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Levels Theory Provides Unique Insight Into Strategy and Why "Levels Shifting" Change Management Is So Demanding

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Levels theory provides unique insight into strategy and why “levels shifting” change management is so demanding

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Strategy and Levels Theory Workshop Agenda

Introduction – aims	15 min
- Brief introduction to the idea of levels of capacity	20 min
- Review break/exercise	15 min
- Application of levels of capacity to pure strategy	15 min
- Functional stages of development	10 min
- 7 S Model	15 min
- What is required and to be gained from a levels shift	15 min
- Review break/exercise	10 min
Why “levels shift” change is so difficult	15 min
Conclusion	5 min

Levels theory allows us to see “strategy” in a different light

Integrating the 7s model with levels theory allows us to identify that significant functional improvement is in fact “levels shifting” and explains why levels shifting is both so difficult and so rewarding.

- ¶ A brief introduction to the idea of “levels of capability” P 3-13
- ¶ Application of levels of capability to strategy P 14-15
- ¶ Stages of functional development can be roughly related to levels of capability P 16
- ¶ The 7s descriptive model of organisation P 17
- ¶ Using the 7s model one can describe what is required and what is to be gained by a levels shift P 18
- ¶ This way of analysing “improvement” highlights two of the reasons why “levels shift” change is so difficult: P 19
  - Congruency requirements P 20
  - Implied capacity requirements P 21

A brief introduction to the idea of “levels of capability”.

Some background and some explanation as to why time is a good measure of complexity and some confirmation that this works.

Background and the basic idea

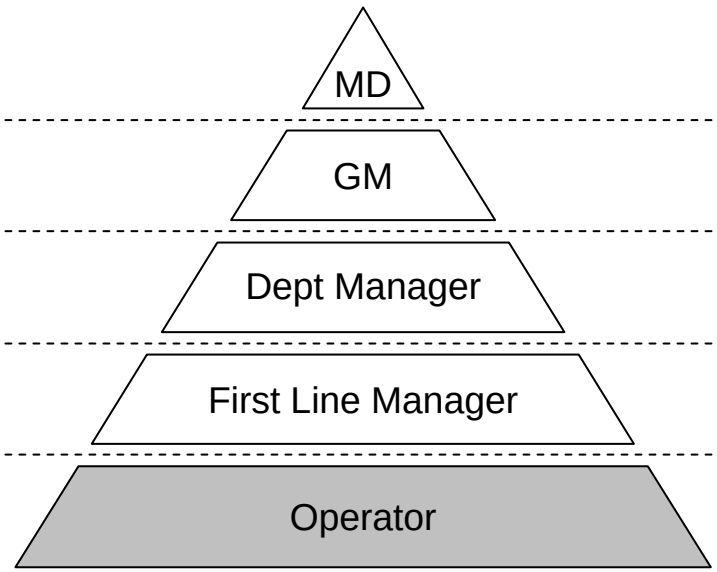
- At glacier metals Elliott was confronted with the task of creating a pay grading system.
- None of the current system available had any real conceptual foundation.
- Confronting this problem he developed a hypothesis:
    1. That work was the use of discretion/judgement to resolve a problem not doing “stuff”.
    2. That complexity of work was related to the length of time that judgement had to be applied to complete a task (TSD).
    3. That the classic hierarchy and pay scales were a reflection of different levels of realised problem solving capability. Each level adding value so as to legitimise their pay and authority.

Some confirmation

- Empirically we can observe, hierarchy and increasing time spans of work as we move up the hierarchy.
- Research shows a consistent pattern of time span of discretion in hierarchies that functioning well. Ex 1
- Too many levels in a hierarchy or gapped hierarchies do not function well. Ex 2, 3
- Compressed hierarchies do not function well either. Ex 4

Requisite levels

Research found that five levels are requisite for a fully developed P&L-accountable business unit. This ensures that value is added at each level, thus legitimising the authority of each level of management.

