



IT'S DOWN TO BUSINESS WITH

the reality of growth™

Guide #8

Evolution, not revolution . . . for a better business structure

“Fast growing companies don’t just happen. They evolve when you have the right people in the right place at the right time”

General information only

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What do you want to be?

A tree or a forest? Whatever your goals, you need the right organisational structure to deal with changing priorities and more complex market opportunities. For growing companies, success is very much tied to the law of the jungle as they constantly need to develop strategies and structures to outsmart and outrun the competition.

Creating the right structure is a balancing act between three important but conflicting objectives:

- creating, sustaining and nurturing an entrepreneurial, innovative culture
- maintaining control
- minimising bureaucracy.

These objectives take on different levels of importance as companies grow. What worked well in the past may not work in the future as priorities change – unless the business adapts.

In a smaller organisation, there may be an emphasis on employee initiative and rapid decision making, yet these could be problematic in a larger company where processes and risk management demand tighter controls.

So if you want to evolve into a successful, fast growing company, read on. This guide to survival in the corporate jungle should help keep you off the endangered species list.

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Avoid the endangered species register

Evolution – not revolution – drives successful companies. That's why restructuring tends to be such a high risk activity; it signals a new way of doing things and a different set of rules.

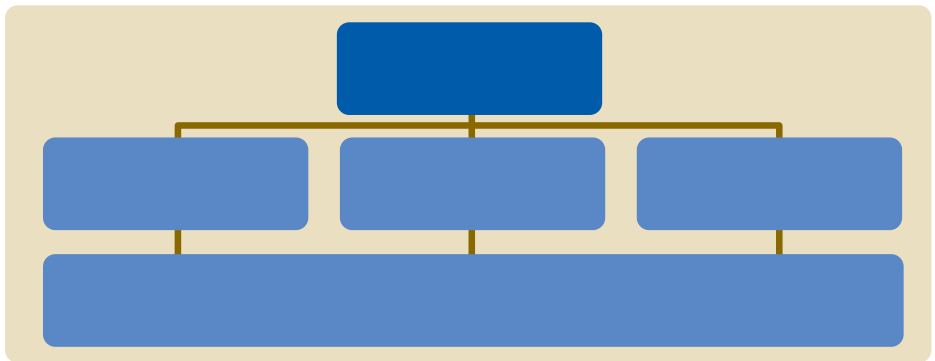
More often than not, restructuring creates winners and losers. Employees tend to be suspicious of change and rarely see it as a good thing.

Disgruntled employees are not good for business, but ongoing structural change is, so companies have to find evolutionary, rather than revolutionary ways to achieve structural improvements without frightening the horses.

An organisational structure makes employees aware of their responsibilities, affects how decisions are made and influences a company's culture. So choose the right structure that will embrace future direction, identify the key success factors and start communicating and influencing perceptions immediately.

This doesn't mean platitudes. Be honest. Tell it how it is and why – that the company is evolving and the structure is evolving with it to achieve certain goals. Employees need to understand their role in this evolutionary process or they could force you down the path of extinction.

Start-ups look like this . . .



. . . and sound like this:

Organisational characteristics:

- informal organisation and communications
- many 'jacks-of-all-trades'

Benefits:

- flat with minimal middle management
- speedy and flexible response to market/customers
- quick decision making
- high degree of freedom
- attracts entrepreneurial talent

Potential risks:

- lack of deep functional expertise
- founders distracted by administrative details
- unstructured decision making

Figure A: Structure for the start-up phase

Adapt and survive

Evolving a company from 'start-up' to 'grown up' means continual structural adjustments.

In the start-up phase (*see figure A on page 2*), it's usually a few very motivated employees who drive the business and work feverishly to bring their product or service to market. Hungry for success, they can react quickly to the market and are generally willing to adapt their products or services to secure customers.

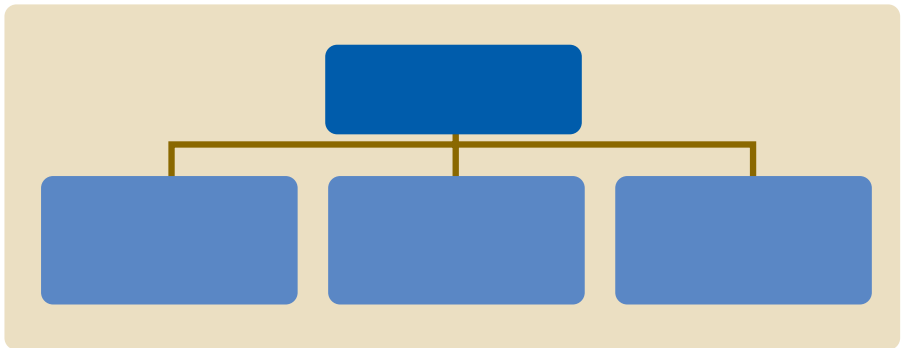
With finances limited, risks high and no long term certainty that the business will survive, they want to be well compensated.

