



## The Berkshire Advisors Approach To...

# EVALUATING ORGANIZATIONAL STRUCTURE

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### Evaluating Organizational Structure Is More Art Than Science

Evaluating organizational structure is more art than science. Computer models that systematically evaluate spans of control and the number of supervisory levels in an organization tend to be of limited usefulness in determining what type of organizational structure is needed because the appropriate organizational arrangements can vary significantly depending on the functions performed in a unit and the skills, experience, and competencies of the people performing those functions. The key question to be asked when evaluating organizational arrangement is not how many people are in management and supervisory positions but what *value* does each management and supervisory position create. Management and supervisory positions that do not create value commensurate to their costs should be eliminated or restructured. By contrast, management and supervisory positions that create significant value for an organization should be retained even if a computer model would suggest that the positions are not needed.

### Using Analytical Tools To Diagnose Organizational Problems

Some aspects of organizational analysis are quite straightforward. For example, activity analysis can be performed to understand how much time middle managers actually spend on management and supervisory activities. In addition, decision/responsibility matrices can be developed to understand who is responsible for making decisions and what positions have overlapping or redundant responsibilities. Likewise,

conceptual maps that indicate what functions and services are provided by various organizational units are useful in identifying duplicate services provided by more than one organizational unit and areas where functional or service gaps exist.

### Creating Recommendations Tailored To An Organization's Unique Needs

While analytical tools are useful in diagnosing organizational problems, they are less useful in developing organizational solutions to those problems – that is where the “art” of organizational design comes into play. To be effective, organizational recommendations must be tailored to the unique needs of the organization being evaluated.

### Guiding Organizational Principles

Regardless of the unique needs of the organization being evaluated, sound organizational principles should guide the development of organizational structure. The following organizational principles provide the framework that guides Berkshire Advisors' approach to organizational design:

- First and foremost, organizational structure should be designed to facilitate efforts to accomplish the organization's stated purpose and objectives
- Organizational structure should facilitate decision-making, planning, and performance monitoring
- Organization structure should focus management attention on priorities

- Because organizational structure sends a message about what is important to a organization it is often useful to establish an organizational locus for key initiatives
- With regard to spans of control, the complexity of the functions being performed is the primary determinant of the number of positions that can be effectively supervised
- As a general rule, responsibility for performing an activity should be assigned at the lowest point in an organization for which there is enough work to constitute an economic unit of production
- Management systems should support and be compatible with structure; for example, if a highly decentralized structure is adopted, there should be stringent management controls and an effective early warning system to keep unit managers apprised of potential problems
- Structure and systems should not be overly complex; both should reflect the management style of key administrators
- Roles and responsibility of key administrators should be clearly defined, and accountabilities should be clearly established.

### **Systems, Procedures And Culture Must Be Considered When Designing Organizational Structure**

It should also be remembered that organizational structure cannot be evaluated simply by looking at “boxes” on an organizational chart. Systems, procedures, and culture all affect what type of organizational structure should be put in place. For example, before a decentralized administrative structure can be effectively implemented, systems and procedures must be in place to monitor performance and hold managers of decentralized units accountable for achieving desired results. Likewise, spans of control are determined in part by the effectiveness with which expectations are communicated and performance monitored. (When asked what is the appropriate span of control for mid-managers Peter Drucker once replied, “It all depends. A ratio of one to seventy is appropriate for an orchestra leader because all the people supervised *have the same score.*”) When evaluating organizational structure therefore it is extremely important to consider all the factors that affect organization and to consider what “non-organizational” changes might be implemented both to improve operations and to reduce management and supervisory needs.