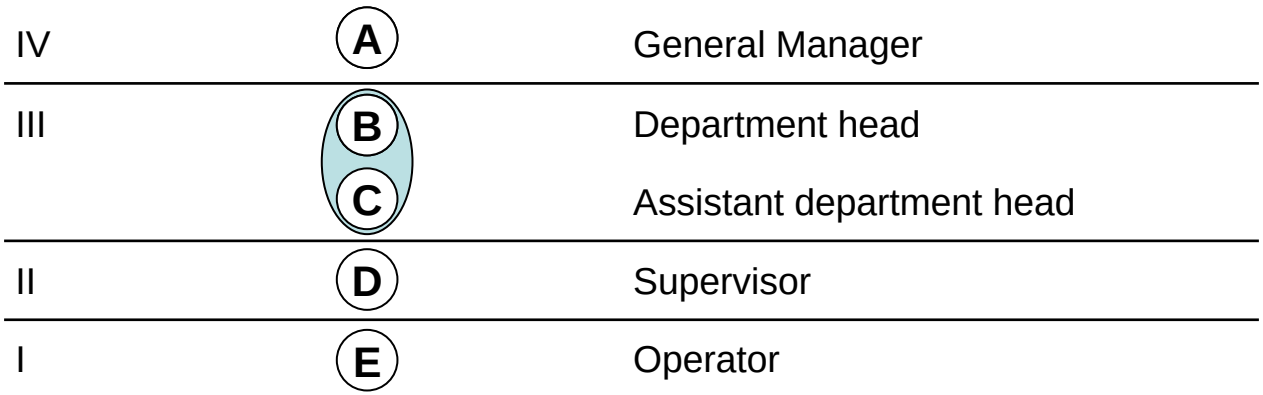


Level	Approximate pay in Australia	Longest timeframes
V	To $500,000+	5-10 yrs
IV	To $250,000	2-5 yrs
III	To $160,000	1-2 yrs
II	To $90,000	3-12 mths
I	To $50,000	0-3 mths

Issues with too *many* levels of management

High cost, slow acting bureaucracy with no leadership or membership

Hierarchy with too many levels



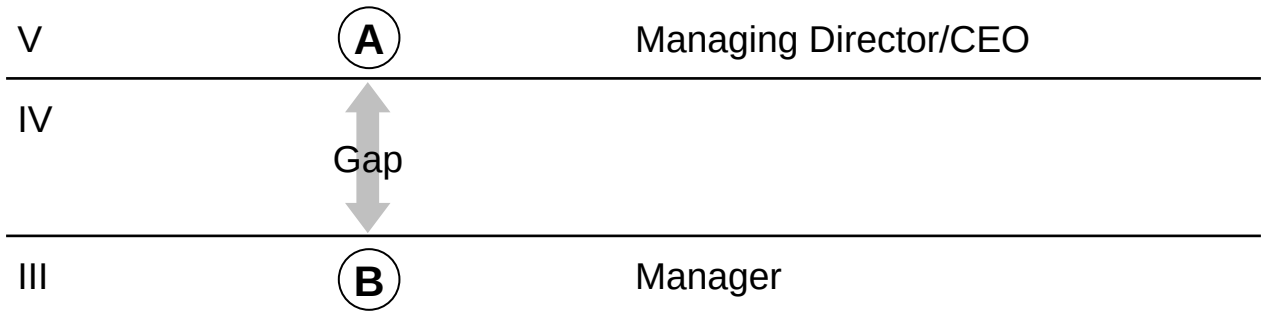
Issues

- ‘B’ becomes an extra communication link slowing down decisions as ‘B’ strives to add value to ‘C’
- ‘B’ tries to take a leadership role for ‘C’ but actually can’t add value
- ‘C’ sees ‘A’ as real boss but has to talk to ‘B’
- No clear accountabilities for ‘B’ and ‘C’ separately
- ‘C’ and ‘B’ both working well below capability
- Confusion as to who takes over leadership role for ‘D’, so ‘D’ isn’t actually led at all
- All underlying systems like task setting, task monitoring, reporting and performance review are confused
- Teamwork very difficult to realise

Issues with too *few* levels of management

Inability to execute high level programmes, dissatisfied boss and anxious subordinates who are trying their hardest but can't deliver

No level IV between (A) & (B)



Problems

- 'A' can't get across to 'B' what needs to be done. There is no 'translator'. 'A' either gives up on 'B' or has to come down to Level IV at significant personal and corporate cost
- 'B' is in a state of constant anxiety as 'A' talks about long time span tasks but 'B' knows his or her accountabilities are more immediate. 'B' often searches out a surrogate manager to help him or her understand 'A's' needs
- Team and leadership behaviours are impossible

