Do more with less: How to balance cost reduction with business growth

Using organizational design to outperform during an economic downturn

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Reducing cost without undermining future profitability

The unprecedented rate of cultural and technological change[1] in modern markets is gaining acceptance with every passing day. Today's business environment seems to be constantly upended by sudden and unseen events, the latest of which is the current global economic downturn.[2]

During previous periods of economic turmoil, market changes were not as rapid or pronounced as they are today.[3] Consequently, businesses that continue to use traditional management models will not be able to keep up with changing conditions and demands. They now require a more transparent organizational structure that enables shorter planning cycles and faster design changes.

This whitepaper provides four actions you can take to begin redesigning your organization and planning your way to productivity and growth in an uncertain world. We offer techniques to address your immediate business priorities without undermining future success. These actions will help you make faster, more confident decisions in response to new challenges and threats.

Managing costs and investing for growth amid economic uncertainty

Historically, organizations have had a tendency to underestimate the urgency, scale, and range of response necessary to successfully manage an economic contraction. Many have had to resort to outsourcing to be able to respond in a timely way, but this approach has become cost-prohibitive.

In the last four economic downturns, just 14% of companies increased both sales growth and profit margin in the face of challenging circumstances.[4] Organizations must resist cost cutting at the expense of longer-term profitability if they are to emerge from this downturn in a position of strength. As the saying goes, you can't cut your way to growth.[5]

Every downturn produces winners and losers. Winners get stronger in the face of adversity. They use economic headwinds to build organizational strength and capability. The following sections will help your organization accelerate decision making to better manage costs, improve workforce planning processes, and better align work, talent, and skills with business strategy.

1. "World economy's uncharted territory", Robert J. Samuelson, Washington Post, 5 February 2023
2. Chief Economist's Outlook: January 2023, World Economic Forum, 16 January 2023
3. "Multiple crises unleash one of the lowest global economic outputs in recent decades", United Nations Conference on Trade and Development, 25 January 2023
4. Sources: Boston Consulting Group, The Agile Upside in a Downturn (2019) cited S&P Compusat, Capital IQ, BCG Henderson Institute.
5. "Don't ignore growing the top line during a downturn, experts warn", Fortune Magazine, 9 January 2023.

01 Get the data right

Importing, cleaning, and integrating data from different systems for a single source of truth.

For many organizations, capturing and synthesizing data to remove inconsistencies quickly and making it available to the right people in the right format is difficult. This is because data is often high in volume, highly variable, and highly dispersed.

Numerous processes, systems, teams, and ways of working make maintaining data integrity in large organizations a complicated task. Bringing together and aligning data from different systems across human resources, finance, and operations is a process we call *data harmonization*.

Bringing different data together in a schemaless way

The important thing is to integrate data into a single source of truth to provide a baseline for analysis and modeling. Cumbersome, error-prone spreadsheets and manual processes are not enough. Organizations need data insights in real time to support fast, accurate decision making.

Bringing together a mix of data will give you an all-round, operational view that enables you to do more with less. And if it can be done in a schemaless way, then you'll be able to import data from any system and clean it in a few weeks instead of months. You'll also want to be able to update and add to your data regularly, although this is time-consuming and risky to do in spreadsheets.

Steps to building your data foundation

Organizational data is constantly changing. In large organizations, the accumulation of processes, systems, teams, and different ways of working makes maintaining data integrity a difficult task. Orgvue allows you to quickly integrate your data and create a secure space for analysis. You can bring in data from any system, synthesize, and clean it to provide a single source of truth.

