



Keep it simple.

How companies can leverage organizational simplicity to maximize efficiency

Applied Value

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1. Introduction

19th century author Austin Freeman wrote, “simplicity is the soul of efficiency”, placing pen to paper over a century ago. His words have proven perennial in the face of an ever-changing world. In the wake of international conflict, shifts in political power, crumbling financial markets, and global pandemics, simplicity has remained the driving force for economic survival. Yet in the past three years, layers of complexity have been piled onto organizations and presented as makeshift solutions to macro-economic hardships and heightened volatility. Instead of retroactively compensating for unavoidable market forces, companies should establish a foundation that enables resiliency and prioritizes simplicity.

This begs the question of how to diagnose an overly complex organization. Often, symptoms present themselves first in a sense of duplication in work or resource overlaps, an excess of projects, disproportionate overhead & indirect spend, unrealized M&A synergies, or an unwavering internal resistance to change in the face of market forces demanding dynamism.

To address these symptoms and support clients seeking to optimize for efficiency, Applied Value has developed a framework through its extensive experience with organizational design called “The 3Ds of Organizational Simplicity” which helps companies design organizations that are strategic, resilient, and efficient. The framework involves a three-pronged approach: Direction, Design, and Dimensioning, that, when applied, can identify current inefficiencies within an organization and pave the way for effective restructuring.

2. Direction

2.1 Methodology

Over 25 years of helping clients with organizational optimization, a clear, yet often elusive prerequisite for effectiveness stands out: a simple, powerful business model that supports the overall strategy. This foundation relies on a company’s leadership establishing a “north star” and guiding the organization to narrow in on that core focus, then deliberately designing and adopting the right operating models to pursue it. Companies are finding this increasingly critical in our current economy, wherein volatile socioeconomic conditions compound on the weaknesses of complex organizations that struggle to overcome challenges simple, dynamic ones can avoid.

John Kotter, Harvard MBA Emeritus Professor and renowned thought leader on business transformations, asserts that “70% of corporate change initiatives fail”, citing “a lack of a clear strategic vision” as a main driver. This is why stepping back and realigning on the core focus and direction of a company at the leadership level is our recommended starting point for kicking off any organizational transformation initiative. While we find a facilitated visioning exercise to form the best foundation, organizations looking internally can begin by asking the following: What are we best known for? What is our core market, additional markets? What are our key strengths and our weaknesses – operationally, financially? How exposed are we to risk? What is our risk tolerance? What is our current maturity and future growth trajectory?

Informed by such factors, Direction should articulate a company’s core focus and principles and enable the alignment of the organization itself directly to its long-term strategy. This may represent a change from past strategies around profitability – a shift of product, service, customer, or market focus – or a narrowing in on core competencies – and will likely be influenced by a combination of internal and external pressures. Direction informs the tradeoffs that will be required in our next phase, Design, providing clarity to transform operating models and supply chains in order to simplify the business and increase profitability and resilience.



3. Design

3.1 Methodology

Once this foundation has been clearly established, companies must assess their organizational design’s ability to realize their desired Direction. The “Design” should answer the following three questions:

- (1) What does our organizational design need for the future?** An organizational design must have the specific characteristics that enable delivery of strategic objectives, like the right structure, footprint, communication pathways, and levels of responsibility. Moreover, it must consider business focus to drive the direction, clear roles & responsibilities, and a governance structure that enables cross-functional collaboration. Questions that a company may ask itself in assessing changes in future organizational design include: Does our geographical footprint provide sufficient coverage for our target markets? To what extent do our organizational layers reflect our vision for internal hierarchy or flatness?
- (2) How do we structure ourselves for growth?** There are a multitude of frameworks for operating and organizational models. One way of classifying operating models for global companies is by functional structures that are primarily centralized, center-led, or decentralized with the support of global and/or local resources. Each of these models have tradeoffs and advantages. In the first case study presented in this paper, the Telecom company’s direction of increased global standardization and efficiency led it towards increased centralization of support functions and the creation of a central sales enablement team. In contrast, for some companies, flexibility and customer-centricity are core tenets of their Direction, leading them to deprioritize the efficiencies of centralization for the benefits of strategic regional hubs. Ultimately, companies benefit from conducting a “best fit analysis”, as illustrated in Figure 1, in order to align their organizational structure and operating model to suit their direction and enable organizational transformation.

Figure 1: Illustrative Best Fit Analysis

Option	Business Focus	Competitive Strengths	Decision Speed	Accountability	Critical Links	HQ Role
Functional		X			X	
Geographic	✓		✓	✓	✓	✓
Product		X				
Market	✓		✓		✓	
Process	X			✓	X	
Best Fit: De-Centralized Organizational Structure						

- (3) How do we ensure long-term effectiveness?** It is not only important to select the right operating model and a simple organizational structure that aligns with future goals and enables growth, but to fine-tune it in a way that makes it sustainable. This process is intended to be iterative in nature, and a companies’ organizational design should constantly be revisited and improved in light of internal and external directional pressures.

