

# Optimize Your Organization's Structure

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# Learning Objectives



- ❑ What is span of control?
- ❑ Why is it important?
- ❑ What are optimal spans of control?

# Why Ask Compensation People to Look at Organization Structure



Why would senior leaders ask ***compensation professionals*** to look at organization structure?

# Span of Control



Definition: The number of direct reports to a manager or supervisor

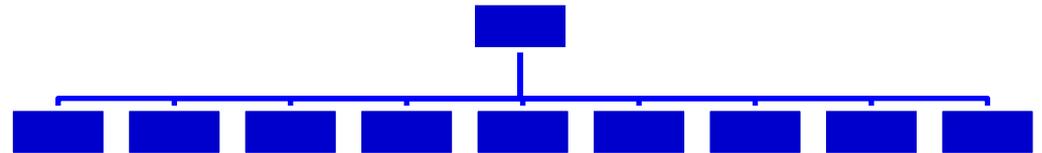
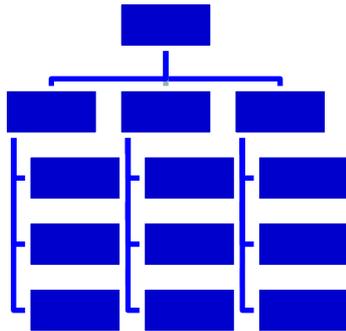
- ❑ Span of control has broad impacts throughout the enterprise
- ❑ Both narrow and broad spans have their advantages and disadvantages
- ❑ Part of organization design

# Spans of Control Have Broad Impacts



- ❑ Employee development
- ❑ Employee performance
- ❑ Career pathing
- ❑ Manager-employee relationship
- ❑ Employee engagement
- ❑ Cost management
- ❑ Organization effectiveness
- ❑ Communication
- ❑ Number of management layers

# Broad and Narrow Spans of Control



- ❑ Narrow Spans of Control
- ❑ More Layers of Management
- ❑ More Managers
- ❑ Fewer grades between managers and direct reports

- ❑ Broad Spans of Control
- ❑ Fewer Layers of Management
- ❑ Fewer Managers
- ❑ More grades between managers and direct reports

# Relating Spans to Organization Layers



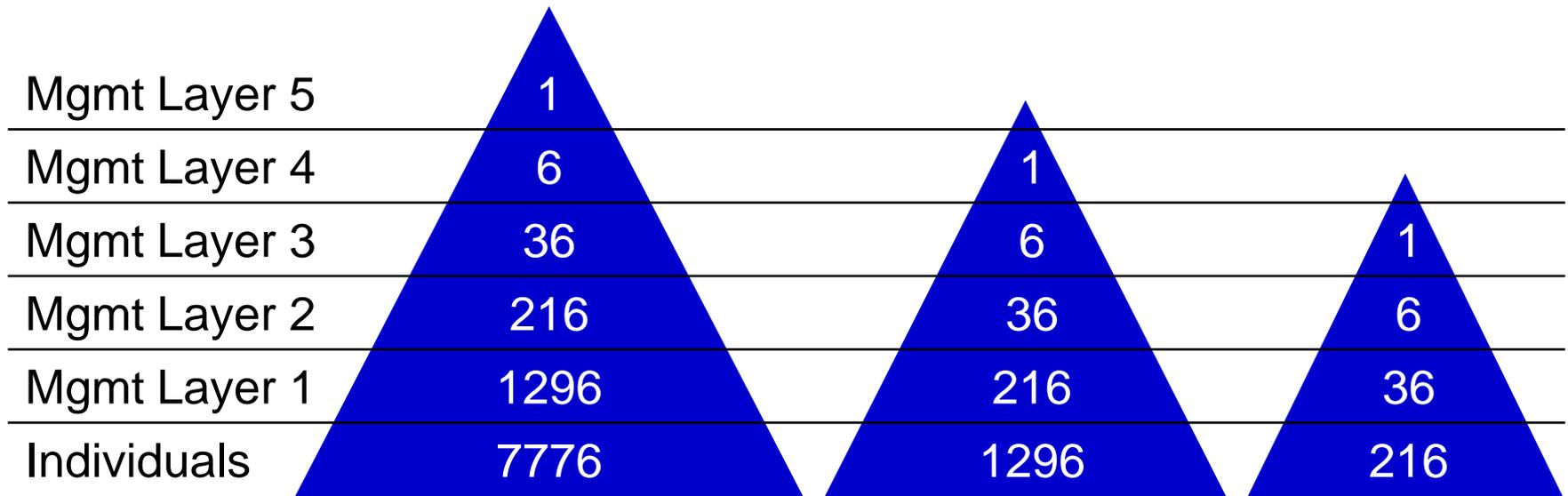
If Typical Span is	Supv/Mgr Layers	Supvs/Mgrs	Supv/Mgr as % of Population
4	5	334	25%
6	4	201	17%
10	3	111	10%

Assumes 1000 Individual Contributor Positions

# Larger Organizations Have More Layers



- Even with the same spans of control, a larger organization will have more layers than a smaller one.