Note

- The frequency of too few levels used to be minimal. It's now much more common as new CEOs try to drag up the level of competency of their organisations in order to compete

Issues with compression

The number of levels is right, but the boss is acting at too low a level. Compressing the organisation results in difficulty in keeping good people and probably a competitiveness-performance doom loop

	Title	Appropriate time horizon	Actual time horizon
V	MD/CEO	5-10 years	1-2 years
IV	GM	2-5 years	3-12 months
III	Manager	1-2 years	0-3 months
II	Frontline supervisor	3-12 months	0-3 months
I	Operator	0-3 months	0-3 months

Too low a level MD

Therefore too many levels

Problems

- Everybody unhappy
  - Boss because high level work isn't being realised
  - Subordinates because they feel
    - They are not being utilised properly
    - They are not respected, not developed nor treated fairly
- Improvement programmes are unsuccessful, while competition may be getting ahead
- Leadership and team behaviours are impossible to realise at all levels below CEO

Some explanation – What is going on here?

- ¶ Elliott saw changes at each level not only in terms of time span but also in terms of:
  - Patterns of language moving from the concrete to higher and higher levels of abstraction.
  - Approaches to problem solving moving through: declarative – cumulative – serial – parallel.
- ¶ There are also changes in the number of functions/areas of knowledge that needed to be understood in making a decision; few going to many. Ex 5
- ¶ One can also see the “either or” statements being resolved. Ex.6
- ¶ In summary, as the complexity of a task increases, one can observe:
  - Increased areas of knowledge/functions required.
  - Increased time required to handle competing functional objectives.
  - Different languages of explanation and technique of problem solving.
  - Increased geography of thought.
- ¶ Lastly realised capacity appears to grow with age and is auto catalytic within a complex Environment.

Functions cascade

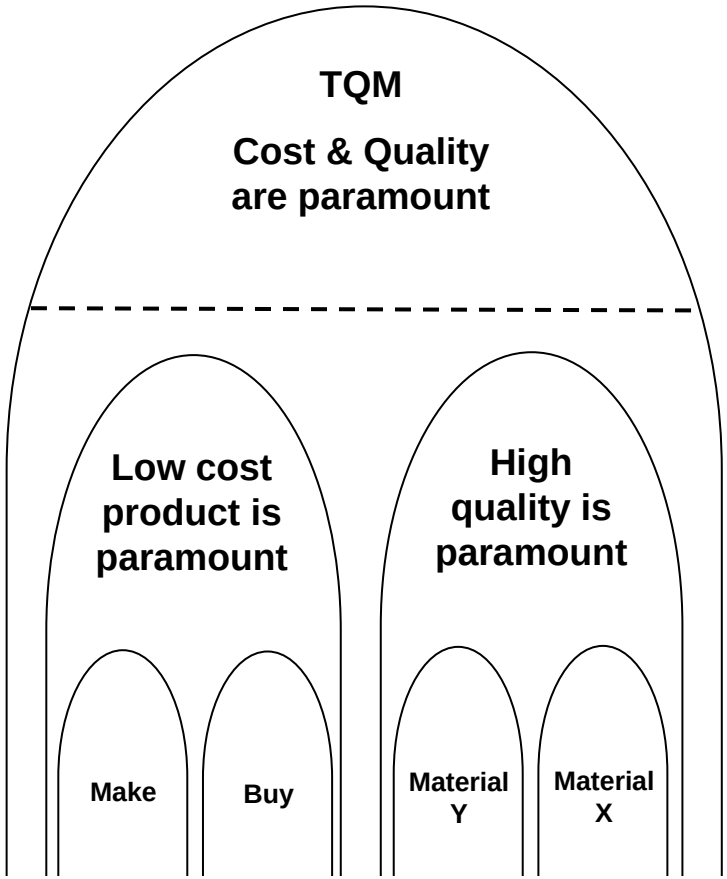
Senior roles are accountable for understanding, cross-integration and prioritising of more and more functions required to resolve increasingly complex tasks