Adjustments to the structure should be focused on enabling efficient execution of key business processes, a harmonious fit with existing and prospective competencies, and ultimately, its delivery on the strategic direction. An example of fine tuning could be a corporate delayering initiative to decrease complexity and streamline operations by minimizing both the number of organizational layers and relative span of control. Effectively executed, such efforts often reduce ~10%+ of organizational cost while improving internal collaboration¹.



3.2 Case Example

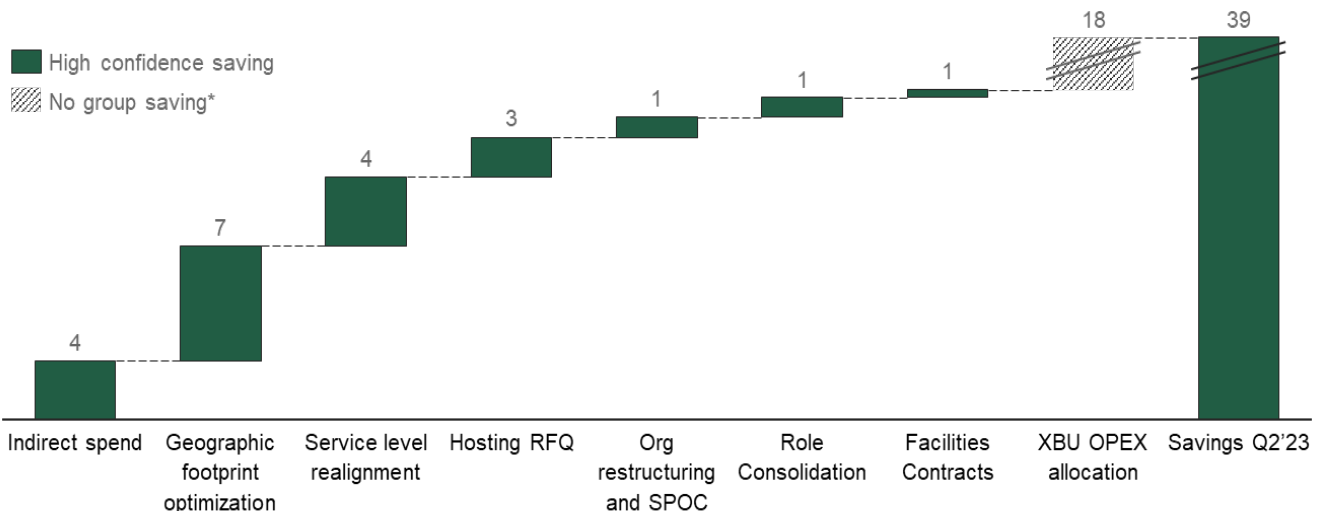
In 2022, Applied Value worked with a high-growth telecom company that was struggling to realize synergies following years of aggressive M&A activities. Applied Value applied the 3 Ds methodology to simplify their organizational design. We began by establishing the company’s desired direction, which was to increase global market penetration of core offerings by standardizing and proliferating a consistent go-to-market strategy supported by effective sales enablement. The company set a target of 20% savings on the current cost base in order to incentivize cross-sales growth while funding continued growth through M&A.

To understand how to achieve that desired future state, AV conducted extensive interviews to map the current operating model and organizational structure and identified opportunities for simplification to drive growth. Through interviews, analysis, and benchmarking, we identified:

- Lack of strategic thinking around org design exacerbated by M&A activity resulting in many transactional activities in high-salary countries and no integrated sales enablement capability
- Significant resource overlaps, especially in overhead functions (e.g., finance)
- Suboptimal output and utilization that resulted in COGS buildup and high churn rate
- Opportunity to roll up overhead functions to group level, rather than at the subsidiary level, reducing overhead & indirect spend

Following the identification of the above challenges, AV was able to identify \$28M USD in short term cost synergies and \$11M USD in long term savings, accounting for 20% of savings on the cost base.¹ The short-term cost synergies stemmed from the reduction of indirect spend, creation of a governance forum and decision board for total spend, and the reorganization of leadership teams and business units with a focus on consolidating resources and reducing the amount of organizational layers from 8 to 6. Looking long term, Applied Value helped optimize their geographic footprint and realign service levels.

