Optimizing Organizational Performance

Scientific Platform

Optimizing organizational performance

In business management, organizations that perform the best from a financial viewpoint are generally perceived as also being the best managed. However, the financial results merely reflect historical performance, and not necessarily the current effectiveness of management, nor do they guarantee future performance. Naturally, there are both internal and external factors that impacts the success of any organization such as e.g. current position and legacy, ownership, capital restraints and market dynamics, and numerous models that try to capture these factors exist. When creating a model to accurately explain and predict organizations performance however, one must also incorporate how effectively the organization is managed.

Consequences of ineffective management

Managerial ineffectiveness and dysfunctional organizations cause many symptoms: Short-sightedness and uncertainty of strategic direction. Managers pulling in different directions and working in silos. Decisions are overruled or not executed. Slow implementation and firefighting. Quality and delivery issues. Internal politics instead of getting the work done. The right people and accomplishments are not rewarded.

Internally motivation, trust and performance are negatively impacted, and externally customer, users and other stakeholder relations are affected. Untreated, the organizational deficiencies inhibit performance, with consequences for financial results as well as other measures of output.
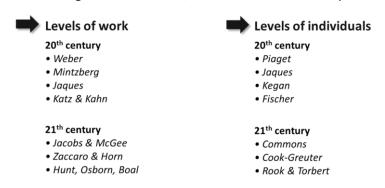
Creating transparency and optimizing performance

Organizations today face increasing demands for transparency in financials, corporate governance compliance and CSR contribution. From a quality and productivity perspective, methods for analysing and optimizing *horizontal* processes through continuous improvement have been frequently used with well-documented concepts such Six Sigma and Lean. These are proven methods that, given correct implementation, will make it possible to improve and evaluate efficiency.

What has been missing are methods for optimizing and evaluating managerial effectiveness, including the *vertical* processes between organizational levels that exist in all sizeable organizations. The absence of a norm for what constitutes managerial effectiveness leaves boards and organizations with inadequate understanding of how effectively the company or institution is managed and with methods geared towards treating symptoms instead of identifying and curing causes.

Research on organizations and their parts

When trying to understand individuals and how they organize, researchers have through the years studied how organizational parts function and interrelate. Since the work that needs to be performed and the individuals that are assigned to perform the tasks inherent in the work are fundamental parts, there is a significant amount of research related to both the nature work and the nature of individuals in an organizational context. A number of researchers (see *Literature* below) have highlighted the importance of the fact that the required leadership and character of work differs significantly between different organizational levels, with some notable examples below:

Levels of work

20th century
- *Weber*
- *Mintzberg*
- *Jaques*
- *Katz & Kahn*

21th century
- *Jacobs & McGee*
- *Zaccaro & Horn*
- *Hunt, Osborn, Boal*

Levels of individuals

20th century
- *Piaget*
- *Jaques*
- *Kegan*
- *Fischer*

21th century
- *Commons*
- *Cook-Greuter*
- *Rook & Torbert*

Leadership training programs are commonly designed accordingly, with different programs for different organizational levels, especially articulated in the Army and in the Police (e.g. Direct leadership, Indirect leadership, and Strategic leadership).

One of the researchers who has contributed the most to theoretical and methodological development in this area is the Canadian professor Elliott Jaques, well known for e.g. coining the terms "Corporate Culture" and "Mid-life crisis" and for publications such as General Theory of Bureaucracy (1976), In Praise of Hierarchy (Harvard Business Review 1990), Requisite Organization (1996), Life and Behavior of Living Organisms (2003) and The Social Power of the CEO (2003).

The US Army and the US Army Research Institute (ARI), known as a leading authority on leadership and organization, collaborated with Jaques in a series of research programs that significantly impacted how the US Army approaches organization and leadership development[1,2]. Jaques was honored by general Colin Powell on behalf of the joint chiefs of staff of the US Armed Forces for his *"(…) outstanding contribution in the field of military leadership theory and instruction to all the service departments of the United States and their succeeding generations of officers and men".*

He is also listed among the 55 most influential management thinkers of all time in the Economist's *Guide to Management Ideas and Gurus (2012).*

Jaques uncovered the existence of natural and measurable levels of roles and individuals and how they interrelate (see graphic below). A key finding was that the complexity of a role was directly proportional to the time it would take to complete the longest-term task of the role, or the *time span of discretion*. The method to measure this phenomena is called Time Span Measurement (TSM). Through the use of TSM it has also been found that the type of complexity involved in different roles are of the same kind within certain time-span intervals. It has been shown that when the time-span of a role extends through time the complexity of work is of the same character until it reaches a certain

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[1] *Markessini et. al (1993), "Executive Leadership: Requisite Skills and Developmental Processes for the U.S. Army's Civilian Executives", US Army Research Institute for the Behavioral and Social Sciences, Research Note*

[2] *Jacobs & Jaques (1990), "Military Executive Leadership", Measures of leadership, Leadership Library of America Inc., NJ*

boundary, where the complexity changes into a different kind[3]. The discovery of the organizational levels and the methods to measure them led to the development of *Stratified Systems Theory* (SST).

The intervals depicted below are called Strata or Work Levels. These distinct and measurable levels were identified in organizations all over the world.

The hypothesis was thus put forward, that the reason for the existence of these levels was that people are able to handle and are motivated by different levels of tasks, leading them to naturally organize in hierarchies with very different task complexity delegated at different levels in the organization. An overview of the levels of work or *Strata* and the levels found in organizations across the world are provided in the graphic below.

