

# Optimal Organizational Structure

## Rethinking Restructuring: What Every Leader Should Know



Restructuring. If there was ever a red flag on the management scene, then this word captures it. When results head south, many top teams instinctively train their sights on the structure of a division, function, or even an entire organization. The aim is to shake things up and to get results by rearranging roles and reporting relationships. Unfortunately, restructuring does not cure a flawed business strategy, nor is it a typically effective solution for faulty systems or processes, group conflict, ineffective decision making down through the ranks, or a host of other operational problems.

There are, however, three situations that should prompt top management to make a tough reassessment of organizational structure. These include:

- **Fuzzy focus** — when titles, reporting relationships, and even the central organizing principles upon which a structure rests create confusion and lack of focus.
- **Capability gaps** — when there is a lack of alignment between business strategy and the existing organizational capabilities and skills.
- **Excessive costs** — when the fixed costs of an organization are too high.

Kepner-Tregoe's approach to designing an organization's structure is predicated on two principles:

- Given good data and an effective process for organizing and analyzing data, senior executives occupy the best vantage point to design the optimal organizational structure. An organization's leadership cannot outsource a restructuring effort. Kepner-Tregoe helps to leverage the organizational knowledge and experience of key executives. The primary role of Kepner-Tregoe (KT) consultants in working toward an optimal organizational structure is to ask the key questions, collect and assess reliable data, and provide a proven process for managerial decision making.
- The design of a structure is never a consensus activity. Changing structure is among the most threatening of organizational changes. There tends to be a zero-sum quality to structure change. There are winners and losers, either real or perceived. Given this dynamic, there tends to be a lack of agreement between the goals of organizational leaders and other managers. This makes consensus decision making inappropriate. The group participating in the design of the structure has the responsibility for providing the organization's leaders with the best thinking and sharpest analysis. Leaders have the responsibility for considering the input and taking action.



## The design of an optimal structure for an organization follows a number of steps.

### Step 1: Review of the Business or Functional Strategy

If structure follows strategy as the prevailing wisdom dictates, then the first step in the design of an optimal structure is to review the current strategy for a business or a function. If the strategy is not clear or if the strategy does not provide guidance for the structure, then gaining strategic clarity becomes an imperative. For example, we helped a large company determine the optimal structure for its staff functions. Since the company had divested some businesses and had re-formulated its business strategy, the IT, Human Resource, Finance, and Procurement functions each needed to reexamine its functional strategy as a basis for the redesign of its structures.

### Step 2: Identification of the Group Responsible for Designing the Structure

In Step 2, Kepner-Tregoe helps leaders to identify the people who have the information necessary to design the structure and whose commitment is needed for successful implementation of the structure. Kepner-Tregoe interview these information sources to explain the approach to designing the structure and to solicit their views on the current structure.

### Step 3: Development of Objectives for the Optimal Structure

In the design of any structure, leaders of an organization need to be very clear on what objectives the structure should meet. This critical step involves rigorous thinking about the performance the leaders want their structure to accomplish. In developing objectives, the team responsible for the design of the structure needs to specify the strategic and operational objectives for the structure. Since structure addresses the focus and capabilities within an organization, the objectives for the structure needs to specify exactly what the organization needs to focus on and what people capabilities are needed to achieve the focus. In addition, the objectives may need to reflect cost constraints that should be considered, as well as any organizational characteristics, such as flatness or span of control, that need to be incorporated into the structure. The team designing the structure then needs to determine the relative importance of each objective. Since there may be conflict among objectives, this priority-setting process is critical to ensure that the organization defines the relative importance of appropriate design criteria.

For example, a business in a mature market may need a structure that is driven by low cost and the capability to improve manufacturing processes. A business in a high-growth market may determine that objectives pertaining to new product development capabilities and marketing are critical in designing its optimal structure.



### Step 4: Design of Alternative Structures

In Step 4, the group that is responsible for designing the optimal structure builds alternative structures to optimally meet the objectives. The group or sub-teams of the group designs structures using different organizational themes. For example, designs can emerge that are centered on products, processes, customers, markets, projects, and/or geography. Each alternative structure specifies the organizational chart and the three-to-five major responsibilities for each key position in the structure.