There are two steps to building your data foundation:

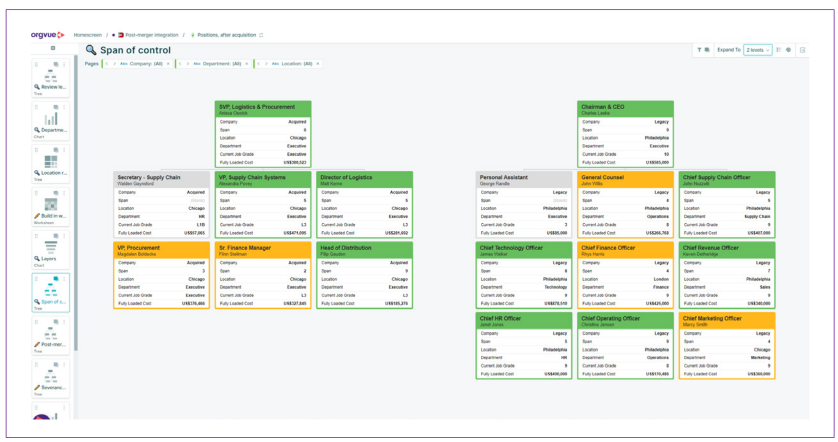
1. Clean and prepare your data

Source organizational and workforce data from systems such as payroll and human resources information systems, and import it into a single platform. Remove inconsistencies such as duplicated or varying labels and missing information as you review the imported data.

Orgvue's drag-and-drop functionality makes this quick and easy to do. You can merge data types with different labels like gender, job title, location, and diversity information, and remove inconsistencies instantly.

2. Map your data and establish like-for-like comparisons

View departments, business units or, in the case of mergers, two organizations side-by-side using pre-built data visualizations. Compare things such as job grade and compensation, and understand which teams will be impacted by the decisions you make.



Visualizing two organizations side-by-side in Orgvue.

Building a solid data foundation for organizational design doesn't have to be a big undertaking that takes months to get up and running. You can start small by identifying which datasets are most relevant to your current design requirements. Begin with what you have now and add more data as you iterate.

02 Go for quick wins

Make fast cost reductions and operational improvements without damaging your organizational structure.

Many organizations are in the thick of making cost reductions, including workforce changes, to lower their cost base. While it may seem this is just another boom-and-bust cycle, many factors make this time different.

The ground is shifting and businesses need a permanent change in thinking that will enable them to better handle the new conditions in which they now have to operate.

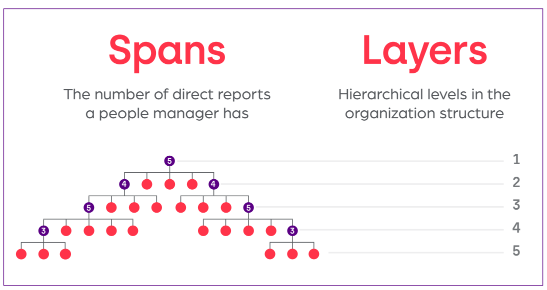
Quick wins can come from examining *organizational layering* and *manager span of control*, as well as *grade reporting distance*, *job leveling*, and *work de-duplication* using job families as a proxy for activity analysis (see Section 3).

Analyzing organizational design metrics like these will help you identify opportunities to reduce costs quickly without damaging the organizational structure. It will also narrow the focus for more detailed work later on that will improve efficiency longer term.

Steps to achieving sustainable quick wins

1. Analyze spans and layers to reduce cost and complexity

Span of control, also called management span, is the number of direct reports a people manager has. *Layers* are hierarchical levels in the organization created by reporting relationships. The total number of layers is the greatest depth the organization extends to.



Managerial spans and organizational layers are key measures of structural efficiency and effectiveness.

Spans and layers work begins by identifying excessive management layers in the organization that could slow down operations and add costs. By ensuring job levels sit within the right layer of the organization, you can avoid remuneration that the role doesn't justify. For example, when senior roles sit in a lower layer of the organization, that layer will incur disproportionate costs.

Span of control analysis will reveal where managers are overburdened, have too few direct reports, or where direct reports may be better off as individual contributors. For example, where the span of control is too wide, people managers will have a high number of direct reports, affecting their ability to add value for the team. Actively addressing inflated management layers is much better than remedial action, which is costly, painful, and disruptive.

In addition, looking at management complexity can bring greater depth of insight to your spans analysis. *Management complexity* is a measure of a manager's workload based on range of factors that can increase difficulty in achieving results.

