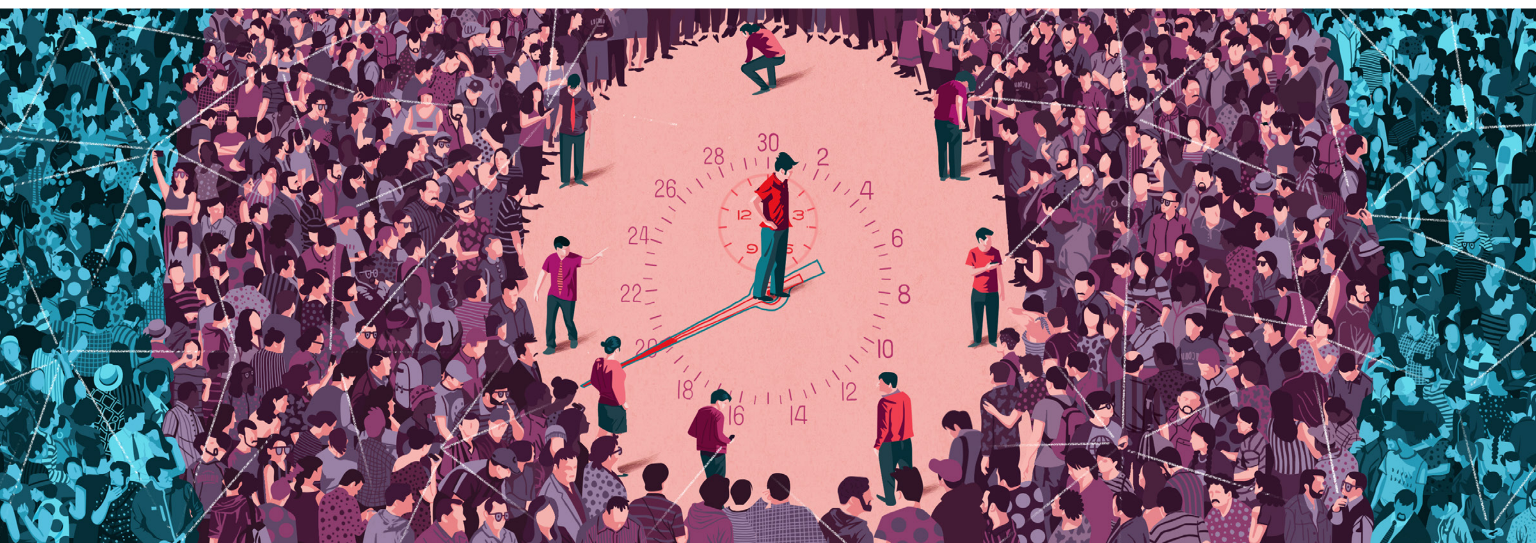
Deloitte.
University Press




# Managing the burden of your organization inheritance

By Ajit Kambil

DONALD Rumsfeld, the US Secretary of Defense in 2004, noted, *"As you know, you go to war with the army you have. They're not the army you might want or wish to have at a later time."* Similarly, in an executive transition the organization you inherit might not be structured as you might want or wish to have it later. Yet you will have to make it work to get things done until you can create the organization you want. This essay deals with some considerations in organizing what you have and moving toward what you want from your organization.

In previous essays we looked at assessing and developing individual talent and improving the performance of teams. Teams can be temporary—designed to fulfill a specific project–or they could be a more permanent and recurring structure like a leadership team designed to bring multiple skills and perspectives to changing business needs. Organizations are even more stable structures—formalizing reporting lines, situating staff in clearer roles to do routine or functionally specialized work, and creating focus and capacity to get work done on an ongoing basis.

In our transition labs we often find executives grappling with four organization design questions:

1. How many people should directly report to me?

2. How should I structure organization reporting lines and divide up work?

3. Should I have dotted line reports and extended leadership structures?

4. How should I move from my current inherited organization to a future state model?

There are no simple answers to these questions, but based on our experience with transition labs we can offer some guiding principles and considerations.

## Defining the number of direct reports

C-suite individuals who come to transition labs can have a wide variety of organization inheritances from as few as 3 or 4 direct reports to as

many 15 to 20. Our 2016 CFO Signals Survey of leading North American CFOs found an average of six direct reports, and the most frequent CFO response to be seven direct functional reports.[1] This number is consistent with what we find in our CFO Transition Labs[2] where most CFOs aspire to have seven or eight direct reports.

The number of direct reports can result in a time-talent trade-off. The more direct reports you have the more time you are likely to have to spend with them. Let us say, at a minimum you spend an hour every other week individually with each of your direct reports and two hours every fortnight with them as a team. That would be a minimum of 10 hours every two weeks, or about 10 percent of your time for a reasonable work week. In the four faces model, most executives aspire to spend about 20 percent of their time in the operator role. The above time allocation would have half the operator time going just to touch points with your direct reports versus other operator activities. If the number of direct reports expands, the half hour available to each individual cannot be expanded effectively without taking time away from your other roles as a strategist or catalyst.