For a start-up to succeed, it is critical that managers keep the business flexible, entrepreneurial and fast-paced. Communication channels and decision making tend to be informal as many of the employees know the business inside out and can make quick, well informed choices.

But the more successful you are at fostering a fast-paced, innovative culture in a start up, the greater the need to adapt to the next phase where deeper functional expertise will be required. Equally, the daily grind of running a bigger more complex business can distract key people from their roles and responsibilities, lead to unstructured decision making, and impact their execution.

Welcome to the world of business evolution!

Formative organisations look like this . . .



. . . and sound like this:

Organisational characteristics:

- functional departments are created
- jobs become more specialised
- business managers installed to handle managerial tasks
- communications and reporting lines become more formal

Benefits:

- enhanced productivity gained from specialisation
- better control and supervision
- increased ability to meet changing market demands

Potential risks:

- founders unable to delegate decision making
- founding employees unaccustomed to new organisation
- increased bureaucracy

Figure B: Structure for the formative phase

Establish your DNA

So you're through playing games and you know you've got a winner on your hands. Now it's time to get on with the business of building a sustainable business.

Start with the DNA building blocks. To evolve a company to its full potential you've got to map the management and operational successes that will underpin it. Determine what functional expertise you need in areas such as marketing and product development, and identify what additional expertise you're going to need in the longer term.

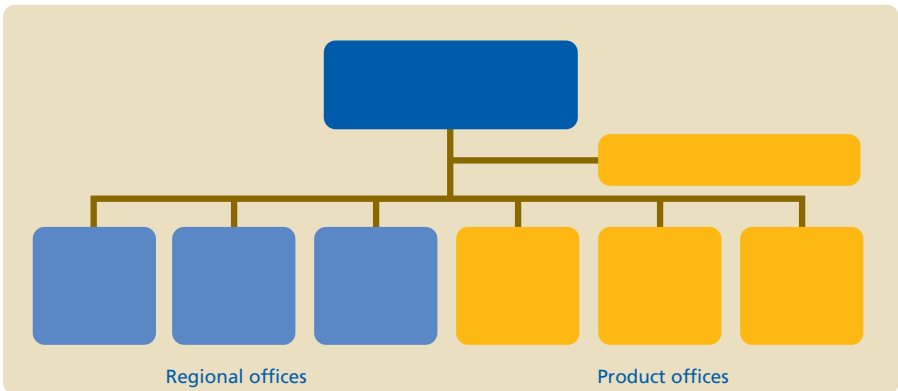
Be mindful also that as you grow, employees will become more specialised and communication and reporting lines more formal. There should be greater focus on areas where more value can be extracted either by improving existing products, creating new products or processes, or investing in long-term strategic planning.

While this evolution of the business will result in better controls, supervision and greater efficiencies, it can all be brought undone by a founder's inability to let go. Many seem to have difficulty understanding that delegating responsibilities and focusing on growing the business does not mean a loss of control.

As this formative stage (*see figure B on page 4*) takes shape, it's likely the structure of the business will start to become stretched and stressed with increased layers of management and slower decision making; none of which is good for business.

It's time to move up the structural food chain.

Stabilised organisations look like this . . .



. . . and sound like this:

Organisational characteristics:

- greater responsibility to regional offices and product groups
- management by exception and goal setting
- each group is measured by financial and non-financial objectives
- formal planning and monitoring procedures are in place
- headquarters perform certain tasks common across groups

Benefits:

- quicker response to markets
- greater autonomy, ownership, and accountability
- elimination of duplication of resources

Potential risks:

- lack of coordination among groups
- clash between headquarters and regions

Figure C: Structure for the stabilisation phase

Sharpen your survival instincts

As the business grows, individual units have to learn to survive on their own. During this phase, known as stabilisation, the business should be more or less on course with some products or services generating fairly certain profits. The challenge now is to increase market share, introduce new products to market, and increase efficiency and productivity. (*see figure C on page 6*).

While the headquarters will always be the control centre for executing strategy, establishing goals and setting budgets, functional and geographical heads need to assume greater responsibilities. In some cases, regional offices can be set up as separate subsidiaries with their own management structure so they can respond swiftly and creatively to market demands. However, other functions like purchasing and human resources should generally be centralised to avoid costly duplications.

Companies with a strong survival instinct strike the right balance between evolving some parts of the business in response to the external environment and centralised planning. There's no doubt that formal planning processes contrasted with separate profit and loss responsibilities keeps both groups on their toes.

The inevitable sparring that goes on between headquarters, regional offices and functional heads is an important part of sharpening their skills. The constant challenge will force them to think through issues from every perspective.

Now for the hard part.