<b>Average Span</b>	6	6	6
<b>Total Headcount</b>	9,331	1,555	259
<b>Mgmt. Layers</b>	5	4	3

# Advantages and Disadvantages



	<b>Narrow Spans / Tall Organization</b>	<b>Broad Spans / Flat Organization</b>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Allows “hands-on” management</li> <li>• Reduces required skill levels,</li> <li>• Reduces risk from vacancies or poor performance</li> <li>• Ready pool of promotable replacements</li> </ul>	<ul style="list-style-type: none"> <li>• Fast, clear communication</li> <li>• Empowers direct reports to do more “complete” jobs.</li> <li>• Higher employee engagement</li> <li>• Fast response</li> <li>• More innovation</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• Low decision making authority and perceived autonomy</li> <li>• Multiple layers of communications; message can become distorted</li> <li>• More risk of employee disengagement</li> <li>• Slower response, decision-making</li> <li>• Cost</li> </ul>	<ul style="list-style-type: none"> <li>• Requires higher skill levels</li> <li>• Not enough time for mgrs to provide attention to direct reports.</li> <li>• Tactical demands distract mgr</li> <li>• Succession management challenge.</li> <li>• High risk from vacancies or poor performance.</li> <li>• Potential risk from giving employees too much autonomy.</li> </ul>

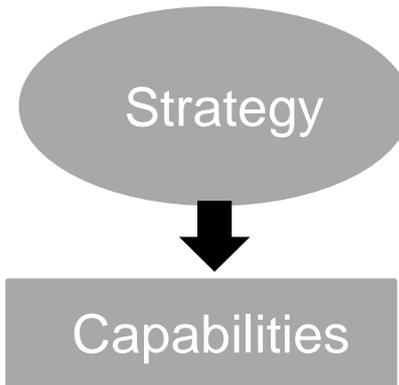
# Definition of Organization Design



“Organization design is the deliberate process of configuring structures, processes, reward systems, and people practices to create an effective organization capable of achieving the business strategy.”

– (Kates and Galbraith, 2007, p.1)

# The Star Model



- What are the organization's vision, mission, and goals?

- What skills, processes, and abilities differentiate us from our competitors?

- What skills are needed?
- How do we develop talent?
- How do we manage performance?
- How is behavior shaped by the goals?
- How do we assess progress?
- How do we assess results?

- How are we organized?
- What are the key roles and jobs?
- How is the work managed?
- Who has power and authority?
- How are decisions made?
- How does work flow between roles?
- What are the mechanisms for collaboration?

# Factors to Consider in Understanding Spans

(There are detailed comments on slide 24)



- ❑ Lead, manage, or supervise
- ❑ Required awareness of direct reports' work
- ❑ Complexity and diversity of work
- ❑ Variability of work and situations
- ❑ Need for integration of direct reports' work
- ❑ Skill and competency levels
- ❑ Overall size of the organization
- ❑ Availability of systems, technology, processes, rules
- ❑ Geographic dispersion and need for face-to-face meetings
- ❑ Required interaction of manager with higher levels in the organization, peers, and/or customers in addition to direct reports.

**Note:** It's important to know that not all of these factors will point us in the same direction. Some will point to narrower spans and some to broader ones. Balancing all of the factors will lead us to determining the most appropriate span in different cases.

# Conflicting Pressures On Spans Of Control



- Pressures to both increase and decrease spans of control
  - Pressures to increase spans include:
    - ⬆ Eliminate management layers
    - ⬆ Increase organization speed
    - ⬆ Reduce cost of management
  - Pressures to decrease spans include:
    - ⬇ More complex direct report positions
    - ⬇ Integration of more diverse direct report work
    - ⬇ “Working” managers
- Pressures to understand, track, plan, and manage spans

# Reasons Given For Narrow Spans



- ❑ “Working” Managers
- ❑ Need to protect manager positions so we have them when we grow
- ❑ Developmental positions
- ❑ Two-person work groups

# When Spans Are Too Broad



- ❑ Manager can only be marginally aware of what individual direct reports are doing
- ❑ Manager cannot exercise appropriate review and control of direct reports' work
- ❑ Manager must spend so much time actively supervising that there is little time for planning, creativity, and innovation
- ❑ Limited promotional opportunities (from very flat organization and large gaps between manager and direct report grade levels) decrease employee engagement and incentive for growth
- ❑ Limited opportunity for employees to receive feedback, mentoring, and development
- ❑ Delayed or inappropriate decisions because employees have difficulty in getting manager's attention
- ❑ Challenges with succession and development
- ❑ Manager may not have enough time to communicate or respond to employees
- ❑ These issues may in turn lead to high turnover and pressures on recruiting and development.