For example, if two managers have eight direct reports, but Manager 1's reports are in three time zones and have a lower average tenure, while Manager 2's are all in the same time zone and experienced, Manager 1's role will have a higher management complexity. You can then determine if Manager 1 has adequate skills, experience, and support to make a success of the role or whether it would be better to reassign Manager 1 to a role with less complexity.

2. Analyze grade reporting distance

Grade reporting distance is a measure of structural efficiency and effectiveness. This analysis categorizes every direct report according to their job grade and their manager's grade.

There are four categories of grade reporting distance (see diagram below):

- **Compressed:** The direct report and their manager have the same grade. In these cases, there's likely to be limited opportunity for managers to add value, notably in professional development. There's also likely to be a high degree of overlap in the work being done. High attrition rates are often found among employees experiencing 'grade-on-grade reporting'.

- **Stretched:** The manager's grade is so-many levels higher than their direct report's grade. Excessive grade difference make it difficult for managers to provide meaningful day-to-day direction. Manager-report contact is typically infrequent, so that too much time is spent understanding the background to issues that need addressing.

- **On-target:** The manager's grade is within so-many levels of the direct report's grade. When all team members have on-target grade reporting distances, there's a good foundation for effective team performance. There's usually good two-way communications and an opportunity for managers to provide a balance of day-to-day operational direction and longer-term, developmental guidance.

- **Reversed:** The direct report's grade is higher than their manager's grade. These cases should be limited to a small number of exceptional, known, and unavoidable cases. Otherwise, it's likely these relationships could materially impact the organization's operational efficiency and cost-base.

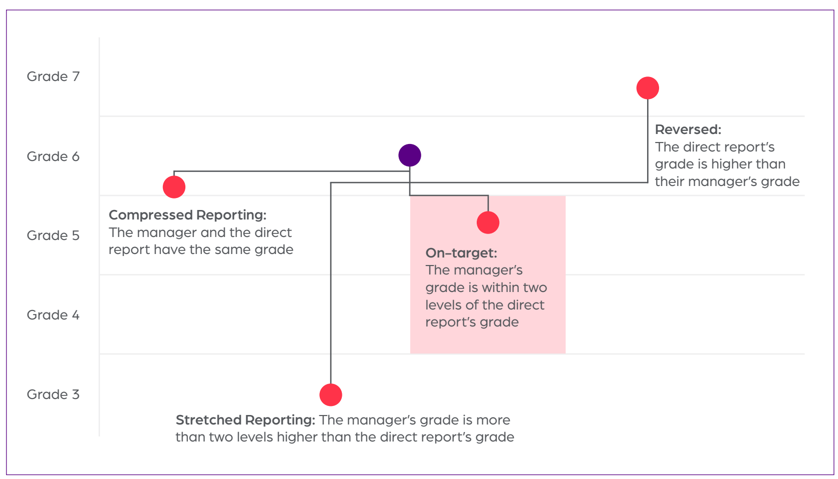


Illustration of grade reporting categories in relation to on-target reporting distance