Level	Role	Areas required to be cross-integrated to achieve accountability	Accountability
V	MD 	Financials, legislation, social trends, corporate relations Competition, sales, new product development, operations, channels, industry structure Technological changes, economic environment, exchange rates, marketing ↓	Long-term shareholder value through superior performance in attractive markets
IV	Marketing General Manager 	Consumer segmentation, profitability, product plans, copy development Competitive environment, sales strategy, route to market Regional planning, resource allocation, sales and promotion, activity plans Partnership planning, executional planning ↓	Developing a favourable and sustainable position in our chosen marketplace
III	Regional Sales Manager 	District plans, promotional plans, activity plans, daily activity and execution	Achieving specific marketplace goals for the region

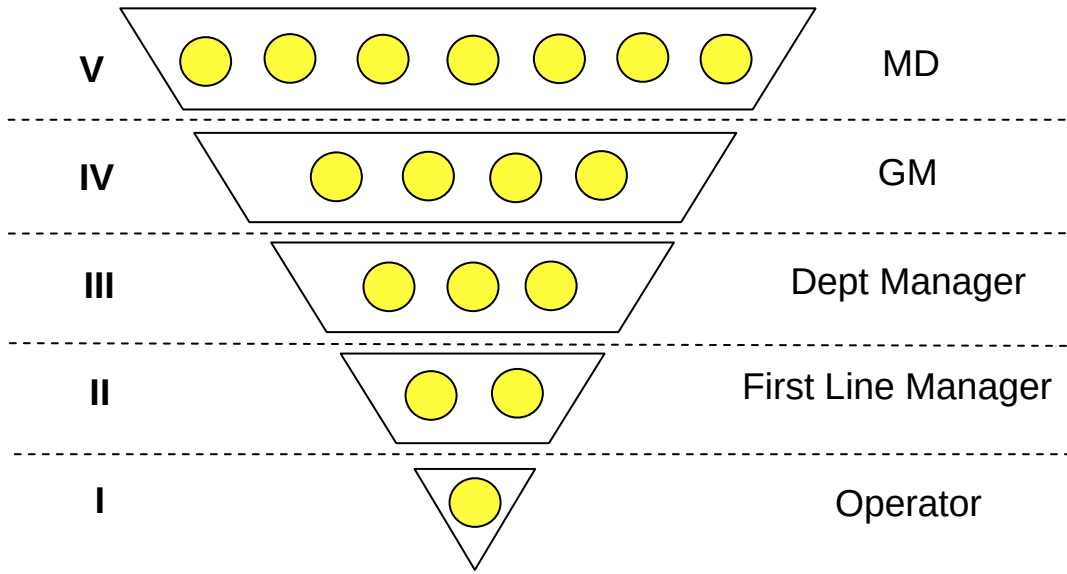
Resolving either or intents/objectives and the inverse pyramid