# When Spans Are Too Narrow



- ❑ Over-supervision (micro-management) – the manager and the direct reports spend too much time interacting on details
- ❑ Lengthens vertical communication path and introduces opportunities for messages to get distorted
- ❑ Multiple levels of review and approval delay decision-making and action
- ❑ Decreases employee initiative, creativity, and engagement
- ❑ Increases employee dependence on manager
- ❑ Increases costs
- ❑ Creates role confusion – what belongs in manager position, what belongs in subordinate position?
- ❑ Limits development of manager's managerial skills

# Value of Optimal Spans



- ❑ Manager has enough time to provide guidance, direction, and feedback to employees, but not enough time to micro-manage.
- ❑ Direct reports are encouraged to work as independently as they can, but have access to the manager when they need it.
- ❑ The value-added of the manager is clear to both the direct reports and the manager.
- ❑ Efficiency – avoid excess layers
- ❑ Push work to appropriate levels
- ❑ Good mix of micro/macro management
- ❑ Better balance of HR costs – individual contributors vs. mgrs.
- ❑ Optimal spans yield optimal costs
- ❑ Better communication – less opportunity for distortion (vs too many layers); more opportunity for communication (vs broader spans)
- ❑ Facilitates skill development for both manager and subordinates – More delegation and development
- ❑ Enable achievement of strategy, capabilities (spans vary by strategy and environment)
- ❑ Get best employee engagement
- ❑ Optimal opportunities for mgr-ee interaction
- ❑ Avoid duplication of effort that occurs if have too many mgrs.
- ❑ Provide enough positions to aspire to but not narrow blocked paths

# Optimal Spans



- ❑ Discussion: How many direct reports should a typical manager have?

A typical executive?

A typical supervisor?

# Optimal Spans Vary By Level And Type Of Work



**Executives**  
*Lead*

**8 - 12**

**Managers**  
*Manage*

**4 - 8**  
**6 - 12**

**Supervisors**  
*Supervise*

**10 - 30**  
**50 - 100**

# Examples of Optimal Spans



- ❑ Executives (1:8 to 12)
  - Limited need to be aware in detail of direct reports' work
  - High skill/competency levels of direct reports
  
- ❑ Managers (1:4 to 8)
  - Complex work
  - Diverse work
  - Need to integrate direct reports' work
  
- ❑ Managers (1:6 to 12)
  - May be complex
  - Usually less diverse
  - Less need to integrate direct reports' work

# Examples of Optimal Spans



- ❑ Supervisors – Call Centers
  - Simple call center (1:25)
  - Complex call center (1:10)
  - May be more if use “smart screen” systems
  
- ❑ Supervisors – Production
  - Low complexity/variability, with interaction among direct reports (1:25)
  - Low complexity/variability, limited interaction among direct reports (1:50)
  - May be more if automated (up to 1:100)

# The Business Case For Managing Spans of Control



- ❑ Optimal spans don't just happen:
  - Overly broad spans often come with fast growth
  - Overly narrow spans often occur in steady state and slow growth
  - Overly narrow spans often occur with reductions in workforce
- ❑ Active management of spans is required to get them right.

# Questions and Discussion



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# Factors to Consider in Understanding Spans

## Detailed Comments related to slide 12



- ❑ **Lead, manage, or supervise** – in general, you can lead or supervise more people than you can manage. Lead more because they can be more independent and you can delegate more decisions; Supervise more because the work is less complex and usually is guided by processes or systems.
- ❑ **Required Awareness of direct reports' work** – the more you need to be aware, the fewer direct reports you can manage. The less you need to be aware in detail (the more you can delegate decisions), the more people you can manage.
- ❑ **Complexity and diversity of subordinates' work:** Routine work = broader spans; complex work = narrower spans; Common/similar work = broader spans; diverse work = narrower spans
- ❑ **Variability of work and situations** – more predictable work (fewer variations and exceptions) allows broader spans
- ❑ **Need for integration of direct reports' work** – integrating the work among direct reports or with other organizations reduces the span that can be managed.
- ❑ **Skill and competency levels** – broader spans require more skills and experience from both supervisors/managers and direct reports.
- ❑ **Overall size of the organization** – smaller organizations may have narrower spans if they are functionally diverse, need leaders for the various functions, and still have relatively few positions.
- ❑ **Availability of systems, technology, processes, rules** – These can enable broader spans
- ❑ **Geographic dispersion and need for face-to-face meetings** – the more dispersed the workforce and the more you need face-to-face meetings, the narrower the span
- ❑ **Required interaction of manager with higher levels in the organization, peers, and/or customers in addition to direct reports** – the more time the manager is required to spend interacting outside their organization, the fewer direct reports they can effectively manage.