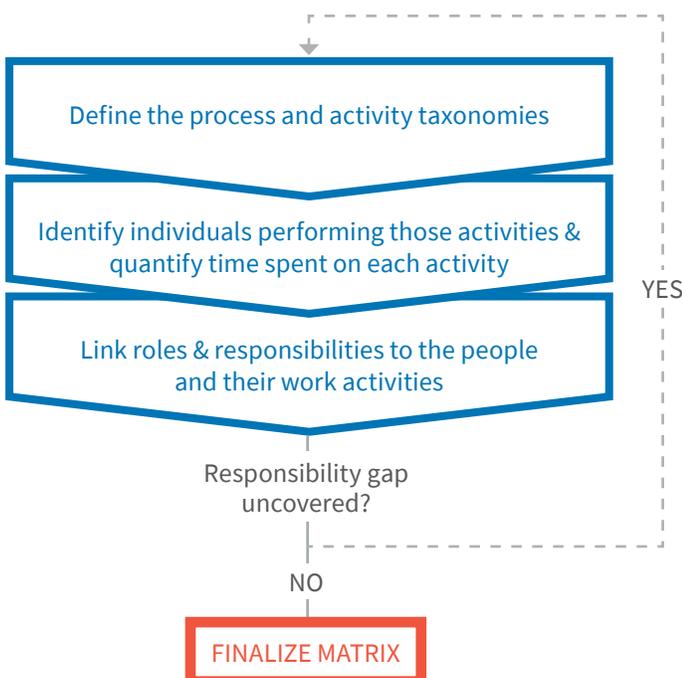
FTI utilizes a simplified accountability matrix called the **R-A-S Analysis**, which is sometimes referred to as "Responsibility Mapping," to look at the employees' relationship to the activities they perform — it tells us

if they're **Responsible** for a given activity,

if they're someone who **Approves** the activity, or

if they're someone who **Supports** it.

Armed with this data, FTI can quickly assess the effectiveness of the organization's decision-making and gain powerful points of view, including:

— Do employees have the right relationship with their activities based on their role/level? (e.g., leaders **A**pprove activities that junior employees **S**upport)

— Is the organization overly bureaucratic? (e.g., too many people or people from too many departments listed as **A**pprovers for one activity)

— Are there gaps in accountability that could cause risk? (e.g., an activity has no one listed as **R**esponsible or **A**pproving)

The practice of creating an accountability matrix can be applied across all areas of the organizational system. For example, you can link roles to process and objectives, process to competencies and, therefore, indirectly link roles and competencies together. Suddenly, the pieces of the puzzle begin to fit together. You can begin to analyze and get insight into which competencies are most in demand. If you then define which competencies each person has, then you'll know where the greatest gaps are, and you can prioritize your training and recruitment of specific skills. You can also begin scenario-modeling. For example, if you improved the efficiency of a given activity, then who would be impacted and what would be the FTE reduction be?

Conclusion

When it comes to successful organizational designs, the key is not just knowing how to align the new structure to execute the business strategy, but how to implement the detail in order to make it stick. Micro design enables the organization to achieve a lasting and effective implementation based on detailed analysis and process evaluation. With a taxonomy of processes and a knowledge of who does what, leaders can have a base of understanding on which they can build meaningful change.

The next evolution of organizational design, driven by micro design, helps answer many of the significant, detailed design questions. For example, what should be outsourced, centralized, stopped or refactored or started as a new investment? Equally, businesses can drive out complexity by quantifying how many people are involved in the same decision or work.

Additionally, by linking the work to roles, we are defining exactly what each role does, how it connects to other roles and, therefore, how it fits within the whole. This enables leaders to understand the cost base in a way that is totally different from the traditional financial view.

Leveraging FTI's tools and approach, management teams can easily navigate through layers and reporting lines, rely on a single source of truth for reports and metrics and seamlessly model new designs to enable efficient work, identify savings opportunities and eliminate redundancies. This new evolution enables reorganizations that are better, faster, deeper and sustainable, creating a high-performing mobile organization that can adapt to the changing world.

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