Ex 6

Resolving "either or" with Russian dolls



The inverse pyramid

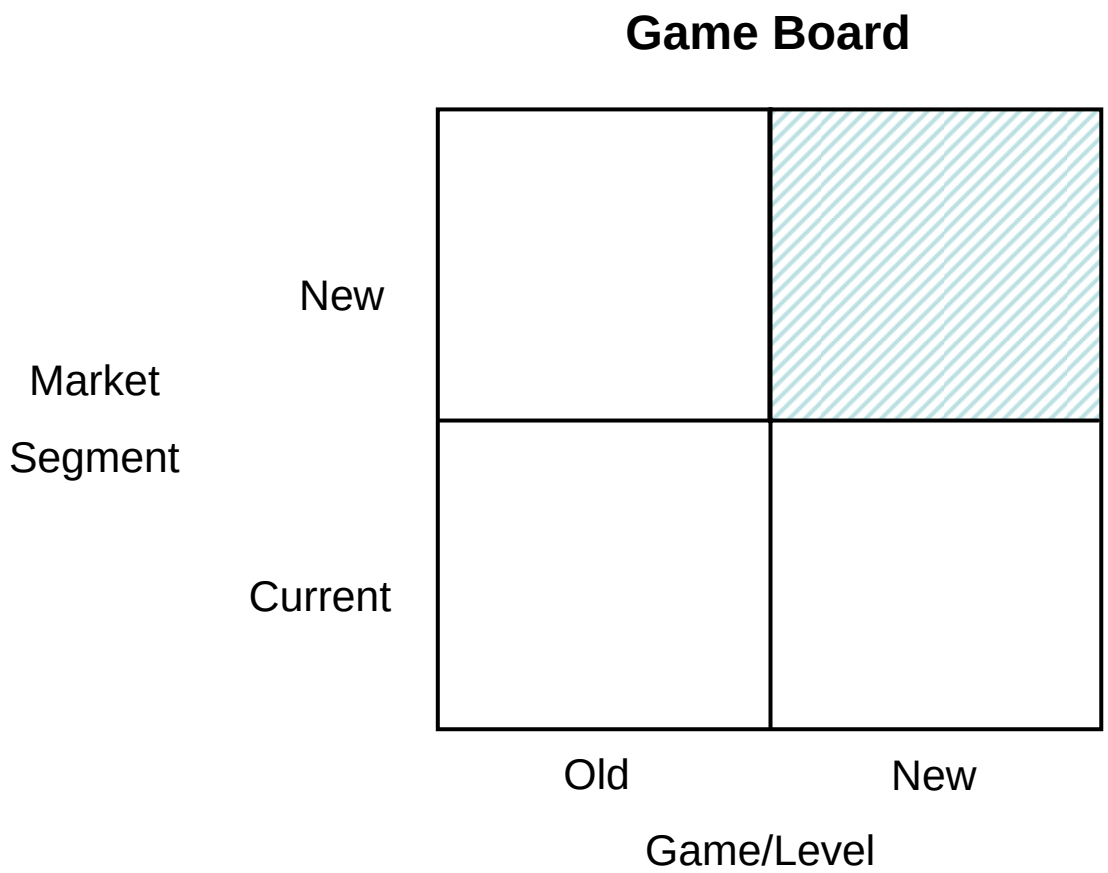


Functions.

Each function has its own specific objectives often in conflict with other functions requiring time to resolve the conflict (**either-or**).

Game breaking strategy

Game breaking strategy is very often a levels shift the breaking of current "either or beliefs – "felt truths".



Strategy: Application of levels theory to strategy

- A levels view of strategy Ex 7

  The focus of strategy changes as you move up levels, each level encompassing those below.

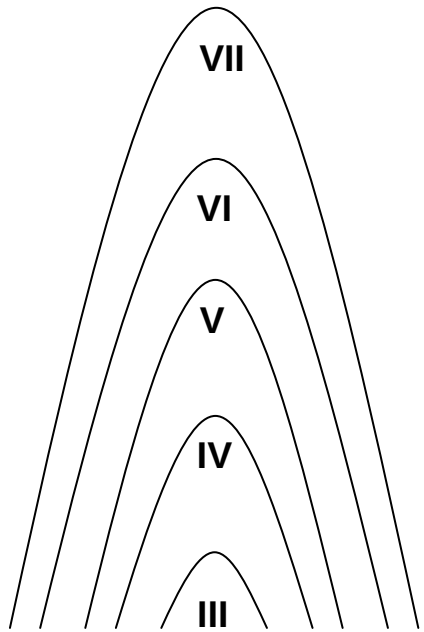
- Some insights from a levels view of strategy.

Focus of strategy changes as you move up levels, each level encompassing those below

Ex 8

A Levels View of Strategy

VII	-	World wide industry structure of a social/economic entity	2000
VI	-	Industry structure (Porter)	1980
V	-	Relative competitive position (BCG)	1970
IV	-	Profitability focus (early McKinsey)	1900
III	-	Functional execution	1850 +



Models, questions, analytical approach, objectives, time frames, consulting fees all reflect level.

Some Insights from a levels view of strategy

- Strategy is a horizon condition.
- Strategy of business determined by capability of the top manager and the contiguous levels below.
- High level strategy and strategic capability demand large negative cash flows (three waves).
- There is always a need to keep running up and down the hierarchy to search for strategic leverage.
- There are different “felt truths” of success at each level.
- The dominant player in a market place will often be operating at one level higher than its competitors in its key competitive functions and be highly profitable.
- Parity is insufficient for above average profitability (decay wave).
- Consulting is one of two sorts, improve the current level or lift the business to the next level.
- Shifting levels is very very hard (next section).