Measurable Levels of Time-Span

	Time Span		Levels of Work	Role Examples
Long-term Strategic Development	50+ years	VIII	**Repositioning of** industries	Super Corp. CEO
	20 – 50 years	VII	**Repositioning of** industry	Large Corp. CEO
	10 – 20 years	VI	**Repositioning of** group of businesses	Division Head/CEO
	5 – 10 years	V	**Repositioning of** business unit	BU President/CEO
Operations	2 – 5 years	IV	**Integration and Optimization** of several parallel units	General Manager
	1 – 2 years	III	**Optimization** of a unit	Unit Manager
	3 mths – 1 year	II	**Analyze, adapt, control, supervise**	1st line Manager
	1 day – 3 mths	I	**Produce, Operate, Service**	Operator

Stratified Systems Theory developed by Elliott Jaques et. al.

The causes of managerial ineffectiveness can be determined

The root causes for many symptoms of managerial ineffectiveness can be identified by using analysis based on SST, including:

- Lack of the required long-term thinking and clarity in future desired position
- Lack of alignment in task delegations throughout the organization
- Too many or too few reporting layers in the organization, and roles organized on a too low or too high level
- Follow-up systems that are not aligned with what the organization is trying to accomplish

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[3] *Jaques, E. & C. Cason (1994) "Human Capability". Gloucester, Cason Hall*

Untreated, the dysfunctional organizational conditions will send repercussions throughout the organizational system, slowing down decision making and implementation and inhibiting performance and innovation.

Applying SST to treat the causes of organizational ineffectiveness

Applying SST to create transparency in management foresightedness and effectiveness allows for identification and treatment of root causes rather than symptoms. Tools available through SST also provides predictability regarding which specific organizational solutions, both in terms of task delegations and structure, that will better capture the organization's full potential.

Starting with the most strategic and long-term task for the head of the organization, clear and coordinated task delegations can be ensured throughout the company, with the required number of layers and roles assigned to the appropriate level, and an aligned follow-up system in place.

Extensive research, using measurable indicators available through SST, has led to a knowledge leap in the understanding of how to improve effectiveness and performance in organizations. One of the key insights from the research is that poor performance is usually the result of a dysfunctional managerial system, rather than issues arising from personality characteristics or group dynamics.

The aggregated findings have enabled the development of a holistic systems approach in how to best manage organizations (see e.g. "Requisite Organization — A trust-inducing system")[4]. The findings address important factors for both the vertical and horizontal optimization of an organization such as:

- the required composition and the longest-term time perspective of task delegations;
- the necessary conditions for a follow-up system that aligns an organization;
- management authority and accountability of subordinates;
- required definition of cross-functional relationships

Applications of SST

There are more than 2400 studies related to SST and 90+ PhDs (Harvard, UCLA, Yale, Berkeley, Cambridge, Oxford, Toronto, Melbourne etc.)[5]. Most of the research and implementations has been performed in the private sector, and many well-known companies have utilised the theory and the knowledge of work levels in both highly dynamic and more mature organizational settings, ranging from entrepreneurial businesses to leading global corporations.

A number of large-scale implementations of SST principles has also been performed in public institutions. Worth special mentioning is recent implementations of SST principles in a restructuring of the Headquarters Department of the U.S. Army (i.e. "Pentagon") 2001-2003 and in the U.S. Army non-war fighting structure (total workforce ca 1.5 million) in combination with Lean Six Sigma methods during one of the largest known applications of systematic organizational redesign and Lean Six Sigma process reengineering[6] 2003-2008.

An organization and leadership development project commissioned by the US Department of Justice using the SST framework has also been performed in the US Police (participating states e.g. Texas, Illinois, California, New York, North Carolina, Tennessee, Las Vegas, New Jersey, Nevada)[7], where

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[4] *Jacques, Elliott, (2006), "Requisite Organization" Revised 2nd Ed Memorial, Cason Hall & Co Publisher Ltd*

[5] *Craddock, Kenneth (2009) "Requisite Organisation Annotated Bibliography" 5th Ed, Columbia University*

[6] *Clement, Steve (2009) "U.S. Army use of Requisite Organization since 1978"*

[7] *Watson E and Jaques E. (1999) "Leadership Through Organizational Transformation" Washington, D.C.: United States Department of Justice.*

several ground-breaking findings regarding how to more effectively organize police work was identified[8].

SST has also been successfully applied to non-profit organizations such as International Federation of Red Cross[9].

Detailed descriptions of some of the more recent implementations in various types of organizations are described in the following publications:

- Organization Design, Levels of Work & Human Capability (Gray, Hunt, McArthur 2007)
- It's All About Work: Organizing Your Company To Get Work Done (Clement 2013)
- Optimizing Organization Design (Capelle 2014)

Two institutes involved with further developing Stratified Systems Theory and its applications are located in North America, Requisite Organization International Institute (ROII) in the US and Global Organization Design Society (GO) in Canada.

Literature

Examples of research that has highlighted the fact that the required leadership and character of work differs significantly between different organizational levels are listed below:

- The social psychology of organizations (Katz & Kahn 1978)
- Military executive leadership (Jacobs & Jaques 1990)
- Time: The Hidden Dimension in Strategic Planning (Das 1991)
- Competitive advantage: Conceptual imperatives for executives (Jacobs & McGee 2001)
- Leadership theory and practice: Fostering an effective symbiosis (Zaccaro & Horn 2003)
- The architecture of managerial leadership (Hunt, Osborn, Boal 2009)
- Strategic fit: Key to growing enterprise value through organizational capital (Miles & Van Clief 2016)

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[8] *Watson, Elizabeth (2005), "The Requisite Path to Community Policing", International Journal of Applied Psychoanalytic Studies*

[9] *Gray, Hunt, McArthur (2007). "Organization Design, Levels of Work & Human Capability"*