



Reducing Organisational Complexity as a Basis for Future Growth



The effectiveness of organisations has rarely been on the agenda of the top management level in recent years. However, the optimisation of organisational structures will now become a key topic in preparing for future growth.

Short integration cycles and half-hearted consolidations during the previous growth phase have caused a steep increase in the complexity of organisations. At the same time, external market and competitive conditions are changing ever more quickly, demanding flexible response times.

Many companies are therefore facing strategic challenges. At present, the goal must be to simplify and harmonise organisational structures to be able to better respond to future internal and external changes. At the same time an organisational platform must be created, which would allow scalability for future growth.

Features and consequences of complex organisational structures

Organisations with complex, ineffective structures are typically characterised by various features which occur together or separately depending on the situation. These are:

- Inadequate span of control and an unnecessarily high number of management levels
- Complex organisational structures lacking transparency and having several structural exceptions and redundancies at the content level
- Unclear, non-harmonised and non-specified roles and responsibilities

The negative consequences for companies are longer decision paths, delayed responsiveness and adaptability, insufficiently scalable structures, unclear responsibilities, as well as excessive management costs.

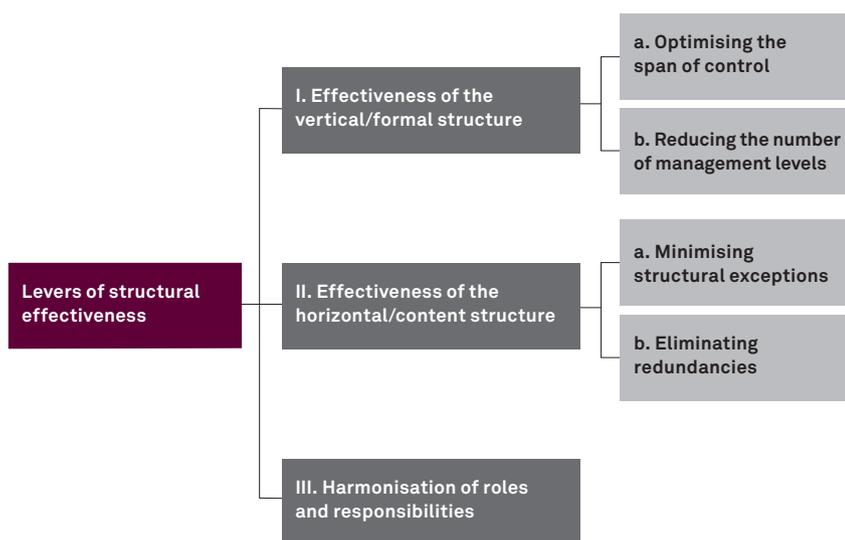
Approaches towards reducing organisational complexity

Companies can address three points to increase the effectiveness of their organisation. The first approach is to increase the effectiveness of the formal structure, which involves optimising the span of control and reducing the number of management levels. The next approach is to increase the effectiveness of the structure at the content level, i.e. minimising structural exceptions and eliminating redundancies. Finally, companies should harmonise and specify the roles and responsibilities.

I. Effectiveness of the vertical/formal structure

a. Optimising the span of control
The span of control refers to the number of employees reporting directly to a manager. Many organisations have a broad spectrum of spans of control. Having very small spans of control (approx. < 5) is a

Illustration 1: Overview of levers reducing organisational complexity



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challenge for organisations, because this entails high management costs and results in an organisation having small units with high coordination efforts. However, large spans (approx. > 20) are also problematic, as there is no practical way of managing the unit.

Based on our experience with organisations and depending on the complexity of the respective management situation, we consider a span of control of 6 to 15 members to be adequate. The complexity of a management situation is driven by the breadth and versatility of the portfolio of tasks or by the geographical distribution of the unit staff, for example. Therefore, the span of control at the higher organisational levels should typically be lesser than the span at the lower levels. Furthermore, units with highly standardised tasks should have higher spans than other units.

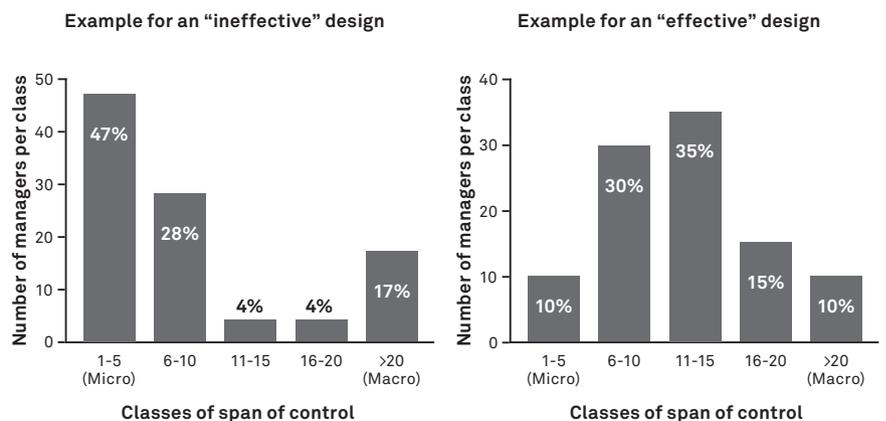
b. Reducing the number of management levels

Having an unreasonable number of management levels also negatively impacts the effectiveness of organisations in many ways. It entails long decision-making and communication paths as well as a multitude of managers. This results in long-drawn decisions, delayed responsiveness as well as unnecessarily high management costs. Furthermore, the perceived distance between the employees and the board and management team also increases with the number of management levels.