But some organizations perform well with considerably more than seven or eight direct reports per executive and much flatter organization structures. How do these organizations function effectively given the time trade-offs? My observation of flatter organizations that work well is that they grow their leaders internally, that staff have a long tenure with the company but not necessarily in the same role, as they are rotated across roles to get breadth and depth. Because of a process of sustained leadership development across roles in a company the leadership team and the staff below generally have learned to work together with trust, strong cultural norms, and mutual understanding to bind them together. This enables senior management to have less frequent interactions with their team members and allows for a flatter organization with more direct reports.

## Framing formal reporting lines

If you have established a target number of direct reports, the next question is how to frame the reporting lines, or who will report to whom? There is an extensive literature on organization design—but I find one general principle useful. A well-designed organization focuses talent on what is important for the organization to accomplish with clear accountability and decision rights. With this in mind, two general forms of organizing have withstood the test of time. These are to organize all activities common to a functional body of knowledge under one leader, or in more complex organizations, all the activities around a product line or perhaps a region under one leader. Sometimes you have a hybrid of these organizing principles. Organizing functionally allows staff to build specialized skills within the function and grow their career through deeper experience and focus in the functional area. Product lines or region structures aggregate focus and expertise in these areas.

Consider the illustrative example of a global corporate CFO of a US-based manufacturing firm with extensive sales. They may have the following functional area leaders report to them: global controller, financial planning and analysis leader, the treasurer, the tax director, investor relations, CFO heavy equipment, CFO light equipment, and dotted-line regional CFOs in the Americas, EMEA, and Asia regions. In this case, the global CFO establishes a finance leader for each of the core finance functions reporting to him and leaders of the two product divisions. As sales and support are run in the regions, he establishes dotted-line structures with CFOs in the regions where finance supports the sales and distribution activities. This structure allows the global CFO to develop talent in each of the key functional areas of finance at the corporate level. Separating FP&A from the controller organization allows for recruiting different talent profiles into each, one more accounting-focused and revolving around current and past performance, the other more analytic and business-focused, revolving around shaping future performance. Organizing further finance capabilities around the two major product divisions through CFOs for each division creates accountability for the financing and performance of each division. Creating dotted lines to the regions and sales organizations provides finance support in key markets.

In addition to functional and product division or regional forms of organization, another form of organization is a matrix organization. Professional service firms often have such a structure where an individual professional reports into a service line like strategy or human capital but is also part of an

industry, which is how the firm goes to markets. In this case they may report to more than one leader based on their roles.

An important question to ask in shaping organization design is "What capability will I need for my organization or where must it focus to succeed in the future?" This can guide investment in new organization, capabilities and design. For example, as a CFO you may decide you need better analytics capabilities to forecast costs and earnings and to price critical offerings. If the FP&A role was weak and submerged in the controller organization you might elevate the area to direct report and invest in reshaping analytics capabilities in the company. Elevation of roles to direct reports can also be driven by a changing market and environment. For example with the expansion of cybersecurity risks and adverse impacts, the role of the chief information security officer has expanded in many organizations to report directly to the chief information officer or other C-suite officers.

For any of the above forms of organization to work there must be clear reasons for grouping individuals into a specific line of formal reporting. It could be the need to have specialization in particular bodies of knowledge (for example, a service line and industry) or to focus on a product line or region, or to create critical capabilities for the future. Creating clear lines of reporting helps to shift decision rights and accountability to key direct reports and cascade down accountability across the organization. It gives staff clarity on responsibilities, accountability for their work, and potentially establishes meaningful pathways for their career progression.

## Dotted lines and extended leadership teams

Another area some executives grapple with in our transition labs is around managing dotted line reports and framing an extended leadership team. Beyond your direct reports there are probably others who report to you via dotted lines. One thing to decide quickly is whether this is the right structure, and if the dotted lines have to become straight lines.

A dotted line structure can be useful when your organization is serving a client, and you want your functional representative to primarily serve that client. In the illustrative example in the last section, the CFO had regional CFOs connected with a dotted line to him in the three regions of the world serving the region presidents. For the firm, a manufacturer, the majority of the cost of goods sold was unlikely to be in region organizations, which served as a sales and after-sales service organization. In this case the CFO wanted their finance representative to report to the regional presidents to best help them with the finances of the sales organizations. In return, the important thing for the CFO was assuring good forecasts on sales and earnings in a region, combined with compliance to local and FCPA regulations. To structure adequate influence in a dotted line relationship and ensure that the report did not go completely native on compliance issues, the CFO ensured he would determine compensation for all finance staff, while the regional president provided performance ratings recommendations and oversaw day-to-day management of the regional CFOs. This structure can be augmented with regional controllers having a straight line of reporting to the global controller to manage any control risks.