Figure 2: Illustrative Cost Savings



¹ Source: Applied Value analysis



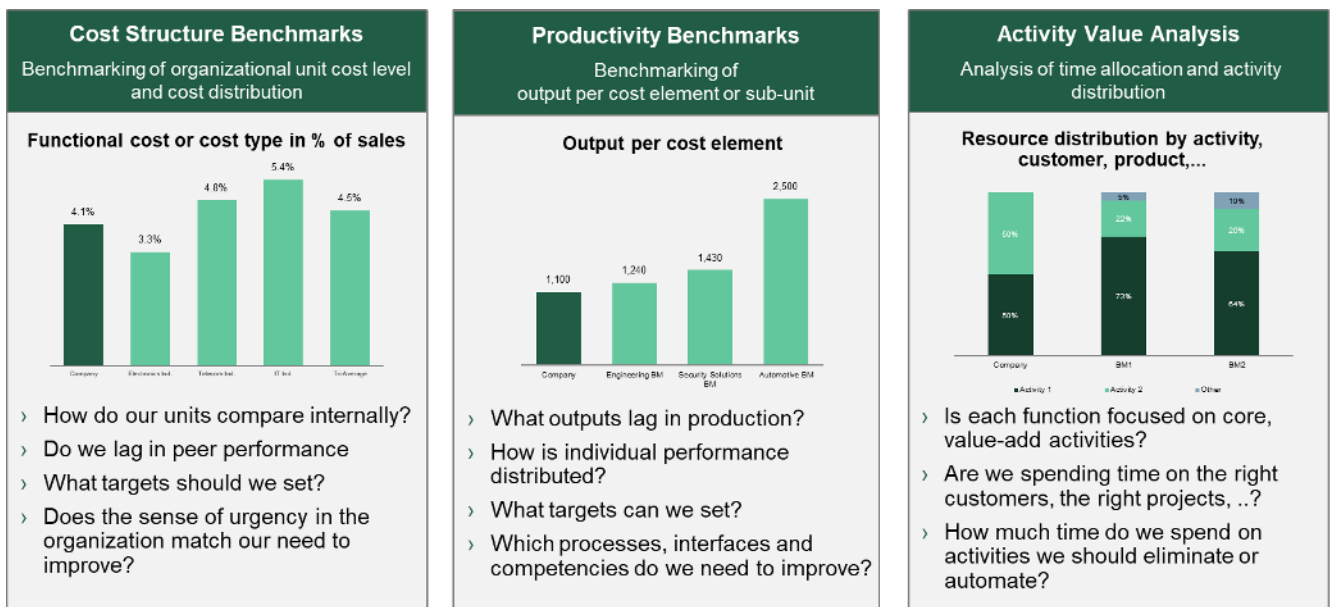
4. Dimensioning

4.1 Methodology

The last component of the framework, Dimensioning, takes a more tactical approach to analyzing activities and workforce composition of a company, and assessing how these aid or impede it from achieving its desired goals. By understanding organizational layers and span of control, what activities the company undertakes and how much time is allocated to them, and whether that aligns with the future strategy, productivity levers can be used to increase people, process, and organizational efficiency.

The right productivity levers will look different for each company, but possible levers can include changing strategic direction, eliminating or outsourcing non/low value-add activities, or delayering and redesigning the organizational structure. Setting up the right dimensions can be achieved by:

Figure 3: Dimensioning Activities



Cost and productivity benchmarking serves to orient the company's position in the market and identify key strength and pain points to address, while an activity value analysis aims to identify and separate value adding activities from non-value adding and value-destructing activities, as well as highlight which should be eliminated, automated, or merged.

4.2 Case Example

In 2021, Applied Value supported an automotive part manufacturer that was lacking a clear strategic direction. As a result, the company had an overly complex operating model misaligned to their needs. More tangibly, the organization was wasting resources, time, and money on transactional, reactive, and ad-hoc activities. AV utilized the 3 Ds framework to craft a strategic **direction**, carve out an organizational **design** that enabled it, and fine-tuned the **dimensions** that would ensure viability. For this client, particular emphasis was placed on Dimensioning, given their challenge with organizational waste.



