

We meet so many organisations, big and small with a single common problem.

Their organisation structures revolve around function- sales, design, engineering, production, purchasing, finance, quality, logistics, HR etc.

There is a hierarchy, reporting structure and budget for each function. These act as siloes.

*Silo: A system, process, department, etc. that operates in isolation from others.*

Value is added (via paid customer contracts) as work flows through many of the functions to produce an ultimate outcome that customer values and conforms to contract.

We might consider this outcome as a relay baton being passed between many runners to get it quickly to the finish line (more quickly and efficiently than others, that is, more competitively).

A common problem with this arrangement is that this flow is not as efficient as one might imagine because each hierarchical function looks inward and upward rather than towards the contract outcome. Inefficiencies creep in, dysfunctional behaviour creeps in and critically they become normalised (normalisation of deviance). Small problems cause large difficulties or just simple delay.

In small organisations where the head of each function is often the same individual this functional approach tends to work because the person in charge has both an overall command authority as well as holding the whole objective in their head. They constantly weigh their decisions against the widest constraints.

The problem occurs either when the boss becomes overwhelmed by this workload (because they must manage all the details and they must keep all the plates spinning) OR when the boss delegates responsibility to subordinates- specifically function specific subordinates. In the former situation the operational team are simply used to following instructions and the gulf between the responsibility of the boss and their subordinates is too wide to bridge by promotion from within. In the latter case, the boss has established a cabal of functional managers who stand between the boss and a team of specialists- critically there is no one in the management team who are capable of or skilled at, or have the authority to manage the overall system. Often the most likely candidate to assume control will be the head of the finance team- after all, it would seem that if you can stay in charge of the finance everything else can be made to fit. Often finance is the least capable of all.

There is a phrase in agriculture that reflects this... “farming is easy, if all you plough is a pencil”.

The voice of the customer (contract) is no longer paramount; it no longer has authority, it gets lost in the noise of the inter-functional communications.

For the small business, the expansion route is a critical time in their development. Sometimes, confronted with this challenge many business owners will sell to a larger competitor, an organisation that has already systematised their operations. Alternatively they will choose to systematise their own business extracting themselves from their day-to-day role and increasing the organisations capacity for growth.

Unfortunately, this tends to unleash a new problem, over time the management and administration of each function will grow much more rapidly, at perhaps 5% per year (Parkinson's Law). Initially this would seem understandable, but over the longer term has an impact (doubling every 12 years).

This approach is not always problematic; the functionalisation of operations is well suited to regularised production.

In the case of Henry Ford he used his moving production line to regularise his production (choreographing all operations) and this acted as the "voice of the customer" within his workshops (setting quality, cost and delivery demands).

However, for most organisations their operations are not stable- either there is fluctuation in demand, in mix of products or in competition (demanding continuous improvement).

These challenges require the organisation to integrate change. This is the biggest challenge to functionalised organisations.

Some organisations have established an additional management team in the form of "account managers" or "project managers" to manage change/projects/contracts and so restore the voice of the customer to their operation. This is often described as matrix management.

However, there is often a social problem in that the project managers are either temporary or have no authority over the members of the functional teams with whom they interact. It is difficult to impose change when you have no authority.

Often this change being imposed is not just an issue for the project (where a person within a function simply does something a little different) - but will require a reorganisation or investment by the entire functional team. This significant impact is often resisted by the functional team and they may be unwilling to integrate it (or may not have the budget). Either way, there is tension between the project manager and the functional manager.

There is a tendency to create a new team of internal project managers (change managers) as well as the customer contract managers to help deal with this problem. This again increases the administrative costs of the organisation.

It should not escape your notice that this approach inevitably supercharges the growth of the management/admin team toward the common upper limit of 7% a year (means it doubles in 9 years). Thus the organisation less and less productive as it fills with more and more administrators and managers.

Such organisations are also characterised by low levels of engagement by the productive teams, have high levels of sickness and staff turnover exacerbating an already difficult situation.

The question emerges- what solution is there to the problem of growth, of systemising an organisation whilst maintaining efficient production and integrating demand/supply variability and continuous improvement- all while avoiding the long-term perils of Parkinson's Law?

Clearly whatever the solution is, we can't afford to add another layer of management/administration so the solution must be either "bottom up" or through removing a layer of managers.

Would it be better to have no functional managers/hierarchy and only have project/contract managers?

Could we split the organisation instead into contract capable teams who would bid for work- with no functional management at all? This model looks very much like the high street where shops are co-located multi-functional teams and bid for customers via price and choice.

Single high street functions are not gathered into co-located specialised functions like book keeping or security, or HR.

We might look at other organisational models (such as franchises) to see how they have solved these problems.