Another organization design consideration is that of creating an extended leadership team. An extended leadership team could include your direct reports and their direct reports so you are directly communicating your intent to and working together with more people in your organization to address shared problems and opportunities. Alternatively you may create an extended leadership inclusive of peer executives—so that they know what your organization is working on and how they can champion your key initiatives that require their support to their constituencies. Creating broad extended leadership teams can be a powerful way to expand the visibility and influence of your organization and ensure key constituents become stakeholders in the success of your organization.

## Getting to the organization you want

Moving from the organization you inherit to the organization you want to meet the future needs of your company is likely to demand changes in organization structure and reporting lines. Executives generally grapple with three issues: When to

undertake changes; how and when to use interim leaders; and how much change to execute at any one time. There are no simple, "absolutely right" answers to the above questions.

In some organizations you may feel empowered to make significant changes all at once with little downside risk. In these cases you can go with the "big bang" approach and replace key leaders and restructure the organization quickly.

Usually, most executives undertake a more incremental approach. They may be concerned that the changes they trigger would make specific employees with valuable tacit knowledge leave the company. Or they may fear resistance to changes from critical peer stakeholders or the CEO if they want to replace long-standing employees or restructure them to lower positions. In these cases they are more likely to make incremental changes toward their organization goals, using the time between incremental changes to reduce any knowledge risks from the departure of critical employees or to build support among key stakeholders.

Another reason we find executives delaying critical changes is because they may not have leaders at hand for key roles in the new organization. One option to consider is the appointment of interim leaders. For example, appointing high potentials who are not ready now as interim leaders can be useful for two reasons. First, it provides diverse development experiences for high-potential talent in your organization, broadening their skill sets and giving you a chance to observe their leadership skills. Second, it gives you time to seek a more seasoned full-time leader to take on the role while moving toward your target organization design.

If there is an almost right answer, it is to try and get all your critical organization changes done within the first year. Again, there is a critical timing trade-off. If an executive has about a five-year run in a particular role, then not completing the critical organization changes in the first year or earlier creates the risk of delay in moving forward with key initiatives. To avoid costly delays it is generally vital to get key changes done in the first year. The primary exception to such a change we observe in labs is when the company is going through a critical event when you join. Such an event could include an initial public offering or an M&A transaction where the staff are fully tapped out to absorb changes to your organization structure in addition to their current workloads. In such cases you may defer changes if it is clear that the event will be complete within a reasonable time.

**The takeaway:** You ideally want to move from the organization you inherit to the organization you want within the first year. This may include changing staff, formal and informal reporting lines, and decision rights of key reports. On average, most executives we work with have seven or eight direct reports. More reports would demand more attention and time away from their role as a strategist and catalyst. You generally want to organize around the capabilities you need for the future and establish reporting lines in the company around functional bodies of knowledge, capabilities, product lines, or regions to bring focus to and accomplish the work at hand. Whether through direct lines or dotted lines, it is important to have the critical decision rights to influence behaviors. Having extensive influence over compensation is a useful decision right for you to retain on both dotted and direct line reports. You may also want to consider an extended leadership team to complement your direct reports as a critical means of effectively communicating your intentions across your organization and winning broader stakeholder support for your organization's initiatives.

***Dr. Ajit Kambil*** *is the global research director for the CFO program and the creator of Deloitte's Executive Transition Labs.*

## ENDNOTES

1. The CFO Transition Labs are the most mature of Deloitte's Executive Transition Labs, having served over 1,000 CFOs distributed across 25 countries. The CFO Transition Labs are a one-day workout where CFOs frame the priorities, organization and stakeholder relations strategy and formulate a personal action plan.
2. Deloitte, *Less concern about capital markets; more concern about oil and politics*, CFO Signals™ 2016 Q2 report, p 18, http://www2.deloitte.com/us/en/pages/finance/articles/cfo-signals-survey-executives-less-concern-about-capital-markets-2016q2.html.

Deloitte.
University Press

Follow @DU_Press

Sign up for Deloitte University Press updates at DUPress.com.

**About Deloitte University Press**
Deloitte University Press publishes original articles, reports and periodicals that provide insights for businesses, the public sector and NGOs. Our goal is to draw upon research and experience from throughout our professional services organization, and that of coauthors in academia and business, to advance the conversation on a broad spectrum of topics of interest to executives and government leaders.

Deloitte University Press is an imprint of Deloitte Development LLC.

**About this publication**
This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu Limited, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Banner art by Livia Cives.

**About Deloitte**
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2016 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited