

Q5

‘Organomics’

Shaping and sizing your organisation to thrive in the prevailing economic conditions.

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Introduction

Given the current economic conditions it is no surprise that business after business is suffering. High profile casualties and small-scale businesses alike; all have been extremely challenged by the dramatic declines in the market. The over-valuation of goods and resources that we have seen over the last few years has given way to a rapid readjustment that has subsequently caused a significant drop-off in the demand for goods and services. The speed of decline in the market has led to a certain truism; the current shape and size of most businesses will not see them through the coming months.

This is not in itself 'new' news, since the summer of 2008 company after company has announced plans for and strategies to reduce cost. Many are currently in consultation and many, one would guess, are in the planning stages. Simple discretionary spend items have been pegged back; training and development slashed, travel apart from the essential stopped, advertising spend pulled back and entertainment no more than an M&S sandwich and a glass of fizzy water.

All in all the vicious cycle of bad economic news, driving fear of job losses, leading to a real curbing of spending on non-essential items is all too evident. That is not to say that this is an irrational fear. Everyone will have felt a real reduction in the value of their housing and pension assets, and that hurts.

This has also caused a stalling in the economy and a growing issue for management to cope with.

Cutting back – but not making it stick

With businesses cutting back, the question is whether it will do any good? Of course, cost is taken off the books, albeit with some significant additional exceptional cost items in the short-term, but will it stick, will costs stay off the books in 3 to 6 months time?

Our experience I'm afraid to say is 'no' – this may seem like a strong opinion but is our overwhelming experience that when the emphasis is on short-term cost cutting at the expense of getting the organisation in the right shape, size and cost for the future, it just does not work. There are three reasons for cost cutting exercises failing to deliver a more effective business at a reduced cost:

1. **Focus only on cutting 'easy' costs;** in effect, all you do is identify the discretionary spend or activity and stop it. This is about 'low hanging fruit', or taking costs out that you do not appear to have too many consequences. Firms sometimes try to cut costs by looking at non-front line roles (i.e., HR, IT, Finance, ops roles) and simply cut them. Whilst cost decreases as a result, unless you have worked out the need not to do these activities, the work will still need to be done. Sooner or later, someone will say that they need additional resource or spend to do the activities and cost will come piling back on

2. **Not driving the cost cutting exercise from first principles;** you need to be very clear from the start just what you are trying to achieve. This means asking yourself, 'what final state does the organisation need to be in', 'what cost must come out', 'what must not be touched', 'what can change', 'what benefits do you want to realise', etc. This should then lead to the creation of a set of organisation design principles (that describe how you want to conduct the redesign, etc). If all decisions are then judged against that criteria you are more likely to drive the result you need and stick to the outcome. Organisations that do not base their cost cutting on principles, tend to cut the wrong things, tend to drive the wrong behaviours, tend to make decisions that do not stand up to scrutiny. They end up with a set of agreed savings that won't last beyond the implementation

3. **Lack of responsibility for delivering savings;** identifying and agreeing the savings is one part of the process, being very clear who needs to drive and be responsible for delivering or realising that saving is another thing entirely. Where this is not clear, the actual delivery of the cost saving drifts, difficult decisions are fudged or put off and the end result is a mess. The cost will not have come out and the hard work identifying the savings will have been wasted.

The magic 10%

At the same time, there does appear to be a fixation with the 'magic 10%' – every cost reduction exercise seems to focus on 10% of headcount cost being the target. There is no science to this in most cases – why 10%? Why not more, or in other cases, less? Our experience is that the 10% just seems to be a comfortable number for people to manage to. It feels tough but not too tough; a number you can deliver but a number that sounds big.

However, we know that 10% might not be the right percentage at all. In fact it almost definitely will not be the right answer, unless you have worked from 'organomic' principles. This means you have identified what the shape and size of the organisation should be based on what it needs to be now and what you require it to be in the future.

If you address the cost cutting in the right way you will identify the right % to go for; whether that is 10% or more (and our experience is that we would expect more to be identified) the answer will come from asking the right questions and coming up with the right options. We firmly believe that getting in shape is all about working out the 'organomics' first.

Get in shape

There are real challenges in understanding how best to manage the cost of your business to the economic realities; in essence how to manage the 'organomics'. We totally understand and appreciate that. When cost needs to come out of a business, the first instinct is just to 'get it out'. However, we believe that you need to look deeper, you need to understand the context first and drive from there.

This is all about 'organomics'; identifying your future shape, size and cost relative to the demands and opportunities today and the potential opportunities of the future.

This is all about creating agile, flexible organisations that grow and contract, change direction, morph themselves, if you will, to meet what its market, its customers and its environment requires. It is about making your organisation fit for today, tomorrow and beyond; moving beyond quarter 4 to Q5.

Even in the best of times, great organisations fail and do so because they don't understand that their 'organomics' have changed. What may have worked for them so successfully to get them to their current position of strength can over time become their point of greatest weakness. No longer is it enough to see them enjoy the success that their position as a 'great organisation' should allow them going into the future. New entrants come in, more efficient operators deliver better quality at lower costs, etc., and the once mighty business withers on the vine.

In tough times, and my goodness we are in one now, the speed of the decline and the steepness of the drop are scary....very scary indeed. The need to identify how to reduce costs is extremely important and the pace at which this needs to be done becomes increasingly crucial. Whilst we appreciate this completely we are convinced that not following the principles of 'organomics' will leave you in a more precarious position afterwards; one where you have cut costs, have less resource power to meet your needs and cannot perform at the levels you require. What inevitably follows is the need to go around the cost cutting process yet again. You will have experienced the pain but without the gain of improved effectiveness and performance.

What is organomics?