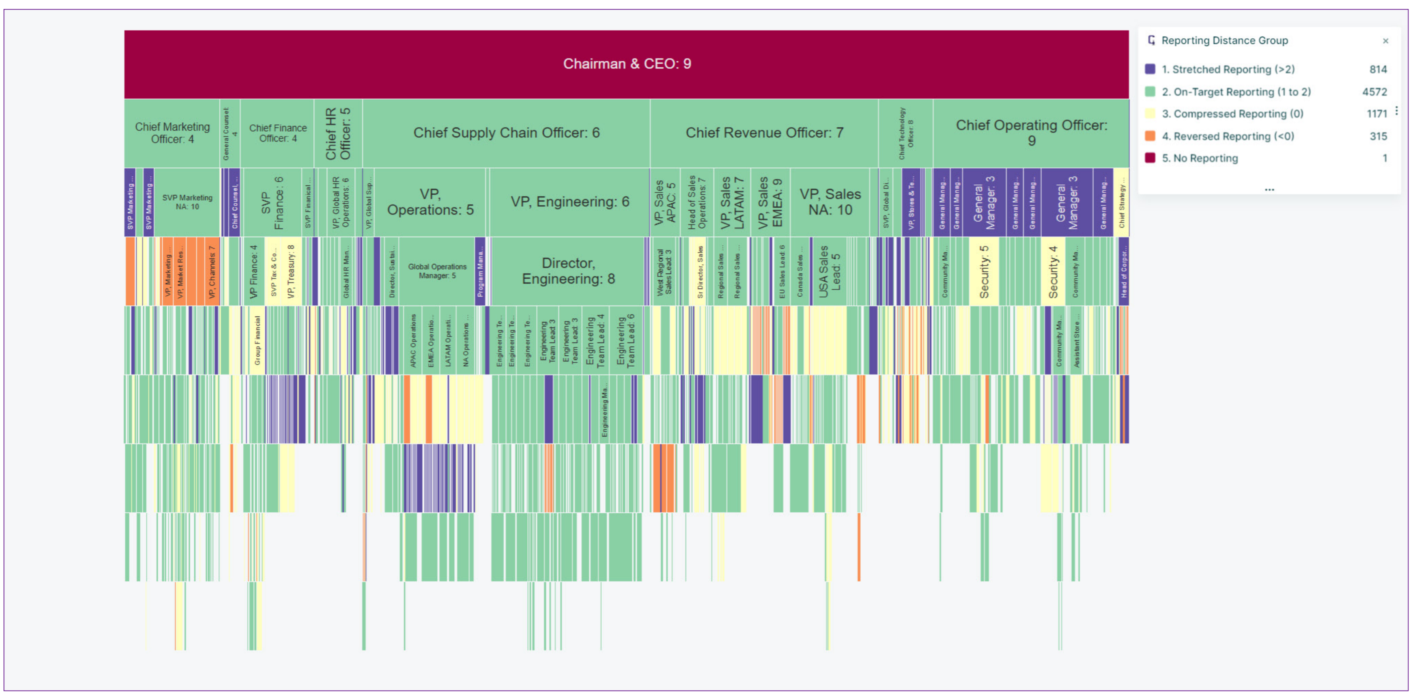
The chart below shows two grade levels between people manager and direct report, which is defined as 'on target'. It also shows how Orgvue visualizes grade reporting distances across the organization to highlight anomalies and inconsistencies.

By reviewing grade distance categories to resolve anomalies and set clear direction, you can improve operating efficiency within teams and remove the hidden costs in unproductive reporting relationships.

3. Use job families for de-duplicating work

Once you've used the above metrics to get a clear understanding of where your workforce utilization is sub-optimal, you can more easily identify those low-hanging opportunities to remove inefficiencies created by duplicate work.

A short cut to this is to use job families as a proxy for activity analysis to identify duplication of effort. For example, your organization may have local recruitment teams in several locations that may be talking to the same candidates. By centralizing this resource, you could remove duplication without affecting talent across all locations.



Visualizing on-target grade reporting distance in Orgvue.

03 Focus on the work

Make more detailed and sustainable improvements by changing focus from people and positions to the work being done.

Having concentrated on quick wins to find low-hanging cost reduction opportunities, longer-term effort should then be spent on understanding those skills and competencies that are critical to the organization's success.

This change of focus from people and positions means you'll naturally turn attention to the work being done, which reduces any emotional response to change. This distinction is important in the context of changing talent markets and the growth of automation.

You can also apply some of the techniques used in achieving quick wins to workforce demand and supply planning. For example, spans and layers analysis can go beyond headcount and job grade to reduce the risk of losing critical talent. It should be a part of organizational design and scenario modeling work on a continuous basis, which can include talent slating, succession planning, analyzing management complexity, and forecasting talent loss through attrition and retirement.