The number of levels primarily depends on the overall number of employees. Therefore, a statement about the adequate number of levels within a specific organisation can be derived indirectly by considering the total number of employees managed at each level. In case of organisations with an adequate structure of levels, the number of employees managed at each level increases disproportionately with every descending level.

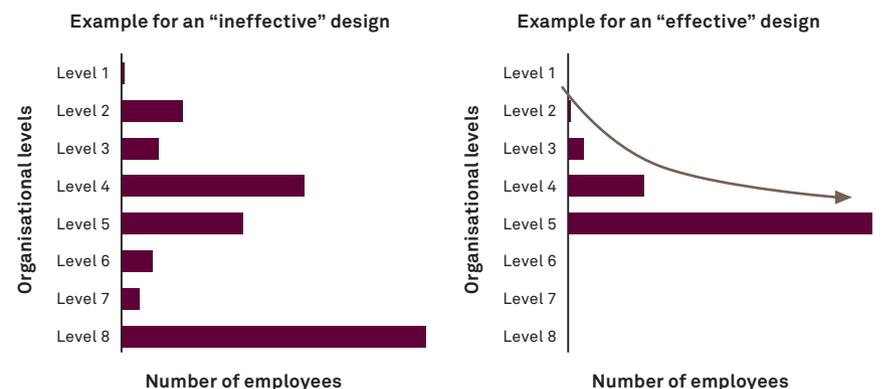
If this does not seem to be the case, there is potential for “de-layering”. In the course of our projects we have observed that, on an average, manufacturing companies have a higher span of control and a greater number of levels than service providers of a comparable size.

Illustration 2: Examples for an ineffective vs. an effective design of the span of control in an organisation



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Illustration 3: Examples for ineffective vs. effective structures of management levels in an organisation



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II. Effectiveness of the horizontal/content structure

a. Minimising structural exceptions

Growing complexity in the business of an organisation, such as entry in a new market or expansion of the service portfolio, is often accompanied by an increasing complexity in the organisational structure. This happens when the organisation accommodates the relevant specifics of the new business by means of structural exceptions. This results in less structural scalability for future growth as well as high demands on the management of the organisation.

The purpose of increasing the effectiveness is not to decrease the complexity of the business, but to reduce the consideration necessary minimum business specifics in the organisational mapping. Depending on the situation, it is necessary to consider whether the higher complexity costs for the structure can be justified by higher profit margins, or whether it would be more beneficial to harmonise the structures and realise the advantages of integrating the business specifics into the overall structure.

“For instance, an organisation sold its ‘low budget’ product line through a separate, product specific sales team instead of the regular sales team. This was to prevent the regular sales team from offering the ‘low budget’ product line too quickly to the client during negotiations, thus cannibalising the original product line. However, the same result could be achieved by providing a suitable incentive to the regular sales team, thereby reducing organisational complexity and management costs.”

b. Eliminating redundancies

The need for short integration cycles in organisations has often caused half-hearted structural consolidations.

Hence, many organisations maintain units with overlapping tasks, resulting in unclear responsibilities and unnecessary costs. To increase effectiveness, it is therefore necessary to consistently reduce redundancies and leverage economies of scale resulting from organic and inorganic growth.

III. Harmonisation of roles and responsibilities

Many organisations have different structures and types of roles for units with the same tasks and responsibilities. In addition, roles with similar job profiles are designed differently. Such variety in related areas drives complexity and results in unclear responsibilities at the operational level, a delayed responsiveness as well as hurdles in case of any structural alignments.

Reducing complexity in the design of organisational roles and their responsibilities therefore requires an extensive harmonisation and specification. For one, the types of roles of units with similar tasks have to be aligned across the organisation. Furthermore, the design of the individual roles should be harmonised and specified with regard to KPIs, responsibilities and decision-making competencies.

“For example, an organisation with two similar purchasing departments had different role structures. One of the purchasing units had structured its roles by purchase groups. Each role managed the entire purchasing process from negotiations to order handling. The other purchasing unit differentiated the roles by analytical purchasing, i.e. negotiations and contracting, and operational purchasing, i.e. order handling. Harmonising the role structure facilitated a more flexible exchange of resources and a consistent governance of the purchasing staff.”

Conclusion

Changing framework conditions and the preparation for future growth increase the necessity for consistently reducing the complexity of organisations. Depending on the specific situation, the companies can focus on structural optimisation levers such as management levels and span of control, content-driven solutions as well as the harmonisation of roles and responsibilities. The positive effects of these measures are:

- Improved ability to respond to internal and external changes
- Increased adaptability and scalability for future growth
- Better manageability of the organisation
- Reduced management and overhead costs

Depending upon the specific circumstances, there may be potentials for a higher effectiveness of up to 20 percent, which, once realised, can be leveraged for new added value tasks.

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With our proven approach comprising a combination of formal/quantitative and content/qualitative analyses as well as established tools, we can quickly establish transparency about the complexity drivers in your organisation and identify first potentials for optimisation within 3-4 weeks. Based on our experiences, we then collaborate with you in developing structural alternatives, and establish the framework for an objective assessment and selection of the best possible alternative.

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