Being big doesn't guarantee survival

Just ask the dinosaurs. As the business gets bigger it becomes harder to keep everyone focused and the DNA aligned. There is always the risk that as the business gets bigger, it will become less innovative and more cumbersome unless there are disciplines in place

People and divisions have to be encouraged at best, forced at worst, to work together. Commonality of approach and enthusiasm to achieve certain goals will take the business to this final phase (*see figure D on page 8*).

Divide and conquer with cross-functional teams. Educate, communicate and interrelate. Job rotation can be used to educate up and coming managers in how the company works as a whole and to build interpersonal relationships and trust across divisions.

Invent and encourage participation in 'whole of company' activities. Don't underestimate the value of every employee, each and every one of them is your ambassador to the outside world.

Technology can help facilitate this culture by linking people and processes. Real time systems are invaluable in managing processes and projects that are cross-functional. Equally, rewards and goal setting should be more team based.

So, you're almost there; your company is evolving. You're no longer a small innovative business. You're bigger, successful and highly regarded – a prime example of your species. So how do you retain your 'king of the jungle' status so as not to be devoured by a hungrier, leaner, more risk-oriented predator?



You've evolved – but how do you stay dominant?

Firstly, make everyone accountable! When clear and concise areas of accountability have been established and roles and responsibilities articulated, employees have goals to achieve and managers have useful tools to measure and reward performance. There is no need for unnecessary reorganisations.

Without it, you end up with overlapping accountability or non-quantifiable objectives. The best example of overlapping accountability is when a new product fails to meet its sales target. Who is responsible – the product development people, the marketers or the sales team? Clear lines of responsibility and accountability can resolve this dilemma.

Where objectives were traditionally non-quantifiable, metrics are now emerging. For example in product research, sophisticated research, marketing and public relations metrics are now available.

Secondly, beware management build-up – the creation of layers of decision making that can suffocate the organisation. Take a deep breath, and read on.

Lastly, resist the temptation to remain inwardly focussed on organising the organisation. Keep a keen eye trained on the marketplace, influencing external stakeholders and building market value. Both require your attention.



Remember, it's survival of the fittest

Evolving your business doesn't mean tacking on new layers of management, in fact this can be one sure way of fast tracking onto the endangered species list. Stay lean, agile, alert and responsive. When you need extra resources or specific expertise, outsource or purchase it on a short term basis.

Recognise that the larger and more high-tech you get, the greater the need for 'the human touch'. If there's change afoot, keep your people informed. Keep in mind that generally it's the best people who go first when they suspect there is something going on and they're not in the loop.

When it comes to company reorganisation, most efforts fail because the "powers that be" have not seen things from an employee perspective, while employees and managers don't understand the thinking behind the change.

Companies should acknowledge their failures. Employees need to know about falling market share, unexplored expansion, failed products, poor performance and decreased profitability. People don't come to work to be 'mothered' – they come to work to do a job.

Presenting a new organisational structure that is designed to overcome barriers to success is a strength, not a weakness. It helps employees adapt and accept a new structure that is geared towards future growth and wellbeing.

Finally, don't underestimate the need for effective communications. Restructures often fail because senior managers underestimate their impact, the way people will respond to it, and the uncertainty it will create. Successfully communicating a restructure is a step by step process to which senior management must be committed. Communicating positive results along the way, no matter how small, will boost confidence in the process.

Thanks to natural selection, fortune will favour those companies who better adapt to the harsh corporate environment. Evolution, not revolution, is the key to effective organisational design.

Will your business be predator or prey?

Try our reality check

- Do you consciously design your structure with a clear set of objectives in mind?
- Do you evaluate your structure's ability to foster entrepreneurship, reduce bureaucracy and maintain control?
- Have you identified opportunities and instigated measures and mechanisms to promote and encourage teamwork across departments?
- Have you identified the activities in the business that are traditionally hard to measure, and put in place processes that reinforce the need for accountability?
- Do you periodically review management layers and evaluate the value they add?
- Do you consciously reorganise the business to reflect its changing priorities?
- Do you systematically and effectively communicate any changes to the employees and other stakeholders?
- In past restructures, do you believe your employees understood and shared the vision behind the changes to the business?
- Do you develop a comprehensive, step-by-step plan to educate employees if there is to be a reorganisation?
- Does this plan include a thorough review after the reorganisation has taken place?

10 out of 10?

You're on your way to evolving into a great company.

Anything less – you may be an endangered species.

About this series

It's down to business with . . . the reality of growth™ series

Brought to you by Deloitte Growth Solutions*, this series of 10 guides tell the real story about how to tackle the often complex challenges that can trip up a growing company in the fast paced race to be successful in today's market. It's a no-holds-barred, gutsy, irreverent, often amusing but always informative, guides to robust, sustainable growth. The complete series of Guides are now available on the following topics: (1) strategy, (2) alliances, (3) risk, (4) capital raising, (5) marketing and sales, (6) outsourcing, (7) technology, (8) organisational design, (9) recruitment and (10) leadership. To request copies, please contact:

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