Stages of functional development can be roughly related to levels of capability

At a high level of abstraction one can see how stages of functional development can be roughly assigned to levels*

Level at which the function or activity is managed

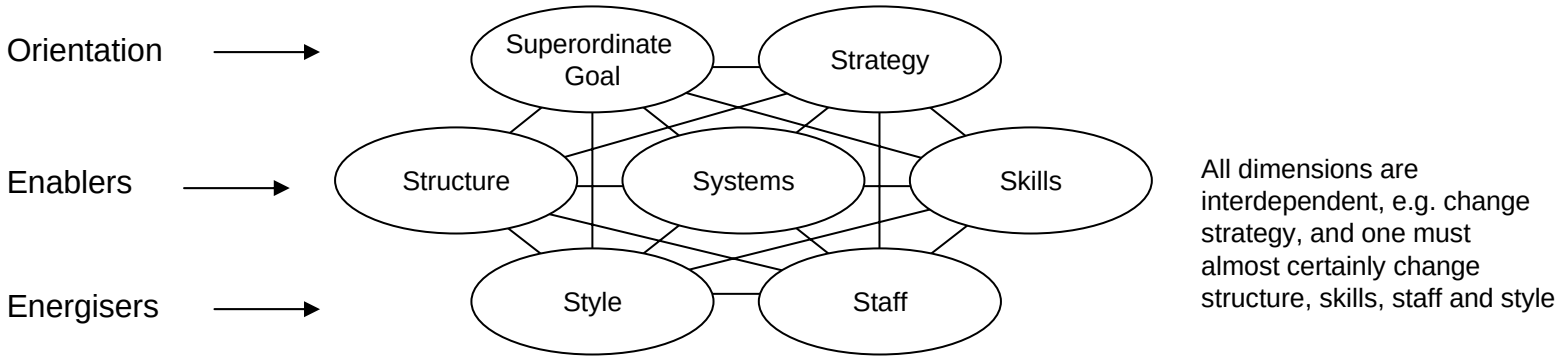
Level \ Activities	Strategy	Marketing	Quality control	Inventory control	Purchasing	Maintenance	Financial metrics
VI Chief Executive Officer	▪ Value proposition ▪ 10 year +	▪ Marketing chartering driving whole company	▪ Value balanced quality	▪ Efficient customer response (ECR)	▪ Virtual vertical integration	▪ **Self Maintaining System**	▪ Balanced scorecard ($ and humans)
V Managing Director	▪ Industry structure ▪ 5-10 year horizon	▪ Value equivalency analysis	▪ Total quality management	▪ JIT inventory	▪ Symbiotic partnership integration	▪ Zero failure maintenance	▪ Shareholder value analysis
IV General Manager	▪ Relative competition position ▪ 2-5 year horizon	▪ Consumer segmentation	▪ Statistical quality control	▪ Live statistical inventory management	▪ Strategic segregation	▪ Reliability-based maintenance	▪ Return on equity ▪ Return on assets
III Department Manager	▪ Internal efficiency focus ▪ 1-2 year horizon	▪ Mass marketing	▪ Quality assurance	▪ Economic order quantity	▪ Adversarial	▪ Preventative maintenance	▪ Profit and loss
II Supervisor	▪ Day-to-day survival ▪ 1 year horizon	▪ Local sales	▪ End-of-line inspection	▪ Eyeball check	▪ Yellow pages	▪ Breakdown maintenance	▪ Cashflow

* This analysis can be performed at very low levels of granularity

The Seven-S descriptive model of organisation

The Seven-S model was developed by McKinsey's Bob Waterman and Tom Peters (co-authors of *In Search of Excellence*), as a way of describing organisations. It is descriptive rather than prescriptive.

Seven-S Model



Superordinate Goal: The long-term human and economic leadership vision of the organisation.

Strategy: The market segmentation, value proposition, and goals of the organisation and how these goals can be prioritised and broken down into separate accountabilities. A new strategy usually requires a levels shift.

Structure: The organisational chart that shows the division and the co-ordination of work in terms of function and level, and in doing so defines accountability, authority and potential teams.

Systems/Processes: The formal and informal performance systems and operational processes of the organisation.

Skills: Organisational skills to support level of capability, skill and intellectual capacity being quite different issues.

Staff: Support specialists, such as IT, HR and technical, who support accountable line managers.

Style: 'The way we do things around here.' Who has authority? Who is accountable? How are rewards and sanctions manifested? Are we individually or team oriented or both?