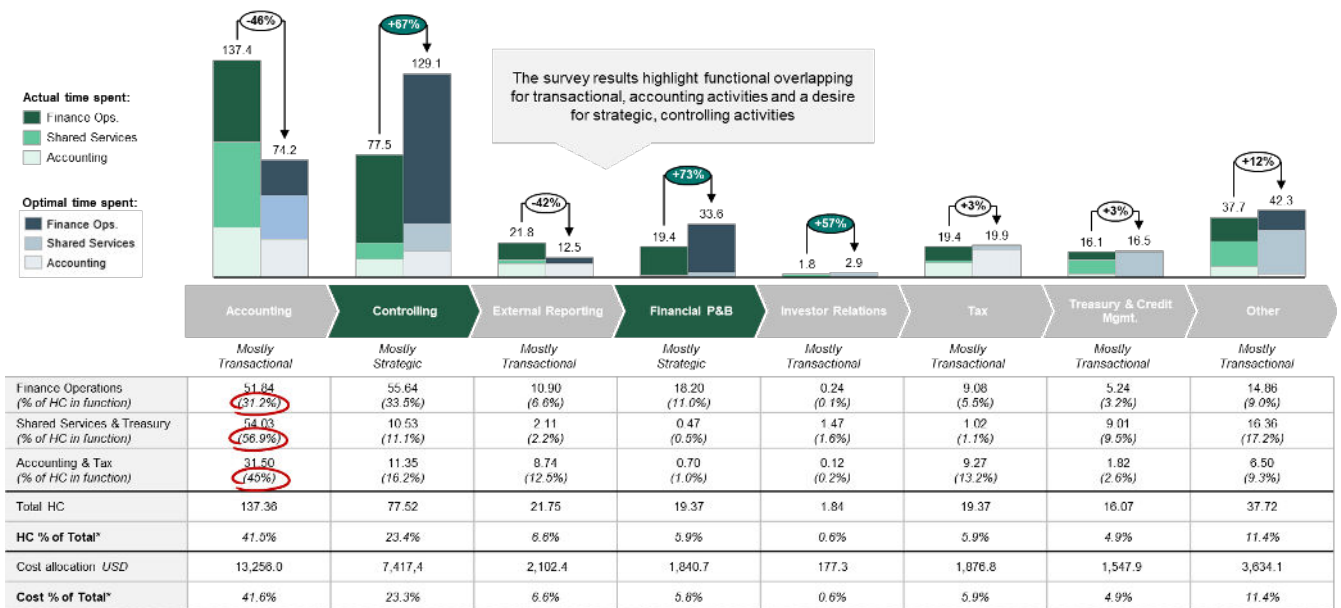
4.2 Case Example Cont'd

One of the many tools that AV leveraged to effectively fine-tune the existing organizational structure was our customized Activity Value Analysis (AVA). Effectively conducting an AVA provides a straightforward, fact-based approach to simplifying strategic decisions within an organization, and thereby optimize time and resource allocation. The AVA, which in this case leveraged data collected in the form of a survey to employees, consists of four main parts:

- 1) **Activity Definition** where all activities performed in the organization are identified
- 2) **Activity Data Collection (Survey)** where data on the total time spent on each activity and input to define activity characteristics (e.g., transactional vs. strategic) is collected
- 3) **Analysis of Current Performance and Business Impact** within each activity
- 4) **Identification of Actions per Activity** where the most suitable, strategic disposition for each activity is defined

Through the survey and analysis, we identified two major pain points to address. Firstly, 76% of all activities were performed manually, particularly in the accounting unit, indicating the need for a shift from transactional activities to strategic ones like controlling (Figure 4). Furthermore, 51% of time was spent on non-value add and non-strategic but necessary activities. To remedy this, Applied Value identified and prioritized the transactional but necessary activity type for automation and developed an implementation plan to help the company operationalize it. Secondly, results revealed that employees would benefit from more unity and integration amongst business units. As a result, AV dimensioned the org to enable more focus on closer relationships, proposing a new organizational structure with three new functions and fewer spans of control. Between these changes and a shift in the focus from accounting to controlling, the organization achieved a total headcount reduction of 27%. Altogether, these recommendations uncovered \$7.2M in cost savings and provided a 16% reduction on cost base.

Figure 4: Illustrative cost saving visualization



Source: Activity Value Survey Applied Value Analysis



5. Conclusion

By reducing organizational complexity, companies are better equipped to forge a long-term strategy that can withstand internal and external directional pressures. Furthermore, they can prevent symptoms of overcomplexity before they manifest, and efficiently diagnose and address them when they do. This is crucial: realizing too late that a company is bogged down in complexity often means it is too late to pivot dynamically, requiring a larger executive, workforce, and strategic overhaul. To achieve organizational simplicity and obtain the associated benefits, organizations must:

- 1) Align on a **direction** that guides the execution of a simple organizational design
- 2) **Design** the organizational structure that will best support the company's direction
- 3) Set the correct **dimensions** to ensure a tactical approach to assessing the org's activities

Strategic goal setting, targeted benchmarking, organization design optimization, and activity value analyses can help companies better identify true inefficiencies and align stakeholder groups on an optimized set of strategic levers to reduce complexity and breathe life back into the organization. After all, simplicity is the soul of efficiency.

Applied Value can help companies build simple operating models and organizational structures that are efficient, strategic, and resilient.

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