So what does 'organomics' imply exactly. It is our belief that organisations get stuck somewhere between having a vision of what it wants to be and do, its strategy of how it is going to get there...and actually delivering that vision coherently. In essence, the good intentions become derailed as the organisation tries to grow.

Cost gets added on to the structures and good practice operations get jumbled and confused. The organisation becomes too expensive, too complicated and too slow to respond as market or consumer demand changes. In effect the organisation becomes difficult to do business with from a consumer or supplier perspective and too complex to work effectively within from an employee perspective. The organisation is 'un-Organomic'!

'Organomics', therefore, is an approach that ensures that a business constantly reviews, assesses and takes action on its organisational shape, size and capacity, in order to meet its current demands and be best placed to take advantage of future opportunities. In effect, it makes the organisation focus on delivering for today's economic reality but with one eye on the future.

Whilst being driven by the over-arching strategy or vision for what the organisation should be going forward, 'organomics' takes into account structures, processes, capabilities and culture to drive out answers to the following:

- **Structures; Shape, size and operating model:**
 - *What structure should we have; what overall shape will drive increased performance, what size will enable us to deliver today but also respond to future needs, what balance should we have between insourced and outsourced operations, where does responsibility and accountability reside, what structures ensure clear decision making?*

- **Processes; Effective delivery at efficient cost:**
 - *What processes will make us effective; are our current processes 'fit for purpose', do we function seamlessly, do we get the most out of our processes, is the interaction between automated and human processes up to scratch, do our current processes cost too much in time and money?*
- **Capabilities; Right people, right skills, in the right numbers:**
 - *What capabilities will deliver our strategy; do we have the skills we need to deliver today, tomorrow and beyond, have we got the right numbers of people with the right skills, do we have too many, are there obsolete capabilities we need to get rid of?*
- **Culture; Getting the behaviours that drive future success:**
 - *What culture drives our future success; what behaviours and ways of working will help us achieve success today, what do we need to deliver future success, what is currently holding us back that must change, what is brilliant about how we work today that we do not want to lose at any cost?*

The answers to each are driven out from an understanding of the strategy or vision of what the business wants to be in the future. This is a reflection of the demands it currently has for its products/ services, an assessment of the market trends and a forecast of future opportunities. What is important here is a honest view of volume so that the future shape and size can be forecast, thus driving the extent of cost reduction required today.

Rather than simply choose a '10%' figure, as we see so many businesses do today (which is no more really than a assumed amount of reduction that it thinks it can manage in any one time) using the 'organomic' model you drive the reductions required based on clear assessment of today's demand and tomorrow's opportunities.

The Principles of 'Organomics'

For us 'organomics' is about thinking holistically about your organisation, the demands it has to fulfil, where it wants to be, how it executes its core activities and who does it. As importantly, is the need to set up and drive through to increased performance; making it happen so to speak.

The principles underpinning 'organomics' are:

- **Look to the future:** getting the organisation you want means looking beyond the current economic challenges and to the future
- **Assess what's great today:** don't forget that there are things about your business today that are great and could form the basis for some of your future operations. Building on what's great today enables you to go into the process with positive intent
- **Decide what you want to be...and confirm your future direction:** you can be so many things but what is it that will give you the competitive advantage and enable you to survive the current challenges and be better placed than your competitors when the markets improve?
- **Understand the implications:** given your cost and market constraints, agree the 'organomics' (i.e., what cost/ revenue is right for today and what must it be in the future). From this you can drive the decisions on what efficiency savings are required and what areas need investment to grow/ generate new revenues, etc
- **Structure for greater effectiveness:** define the operating model that makes the organisation easier to do business with, function internally and deliver product/ services quicker and cheaper. Seek to identify ways of reconfiguring the organisation that raise its productivity, delivery focus and effectiveness
- **Set controls and targets:** clearly identify and set within an appropriate governance framework, the targets by which performance will be measured in the future. Measures drive behaviour so be clear that you measure the things that you want to see change. Use controls to ensure that cost structures are maintained and that performance ratios drive decisions on increased/ reduced headcount. If used flexibly these will drive the new agile organisation that operating to 'organomic' principles imply.
- **Drive the transition hard...but bring your people with you:** putting in place the new organisation will be painful (change always is) but driving it to agreed timetables will ensure that you realise the benefits that you mapped out at the start. Using a compelling narrative to describe the change and engaging your people through the process will speed up their acceptance and drive increased commitment to the changes.
- **Lead with agility:** change of this nature does not happen without leadership. Becoming an 'organomic' business means constantly driving change; ensuring that your organisation flexes when it needs to in terms of its shape and size, responding to market changes and opportunities that present themselves. Only through this can senior leaders navigate their businesses through the challenging conditions of today and thrive in the markets of tomorrow.

Modelling your business on the principles of 'organomics' can be done at pace, with clear drive and focus from the senior team. The resulting decisions, clearly executed will ensure that you get the right size and shape of organisation to meet your current and future demands, enabling you to make the most of your opportunities.

Taking this forward:

Enabling your business to survive the current economic challenges means understanding your need to adopt the principles of 'organomics'. In essence, only by creating a flexible, agile organisation can businesses expand and contract to meet their current demands at the right cost levels without jeopardising their ability to respond when the market improves.

Relying on 10% headcount cuts without really understanding where costs should be taken from will only damage the chances of being the right shape and size to thrive in the future. Cutting the 'right' costs based on analysis driven by the principles of 'organomics' is the only way to do this. Anything else will cause the elastic band effect; costs taken out now 'spring' back 6 to 12 months later as the underlying activity still needs to be done.

Driving organisation restructuring based on 'organomics' is the best route to manage the challenges of today and the opportunities of tomorrow. Sustaining the benefits of the new, slimmed down and toned organisation today, tomorrow and beyond.

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