Using the 7s model one can describe what is required and what is to be gained by a levels shift in quality

From what → *To what*

Descriptor	Level II End of the line inspection and customer return	Level III In process inspection	Level IV Statistical quality control (SQC)	Level V Total quality management (TQM)
Strategy	▪ Reduction of returns	▪ Reduction of production costs	▪ Reduction of complete process costs ▪ Incorporates pre and post production	▪ Seek competitive advantage through quality and its through-effect on other processes
Structure ▪ Leader of function ▪ Lowest paid in function	▪ Production supervisor $70k p.a. ▪ Operators $35k p.a.	▪ Quality control manager $100k p.a. ▪ Inspectors $35k p.a.	▪ General Manager (Quality) $175k+ p.a. ▪ Quality assurance officer $70k p.a.	▪ Operations director (QA responsibility) $250k p.a. ▪ Quality management officer $70k p.a.
Skills required	▪ Production/product expertise ▪ Go, no go measurement	▪ Competent statistical and analysis skills ▪ Beginnings of specialized quality control technical skills ▪ Writing of design specifications ▪ Troubleshooting	▪ Broad business comprehension ▪ Competent quality assurance and control skills ▪ Strong numeric and diagnostic skills	▪ High level, broad based competencies in customer value offering ▪ Forefront of continuous improvement techniques ▪ Product/production skills less important
Systems	▪ End of line inspection ▪ Customer lives with lots of defects ▪ Repair a large function pre and post sales ▪ End of line, go no go specs on key utilities	▪ In process and end of line go, no go inspection ▪ Repair very much a part of operations ▪ Scrap rates measured in percentage points ▪ Hardly ever see a customer ▪ Industry discussion groups ▪ Standards set but a low level	▪ The quality function still largely separate from other functions ▪ Massive measuring and monitoring systems in place, trend analysis, talk to customers ▪ Quality circle processes starting ▪ Some failure accepted and repair function still in place ▪ National associations co-ordinating industry standards	▪ Cross-functional and thorough level integration of quality function ▪ Individuals within teams working to 2 sigma ▪ Integration of customer into the process both for design and feedback ▪ Failure the absolute exception. No scrap, no repair ▪ International Standards Organisation (ISO) accrediting and governing international industry standards
Outcomes 'the prize'	▪ **High failure rates but customer often wears it** ▪ **Focus on repair**	▪ **Failure rates in percentage terms** ▪ **QA a cost to be lowered** ▪ **QA as good as competitors**	▪ **Failure rates measured in parts of a per cent** ▪ **SQC used as a cost/profit trade-off**	▪ **Failure rates in units per million** ▪ **Increased speed to market locally and globally** ▪ **Quality a strategic tool**