### Step 5: Comparison of Alternative Structures

The group evaluates the alternative structures designed in Step 4 to determine which structure best meets each objective. The current structure is always an alternative. Data on the degree to which each structure meets each objective is documented and, based on the data, each alternative structure is

scored. Often, a hybrid structure that combines the best features and benefits of other alternatives emerges.

For example, a high-tech business in the telecommunications market found in comparing alternative structures it needed to create a hybrid organization that focused on technology and products in one product line, and customers in another. The support from Human Resources, Marketing, and Research and Development, and Engineering differed significantly.

### Step 6: Assessment of the Risks Associated with the Structures

Once the alternative structures have been evaluated against the objectives, the structure(s) that best meet the objectives are analyzed to identify and assess the risks associated with the design. If significant risks can be reduced by modifying the structure, the group makes the prudent changes.

### Step 7: Identification of the Capabilities Required by the Optimal Structure

Since every "box" in an organizational structure represents a set of capabilities required to make the organization successful, a critical element in the design of an optimal structure is the specification of the capabilities required by the newly designed structure. In Step 7, the skills, knowledge, and traits needed to fulfill key responsibilities are identified by interviewing and/or observing incumbents, exemplars, and leadership throughout an organization. The skills, knowledge, and traits are then codified into a set of needed capabilities.

If the optimal organization is not a significant departure from the current structure, using people within the organization to identify needed capabilities may be sufficient. If, however, the magnitude of change represented by the optimal structure is significant, then individuals in other parts of the company or, possibly, in other companies may be interviewed and observed to identify critical capabilities.

### Step 8: Assignment of Individuals to the Optimal Structure

Prior to Step 8, individuals are not considered in the process of designing an optimal structure. In Step 8, the leader of the organization or a small group selected by the leader, assign incumbents to the structure based on the demonstration of needed capabilities. Any gaps between the current and needed capabilities of incumbents are documented. Positions in the new structure where there is no incumbent with requisite capabilities are noted, and incumbents who lack the capabilities needed by the optimal structure are identified.

### Step 9: Development of a Plan to Implement the Structure

Step 9 entails the development of a detailed project plan for the implementation of the optimal structure. The plan generally addresses a number of needs:

- Communication of the structure internally and externally;
- The management of the significant risks identified in Step 6;
- The development of the capabilities of incumbents whose position and/or responsibilities change in the optimal structure;
- Recruitment and hiring for positions requiring capabilities that are not resident within the current organization;



- Placement of incumbents who do not fit into the optimal structure;
- Clear responsibilities for the implementation of the structure; and
- A schedule for the implementation.

Kepner-Tregoe's approach to the design of an optimal organizational structure offers distinct benefits to the leadership team.

- The approach fosters and structures the participation of key individuals within the current organization while maintaining the ultimate decision-making role of the organization's leader.
- The process is grounded by the key strategic and operational objectives of the organization.
- The approach removes emotion from an inherently emotional exercise to the greatest extent possible by focusing the thinking on objectives rather than on alternative structures and individuals.
- The approach is comparative. Several possible structures are designed and compared using data and objectives. This comparison generally expands the group's thinking on how structure can help the organization achieve success.
- The process identifies the capabilities required in key positions that can be used to build developmental plans for individuals and as hiring criteria.
- The approach builds ownership with key people because it leverages their capabilities rather than asking them to relinquish their thinking, experience, and judgment to an outside consultant.

The structure of an organization channels decision making and behavior. Determining the structure of an organization is one of the most crucial decisions any team of leaders will face. It is also, ultimately, a task that requires the very best critical thinking of leaders and those around them. It is this critical thinking that is harnessed by the Kepner-Tregoe approach to optimal organizational structure.



Kepner-Tregoe has earned a worldwide reputation for improving business results through people. A worldwide leader in effecting successful change and improvement, Kepner-Tregoe helps its clients achieve lasting results through a proven approach of Process, Facilitation, and Transfer. Focusing on the needs of the organization's people—their skills, capabilities, and performance environment—Kepner-Tregoe continues to find innovative ways to integrate the human resource with the organization's strategy, its structure and

systems, and the processes by which goals are accomplished. Working across boundaries, at every level of the organization, Kepner-Tregoe provides common processes and methodologies to implement successful change initiatives. Through its focus on the human side of change, Kepner-Tregoe helps clients achieve a real and sustainable competitive advantage, one based on the collective knowledge, skills, and capabilities of their people.