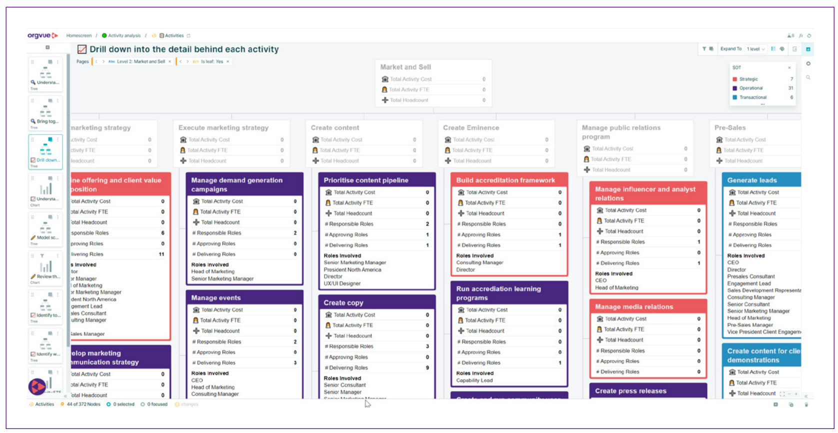
Activity and competency analyses

Having identified and addressed any duplication of work, you'll have narrowed down the focus areas for more detailed analyses. There are two methods you can now use to plan and model your future workforce.

First ask yourself two questions: 1. Are we doing the right work as an organization? and 2. Do we have the right people doing the right work? You can begin to answer both these questions using activity analysis and competency analysis.

What is activity analysis?

Activity analysis helps you understand the work being done across your organization to ensure the business is investing in the right resources. By linking people data to activity data, you can see the cost and effort of each activity and who's doing it, so you can redesign elements of your organizational structure if needed.



Orgvue displays details for all activities, including where they're performed in the business, whether they're strategic, operational or transactional, and their cost

What is competency analysis?

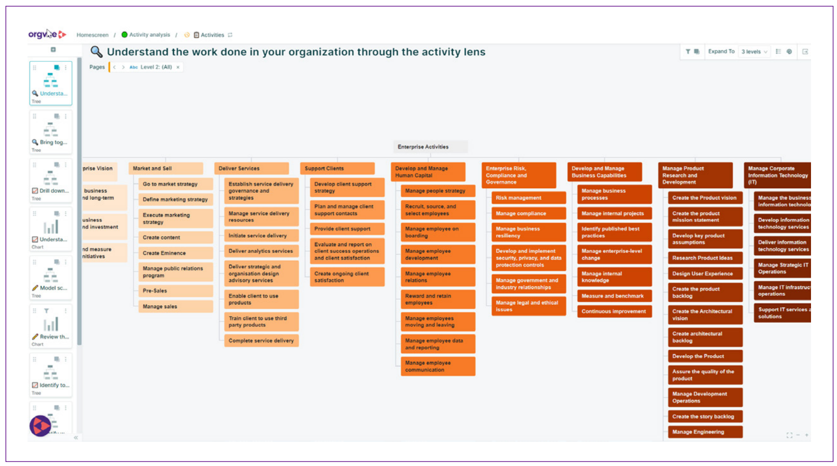
Competency analysis is understanding the skills, behaviors, and other abilities your workforce has today, so you can plan for what you'll need in the future to achieve your business strategy. Also, if you base your planning on skills rather than positions, you'll have a better match between people coming into the organization and the work they'll be responsible for.

Longer term, you'll also be able to make more informed choices about how you fill gaps between demand and supply, because you'll know what skills you already have and which you need to train, recruit, or hire.

Steps to activity analysis to reshape work

1. Understand your current state

Merge different organizational data with activity data to understand the work and activities people are doing. From there, build an *activity taxonomy* (see image opposite) that reflects your organization's service delivery model. Orgvue has an activity survey feature to help you gather information on how people spend their time and add it directly to the platform.