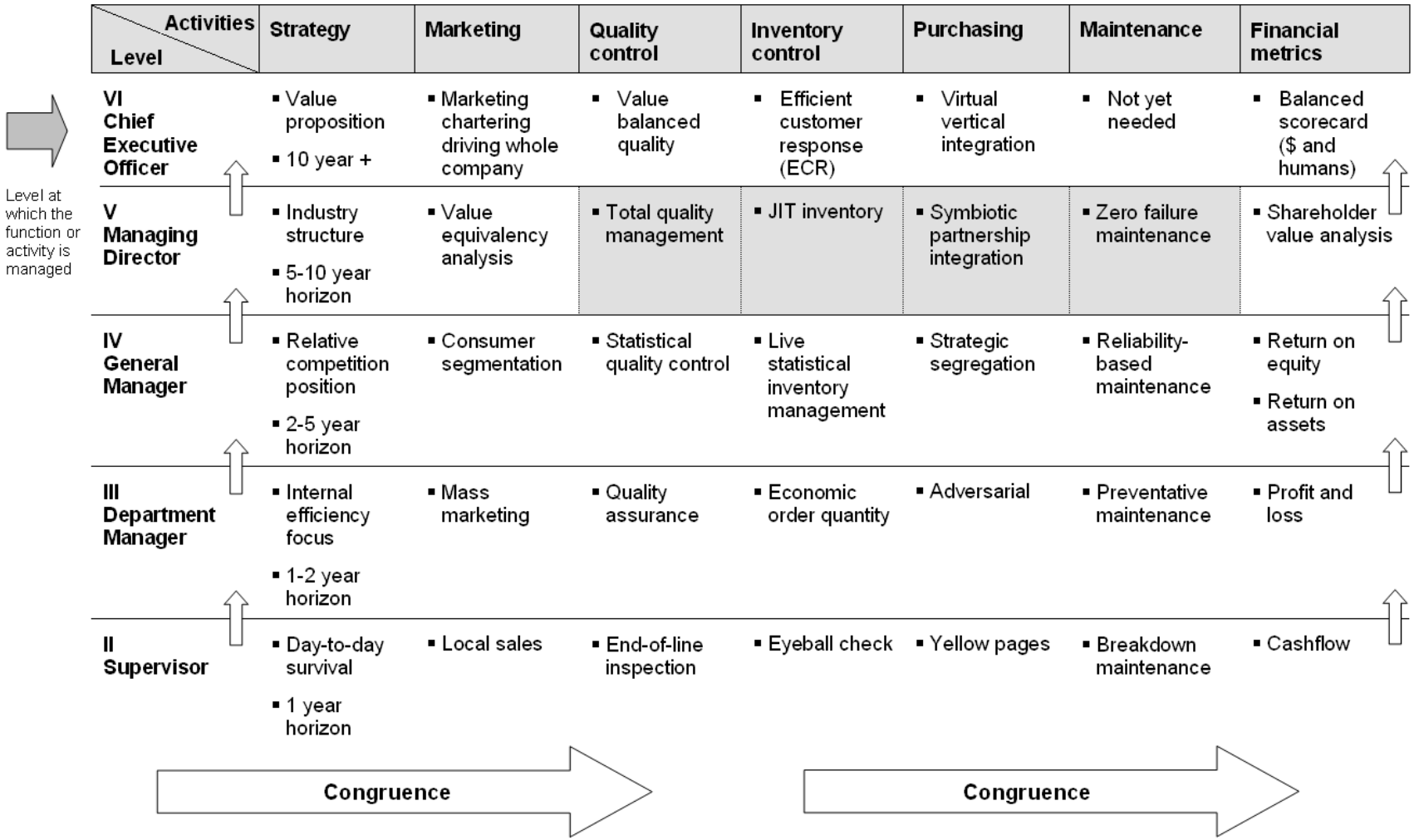
To achieve what ↑

Gains actually achieved by levels shifting

Function	Measure	Gain due to level shift *from* → *to*
Quality	▪ % scrap rate ▪ Defect rates	▪ 12-15% → 1.8% ▪ 1-2% → 1:1,000,000
Purchasing	▪ Cost of purchase	▪ Cost reduction of 10-12%
Sales	▪ Sales per mobile mortgage manager ▪ Value per mortgage	▪ 2 per week → 5 per week ▪ $80,000 → $130,000
Maintenance	▪ Availability of multi-system continuous plant	▪ 64% → 85%
Admin overhead	▪ Total cost of administration	▪ Reduced by 35-40%
Marketing	▪ Shares ▪ Time to market	▪ Three-year record of 7% value share gains based on social insight ▪ Time to market weeks or months
Operations productivity	▪ Labour and machine productivity	▪ 100-200% improvement

Congruency requirements

A levels shift in one function demands a similar level shift in all other related functions



Capacity requirements

A levels shift implies a major lift in capability with difficult personnel issues. This is a prime "technical" reason that change is so difficult.

	Typical Level III Function		Typical Level IV Function		Issues
IV			GENERAL MANAGER	x 1	▪ Can old III become IV?
III	MANAGER	x 1	MANAGERS	x 4	▪ Where do I get four IIIs?
II	SUPERS	x 6	ASSOCIATES	x 20	▪ Where do I get 20 IIs (usually okay 1/3 1/3 1/3 rule)?
I	OPERATORS	x 36			▪ Need to lay off a number of people
	Total =	43	Total =	25	Net reduction of 18 people = 41%

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The establishment and operation of a world-wide society of academics, business users and consultants interested in science-based management to improve organizational effectiveness for the purposes of:

Promoting among existing users increased awareness, understanding and skilled knowledge in applying concepts of Levels of Work Complexity, Levels of Human Capability, Accountability, and other concepts included in Requisite Organization and/or Stratified Systems Theory.

Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources.

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