COST MANAGEMENT

The influence of organisational cultures on costs

In financial services organisations the operating cost base is made up mainly of system maintenance, premises and people. On the people side the most expensive group are knowledge workers and managers. In many change programmes it is junior ranks that suffer from cost cutting as organisations seek to achieve a reduction in the headline figure for full time staff. What often gets forgotten is that the reduction of groups of junior processing staff, which can impact substantially on the service standards of the business, is a drop in the ocean compared to the cost of middle and senior managers. If one starts to think about why this happens, it is often because the organisation is managed by the organisation chart, rather than the process model, and senior managers have a natural tendency to preserve their domains, networks and friendships. This frequently drives a set of behaviours that can so many times result in poor organisational change.

In recent times there have been several organisations that have been bought by private equity groups that have summarily and suddenly made redundant great swathes of people. What is frightening in these cases is the fact that the previous regime considered its management population vital and its people were fully active, busy and dynamic. These household names continue to trade successfully, albeit with more short term objectives in terms of enhancing value to resale or flotation, coupled with reductions in aspects that a private enterprise does not have to have compared to that of a public company; but these companies still function. People look back and say "what did all those managers do?" It is obvious that a vast amount of activity just disappeared.

People in executive or professional roles have a tendency to generate work. It is very easy for a group of middle ranking individuals to incept activity, draft presentations, write papers, call meetings and initiate projects. Their peers attend the meetings, review the documents and generate down stream activity in reply. Before long, a substantial part of the organisation is busy feeding off itself. I have been in major corporate headquarters where consistently, day in, day out, a hundred managers are huddled around meeting tables in the atrium, coffee lounges and canteens; everybody is just so busy. In reality one has to ask what is all this to do with serving customers and adding shareholder value. It's an unfortunate fact of life that in some, unhealthy, organisations over three quarters of the effort goes into pulling in the wrong direction, rather than work that is clearly related to delivering the strategic vision.

The levels of management waste are sustained by a group-think approach where being busy, attending meetings, processing e-mails and being seen to be busy are corporate norms. Cultures of being first in and last to go, back-to-back diaries, early starts, mails sent late at night from hotels, all create an image of a committed performing corporate player but is this really the case? There is a big difference between exhibiting a hectic existence and the delivery of calm and considered decision made in an efficient way.

There are some organisational design principles that can help alleviate this build up of management waste. The fewer the layers of management, the less report writing and presentation is required. The simple use of summary on a page ("SOAP"), or a pitch where a proposal is simply put to a decision maker, rather than a whole project with all its artefacts ponderously climbing up the levels in the company to, in the end, be rejected after all that work has been invested. Structures with clear accountabilities and well-defined, non-overlapping roles avoid the requirement to "socialise" information because decisions are made and communicated in a direct way and respected by recipients.

There are cultures where informal networks predominate and subsume the official ones which; these are more prone to management waste as communication is diffused and accountability blurred. There are extreme mercenary cultures in which everything becomes task and results driven, aligned to personal goals; these can create greater amounts of wasted effort than team based cultures where the good of the whole comes above that of the individual. There are fragmented cultures, where home-based or hot desked individuals "plough their own furrow", operate oblivious to duplication, overlap and re-invention. The various cultures all have good sides and dark sides, none is better than the others; it's a question of creating the right balance of individual drive and ambition against collaboration and the team.

Limiting the amount of change, and giving real focus to what is really important is a technique that many large corporations fail to deploy. Overloading the change portfolio faces any organisation, however mature, with resource issues, half-finished initiatives and cancelled projects, all with their accompanying wasted investment. A clear change plan to which initiatives must be aligned is essential.

The main challenge is to make individuals stop and reflect, to ask themselves the hard question, "is what I do for the benefit of the customer experience and shareholders, or am I becoming distracted from what really matters?" A good manager is someone who has the ability to take time to stop and assess where things are going by understanding the bigger picture, comprehending where his colleagues are coming from and modifying the approach accordingly.

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