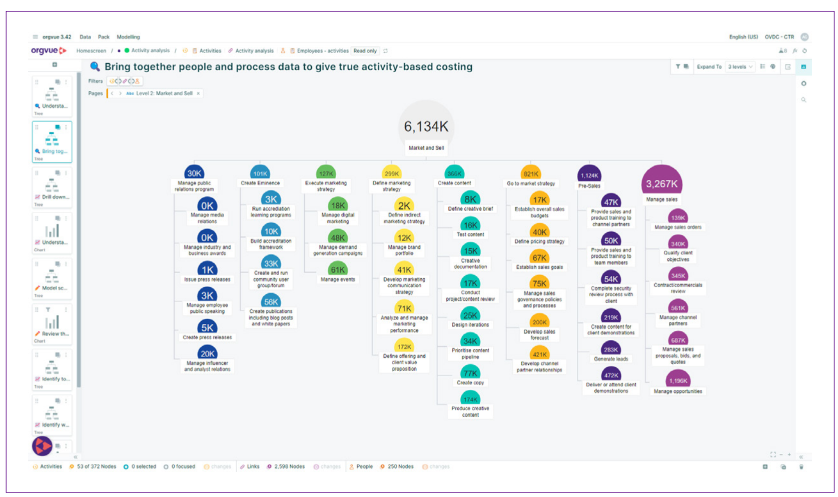


An example activity taxonomy, showing what work is being done across the organization

2. Visualize the cost of activities

Extrapolate the cost and effort of the work being done to spot areas that need your attention. Instead of looking at just people and positions, look also at activities and tasks, and analyze how effectively these are being done. Then you should be able to answer questions such as:

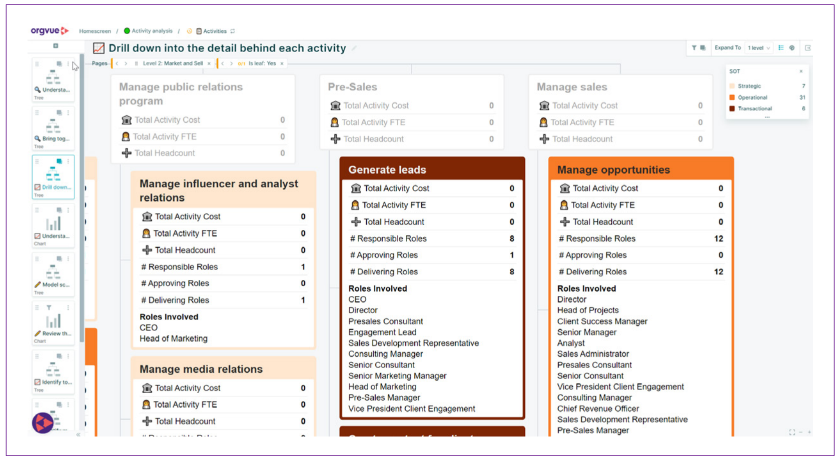
- What is the cost and full-time equivalent of each activity?
- Should we be spending more time on certain activities?
- What roles are involved in different tasks?
- Are activities fragmented and can they be consolidated?



Visualizing the cost of activities: are you over or under-investing in some areas?

3. Assess if people are doing the 'right' work for their role

Having understood who performs what work, assess whether people are doing the 'right' work for the role they're in. Look at whether people are doing what they're responsible for, comparing actuals with targets for each role, alongside how consistently work is allocated across similar roles. Use these insights to prioritize opportunities for workforce, organization, and process redesign.



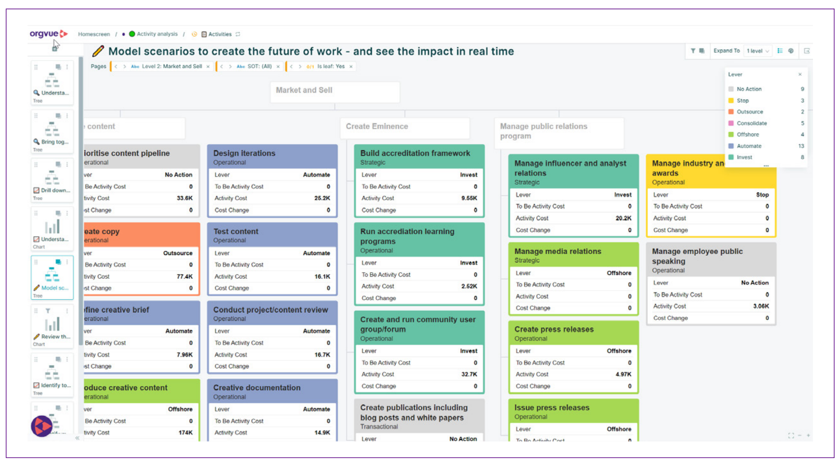
Viewing activities at a granular level: how effectively are these being done? How much do they costing and who's involved?

