

Streamlining Organizations for Tough Economic Times

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Every organization is considering some means of streamlining their staffs in this economy. The reasons are simple and yet very compelling. In the face of slowing demand, every industry will be impacted. This promises to extend for a significant period of time so acting quickly is essential.

Each business must make its decisions in the face of both the broader economic realities, and industry related differences. In many industries, the amount of work required to operate in the market will not decrease, but the number of people you have to do it with will. In other industries, the type of work required will shift, so reductions will need to be made based upon the need for functional specialties. Those similarities and differences make the choices unique for each company.

So, how do you, as an executive, sort out these changes so that you do not actually damage the company's viability? This will perhaps be the biggest challenge for businesses in 2009. What executives need is a greater understanding of how their organizations work and how to improve overall performance as the market turns downward. We would offer three key points of guidance to get downsizing right.

1. Balance the number of managers first.
2. Understand how the organization works and streamline it.
3. Manage the resources by function.

Balancing the Management Ranks

Our experience in leading and completing over 30 large-scale organizational restructures is that managers can effectively oversee more people than conventional wisdom would suggest. The magic number of direct reports is in the 12 range, +/- 2. We regularly see organizations with 4 to 6; however, the number of direct reports is related to the complexity of the business.

When considering a change in the number of direct reports, leaders must make sure they have key elements in place that will facilitate effective management of the direct reports. The single biggest factor in changing the reporting equation is the complexity of the business. Some businesses require more management oversight than others do. For example, some technical businesses require more management than some CPG businesses and some retail environments require more oversight than other retail businesses. Carefully consider these differences.

The other key elements include;

1. The existence of standard processes to support employees.
2. The level of skill & competency of the employees.
3. The availability of information for employees to do their jobs.
4. Clear governance (everyone knows how decisions are made).
5. The right reward & recognition programs (ensuring you get the behavior from your employees that you actually need).
6. A structure with clear line of sight to management authority.

Having fewer managers with more direct reports is not an approach for everyone. You have to be certain this management approach fits with your organization structure and culture. Again, consider the complexity of your business. Also remember that a key element of

success is a clear line of sight to management authority. It will typically be easier to adopt this approach in a direct reporting line than in a matrix organization because all matrix organizations require time spent aligning the managers. The more time spent aligning the managers, the less time available to spend with direct reports.

Understanding the Work of the Organization

As we increase the number of direct reports we also have the opportunity to streamline the organization beneath them. This should include combining functions where the work is the same or complementary. Building “functional excellence” is a more viable option when we focus the management teams on their people. The new structure will rely upon our knowledge of how the work gets done. Once we have this understanding, we can do a better job of “scaling” the organization to fit the demands of the marketplace.

To be successful with the “balancing” approach, your people managers need to focus on managing people. Meaning... the managers should not be working on customer accounts or projects. If you are going to increase the manager’s number of direct reports, then managers need to be dedicated to those direct reports and manage them. If the managers have too many other responsibilities, their people will not get the required attention. This creates inefficiencies in the organization, compromising its work capacity.

As you focus your management ranks, also ensure that you hold managers accountable for the performance and development of their people. This requires the HR function to actively participate in the process and provide solutions such as performance management, reward systems, and training.

As you make these changes you should move slowly to ensure your managers are (or become) competent. Make sure managers go through the right training because they must be extremely capable at managing people. That includes strong performance & developmental management of their direct reports.

Managing Resources by Function

One of the biggest mistakes we make when downsizing is to “spread the wealth”. We normally take a percentage of the resources from each functional area. This creates a lower level of overall effectiveness for the given number of people. The reason is a simple one; the workflow of the organization is rarely level-loaded. In other words, there is not a constant or consistent flow of work between the functions so there cannot be a “one-for-one” correlation between them. If work does not flow continuously between the functions of the organization, then cuts in one function can severely limit the capability of the entire organization. We actually create “bottle-necks”.

Looking more closely at the work of the organization, we should explore the various functions which create value in line with delivering customer requirements. These functions are considered “core” business functions, which then must be carefully mapped prior to streamlining them. This value mapping process identifies where reductions can and should be made. If we map these functions then we can better plan the resources needed to meet the market requirements and in turn optimize costs.

When we have taken organizations through this kind of process we find areas where there is inefficiency and where the reallocation of resources makes sense. Reallocation is the goal, versus simply enacting “across the board” reductions. Not surprisingly, this review process does more to motivate employees because now the resource allocation and structure better supports their work requirements.

Summary

As an executive, you should never underestimate the complexity of getting the organization streamlined and positioned to do well in tough economic conditions. There are things that have become common practice that have clearly not worked in the past and will not work in the future. As we face one of the toughest economies in many years, we can offer you solid experience and guidance as you look at your organization. Start at the top, and work your way through your organization, setting the right role and responsibilities for your managers, understanding how the organization creates value and allocating resources to make your value to the customer even more compelling.