



SOCIETY OF ACTUARIES

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Managerially Speaking: Why Is the Machine Leaking?

by Marcel Gingras

Over the course of my career, I have had the opportunity to work with organizations of varying sizes. I have worked with an organization employing close to one hundred thousand people, a couple with ten thousand people and also a couple with less than five hundred people. Up to a few months ago, I never tried to work with an organization of one person, i.e., me working on my own.

Working on my own has given me the opportunity to see more clearly the advantages and disadvantages of working with a very small organization and working with very large ones. At one end of the spectrum, I now have to do everything, i.e., sales, marketing, administration and delivery of work. I can't afford a number of tools and the specialization many large organizations take for granted, and as a result, I am not as efficient as I could otherwise be.

On the other hand, I know exactly what I want to do and how I want to do it. I don't waste time in internal meetings. I am very focused and I am proud of what I am doing. Hence, I am quite efficient on that front.

On balance, I assume that, proportionally speaking, mid-size and large organizations should be at least as efficient as me, or any other owner operated business, and possibly quite a bit more efficient, given their access to capital, technology and savings created through economies of scale. It is my view that most organizations are far from being proportionally efficient as they should be, and therefore, fail to realize their full potential or if you prefer, leaking to varying degrees.

What is the issue?

Essentially, I believe that an organization with one thousand employees, for example, should be at least one thousand times more productive than an organization with one employee. I don't have any data to suggest that they are more or less productive than one thousand times, how-

ever my experience is that for most organizations, the number is likely to be somewhat below or well below one thousand. In any event, it is pretty certain that the number is well below where it should be given the well-publicized synergies and economies of scale.

It is my opinion that economies of scale and gains attributable to specialization by function are often negated by the added complexity and the resulting confusion in the organization. Obviously, this is not universally true of every organization; however, it is pretty well universally true that every organization has room for improvement.

Why do most organizations fail to realize their full potential?

There are a variety of reasons why organizations are leaking or fail to realize their full potential. I have attempted to list below some of the major sources of leakage that exist, in varying degrees, in most organizations of any size. I have also identified some of the root causes:

- **Unclear vision.** In many organizations, many people don't understand the vision of the enterprise. They don't understand it because it does not exist, because it has not been communicated or because it is not being reinforced continuously to existing and new employees.
- **Communications.** In many organizations, communications are not as well organized as they could be. Even if they are well organized, the time required for leaders to communicate and for employees to capture the information becomes a source of reduced productivity. Keep in mind that my starting point is an enterprise with a sole employee, where no time is allocated to internal communications.

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- **Pride.** One of the main drivers for sole operators is the pride they have for the work they do. If they wish to stay in business, they have no choice but to be proud. In larger organizations, it is a mammoth task to create pride. It can be done, however, it is difficult. Over the years, I have always been amazed at the amount of internal criticism directed at organizations, quite often by senior and/or long-term employees. Hardly a recipe for success!
- **Focus.** Again, smaller enterprises need to focus on what really matters, otherwise the enterprise is unlikely to stay alive for very long. In larger organizations, there is quite a bit of leakage because people sometimes focus on things that don't really matter, or activities with low added value or even worse, negative added value. As an example, I recently tried to subscribe to a magazine and was warned that my application will take six weeks to process. What is wrong with an organization that takes six weeks to accept my simple straightforward business?
- **Politics.** Not surprisingly, as soon as you bring more than one person into a company, there will be politics. Hopefully, it will not amount to much, but it will still be there. People will always have some amount of personal agenda. Some organizations are known as real political nests, and as a result, there is major leakage in productivity.
- **Teamwork.** Teams of one are quite team focused by definition. In fact, it hardly qualifies as a team. Ideally, teams of more than one would enjoy the same unity in perspective and execution as a team of one. Some teams work very well together, however, it typically does not happen by accident. It requires a fair amount of time invested. Unfortunately, many teams lack the desired uniformity and the result is even worse, i.e., lack of uniformity in direction and execution.
- **Mindset.** With small organizations, it is easier to have a uniform mindset or culture, i.e., the set of values and principles accepted within the organization. In larger organizations, there are different mindsets or subcultures. Merger and acquisition activity generally compounds the challenge.
- **Leadership and management.** In very small organizations, leadership is not so critical, especially if there are no other employees than the owner. However, in large organizations leadership and management competencies are critical, yet many organizations suffer from a lack of these skills. A number of people who are in leadership roles behave as if their role was managerial, i.e., they manage things as opposed to leading people. In most enterprises, the leakage attributable to this shortcoming is huge.
- **Organizational design.** As companies grow, they need to spend more time on organizational design. Some suffer from poor organizational design, and others are known to change the design continuously, resulting in confusion and wasted time.
- **Empowerment.** In small companies, resourceful people survive by overcoming barriers to get things done. In larger organizations, convincing people that they are empowered to do things is a major challenge. In other organizations, people are really not empowered to do much without a lot of bureaucratic involvement. Both of these situations lead to wasted time as people wait for somebody else to do something.
- **Sense of ownership.** The beauty of operating a small business is that there is direct linkage between action and results. In most organizations, it is difficult to create that sense of ownership beyond a limited number of people at the top of the organization. As a result, people behave as if they are handling someone else's business as opposed to their

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own. Many organizations do a good job trying to create that sense of ownership, however, many don't do such a great job.

- **Creativity.** Due to the heavy bureaucracy afflicting many organizations, it is difficult for people to convey ideas, get them accepted and implement them. After a while, this kills creativity within the organization. It is difficult to create a climate conducive to creativity. It is much easier to create a climate where it does not exist.
- **Meetings.** In most organizations, there is a huge amount of time spent in meetings. Yet, many organizations allow wasting vast amounts of resources because there are too many meetings lasting too long, attended by too many people and quite often there is no specific or measurable outcome. Companies have all types of controls on hard cost spending, yet they sometimes allow anyone to call a meeting that may cost \$2,000, once the full cost is recognized.
- **Financial focus.** Small enterprises quickly understand the basics of finance. Revenues must exceed expenses by some margin and positive cash flow is most desirable. This financial focus gets lost as organizations

grow. Eventually, except for a few people, employees tend not to see the whole financial picture and eventually assume that managing the financial aspect is not part of their job.

What can be done?

One of the responsibilities of leaders is to create and communicate a vision for the enterprise. They must also create an environment that is conducive to handling business as effectively as possible. As part of creating the right environment, leaders must pay attention to the sources of leakage within the organization, i.e., areas where the organization is failing to realize its full potential. Each potential source of leakage needs to be reviewed systematically and continuously.

In future articles, I will address most of the areas mentioned in the previous section, with some examples of how incremental improvement is possible in each one of them.

Conclusion

Based on experience working directly and indirectly with several organizations, every company has several sources of leakage. The issue is not whether your own machine is leaking or not; rather, the issue is to determine how much leakage exists and how long you can afford to wait before you fix it. □

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