4. Model scenarios to see the impact on your organization

This is arguably the most important step. It's helpful to understand your organization's current state but what really matters is how it needs to evolve over time and what the implications are for your workforce.

You can model changes to your organization in a safe environment using Orgvue, reverting back to your current state whenever you need to for comparison. You can model the impact of actions such as automating, stopping, offshoring, or investing in specific work and activities.

Modeling also allows you to see the cost impact of scenarios on the work being redesigned (for example, the new cost of a process) and the impact on the people involved (who will have extra capacity after automating a particular process?) to inform your business case and action plans.



Making changes to activities using Orgvue's drag-and-drop functionality to instantly see the financial impact of those changes

04 Make it repeatable and automated

Set targets, agree design principles, then track and monitor progress over time.

To model organizational design change, you must have your data up to date, which can't be done periodically; it has to be refreshed automatically.

The first significant improvement needed for processes to be consistent and repeatable is have a way of automating data refreshes. Technology is the obvious answer to this and it's something that Orgvue excels at.

When making change processes repeatable and automated during transformation projects, we recommend starting small with proof of concept for a single department or division of the business. Once concepts have been tested, you can iterate and roll them out across the organization.

Setting targets for spans and layers

Another way you can build on the work you've done to balance cost reduction with growth is to set specific targets for spans and layers by functional area. For example, Operations may have more organizational layers than other areas, as you need to account for supply chain, field teams, and other supporting teams. Whereas for Finance, you'd expect to have fewer layers.

This is important if you want to maintain the progress you've made. Without specific targets that you can automate to track progress of the work being done by each department, you'll be back where you started very quickly.

By way of illustration, consider how helpful would it be for the Public Health Service to set a target for all men in the United States to weight 190lbs (86kg) when they vary in height and BMI. Similarly, setting a span of 6 for all organizations isn't sensible, as it doesn't reflect the differing management requirements by role and by department (see management complexity).

Agreeing design principles and monitoring alignment

For each phase of transformation work your organization wants to undertake, you'll want to establish design principles to provide guidance, making them specific to each area of the business and type of work. For example, spans may be higher for managers of highly transactional departments or business units, as opposed to managers in specialized functions.

Once your design principles are in place, with Orgvue you can set flags to automatically alert you to areas where the organization is misaligned. If a manager's span of control is set to 5 in a department where the design principle states the target is 6, for example, this will be automatically flagged for review when the data is refreshed.

Although design principles may need to be revisited, they mark the starting point for any given design project, as leaders look to continuously evaluate organizational effectiveness. If the organization's strategy changes, so will its goals and objectives, which in turn will affect design principles.

Delegating repeatable processes and opportunities for automation

Once you've set up automated flags to monitor your design targets, work with your business partner community to provide them with the information they need, such as reports relevant to their assigned teams and departments.

Similarly, once repeatable processes have been set up and delegated, you can still report centrally by rolling up data insights to a regional or global level. This is often a challenge for larger organizations, which can lose track of delegated workstreams and the total impact of distributed actions.

By turning their attention to the work, planners can also begin to determine where responsibilities within positions could be automated. Obvious candidates for automation are routine, repeatable tasks, particularly where data indicates they are prone to human error.

Steps to tracking and monitoring to deliver business value

Tracking progress against your transformation plans allows you to understand value delivery. It also means you can provide evidence to validate the investments made and show opportunities for investment elsewhere. Importantly, tracking and monitoring enables you to iterate your plans as the organization responds and adapts to change.

By collecting data and visualizing it, you can quickly and efficiently track progress against your targets and assumptions over time. This allows you to spot opportunities and course-correct initiatives in-flight, as well as monitor progress against your baseline data models, and reforecast as needed. This builds more repeatability into your planning processes and helps the organization become more responsive and adaptable over time.

Tracking and monitoring your key performance indicators on a continuous basis is crucial to achieving business objectives. There are three steps in the process:

1. Track progress against project objectives

As you work through your transformation project, track changes month-to-month against your objectives. Are you on course to achieve the outcomes you'd initially planned and, if not, what do you need to correct?

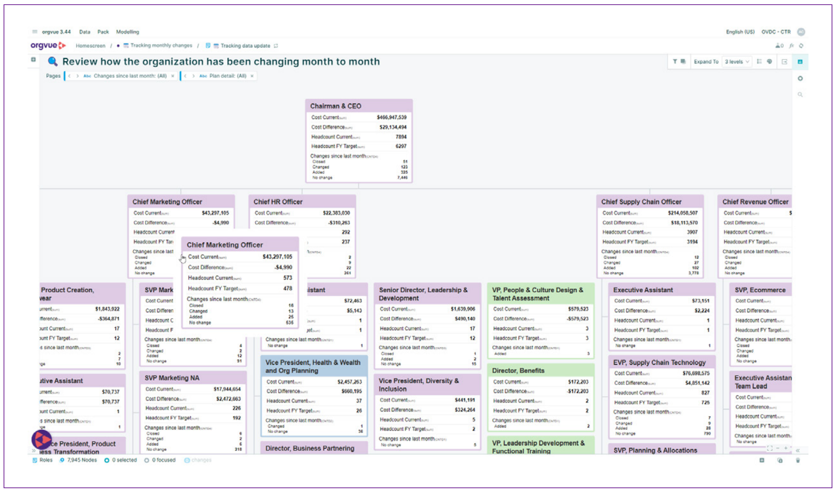
2. Track changes to headcount and cost over time

Manage risk by tracking metrics such as cost, headcount, and full-time equivalent, and overlaying them to see how they vary. Compare them with your original assumptions to see where you might deviate from your targets.

Tracking cost over a 12-month period using Orgvue, comparing the original plan with actual numbers to reveal gradual, sustainable cost savings.

3. Track movement across the workforce

Look into the detail of how many employees or positions have been added to, moved within, or exited from the workforce as a starting point for analyzing workforce supply. Assess changes across business units and departments, locations and regions.



Color coding employees that have joined, moved within, or left the organization

Be ready for the future. See tomorrow's business today.

We hope this whitepaper has given you some valuable techniques to start addressing your most pressing organization and transformation challenges.

If there's one takeaway we'd like to leave you with, it's that achieving fast cost reductions doesn't have to be at the expense of longer-term business growth and productivity.

We've looked at:

- **How to make quick wins using metrics** including organizational layering, manager span of control, work de-duplication, grade reporting distance, and job leveling.
- **Focusing on the work rather than people and positions** using activity and competency analyses to assess how well your current workforce is aligned with business objectives. Then evaluating how your workforce supply compares to your future demand, so you can build resilience into your strategic workforce planning.
- **How to build repeatability** into your design-change processes and look for opportunities to automate routine work, which will allow you to gradually shorten your planning cycles.

By applying these approaches to balance cost with growth, you can minimize organizational risk and accelerate transformation. A continuous and iterative approach to organizational design and planning, focusing on the work, skills, and competencies is foundational to your business becoming more responsive and adaptable to sudden change.

Structuring your organization to be future ready means you can spend more time looking for areas within the business that are already growing or responding to growth opportunities, and evaluate how to invest cost efficiently in those areas to improve productivity over the long term.

How Orgvue helps

Orgvue is the organizational design and planning platform that captures the power of data visualization and modeling to build more adaptable, better performing organizations. HR, finance, and business leaders use Orgvue for actionable insight and analysis that helps them make faster decisions in a constantly changing world.

Amid uncertainty, disruption, and change, Orgvue lets you confidently build the business you want tomorrow, today. Our software is used by the world's largest enterprises and management consulting firms to:

- Align the workforce with the business strategy and operating plan
- Make sure the right people with the right skills are doing the right work
- Know the true cost of the workforce today and what it will be in the future
- Balance investments with cost savings to achieve the business plan

Whatever tactics you want to use, from cost cutting, rightsizing, or skills deployment, Orgvue allows you to do it safely and visibly.

Discover how we can help you meet your organizational design goals. Visit orgvue.com/talk-to-us to get in touch.