

MEMORANDUM

VIA E-MAIL

TO: RED
FROM: William E. Roberts
DATE: May 25, 2006
RE: **People and Organizational Charts**

Ladies and Gentlemen,

I am writing to share my view on what I believe to be the single most important “ingredient” of RED’s success . . . people . . . and on the value (or lack thereof), or perhaps better said on the limitations (and potential dangers) of organizational charts.

The way in which organizations think about people, the manner in which they employ organizational charts, and the ways in which organizational charts can influence, direct or even control organizational behavior may profoundly impact an organization’s nature, at least so I believe. Given the key linkages between organizational charts and the way members of organizations tend to view themselves, their organizations, and each other, and thus between such charts and how members and segments of organizations interrelate, I think it best to begin this commentary with a discussion of organizational charts and then turn to people. That is not to imply, in any way, that organizational charts are more important than people. Indeed, the opposite is true, as I hope to make abundantly clear.

Organizational Charts:

We have all seen a number of them. They are drawn pyramidally. The Chairman or CEO is at the pinnacle. All others are arrayed beneath her or him as the pyramid widens toward its base. Within the larger pyramid are multiple smaller pyramids, each representing some organizational subcomponent, each subcomponent with a manager at its apex. Those with the most contact with and responsibility to customers (be they external customers or internal customers) typically are arrayed across the base of the pyramid. That base, presumably, rests on the foundation of the business . . . its customers. The implications of the typical organizational chart are manifold and profoundly wrong. Organizational charts as I’ve just described them among other things imply:

- That an employee’s primary responsibility is (and rightly should be) to support those above her or him on the organizational chart,
- That communication should flow along the lines connecting “managers” to their “direct reports,”
- That information should flow up those lines while direction, decisions and wisdom flow down them,
- That there are and should be discreet units within the organization, each with a designated overseer [a short step from silos, it seems to me],
- That organizations are stable, enduring structures [just think how long the pyramids have stood in Giza], and
- In the traditional organizational chart format, where are the customers? At the bottom . . . just like the earth . . . supporting the organizational pyramid.

All this in the name of creating order, clarity, clear lines of communication, and certainty with regard to authority and responsibility. It is a command/control structure, not an inspirational structure. It is a structure which, by its nature, tends to focus resources on satisfying the CEO rather than the customer. It implies the need to watch, monitor and direct the workers. It is a holdover, I suspect, from the age of industrial manufacturing. The thinking must have gone: people left to their own devices are irresponsible if not dangerous. I am not an industrial historian and thus will not presume to judge the reasonableness of the practices of 150 years ago. But viewed today, at least at RED, I say, phooey!

Some degree of clarity with regard to responsibility and a reasonable degree of order are necessary, of course, to any functioning organization. But I nonetheless contend that, at least at this firm, the classical organizational chart is an anachronism . . . drawn upside-down. Sure, we must have one and it is likely a good idea that we employ a classic design. It will help those who join the firm better understand its components. And, it is what everyone who examines RED (auditors, regulators, fund investors, etc.) expects. To approach it otherwise would be “unconventional” at best and the “unconventional” is typically looked at askance if not with distrust. We must have one, but we must understand its limitations. We need to see it as a tool, like a map, and never mistake it for either an accurate depiction of reality or believe it prescriptive of the relationships we desire. Indeed, classically drawn organizational charts generally mis-prescribe structures for organizations, like RED, which must serve the customer in order to flourish.

For RED (and I’d argue for all integrated customer focused/customer service organizations), the chart should be inverted. Lines of communication and responsibility should connect virtually everyone to virtually everyone else, or at a minimum, every segment of the business to every other segment. The CEO should be at the bottom of this pyramid which now stands on its point. Every manager of every interlinked sub segment similarly would be at the “apex” of a now inverted sub pyramid. Those with the most customer contact would be at the top of the structure and customers would be arrayed above it. Such an inversion of the organizational chart, in my view, would be illustrative of RED (or of what we hope RED will be) and prescriptive of the nature of any organization designed to serve its customers in three key respects.

First, it would make it clear that a business must support its customers, as the customers are the top priority.

Second, it would make clear that the most important role of a business leader is to support those who “report” to her or him. The job of the business leader or the leader of a segment of a business is to create an environment in which everyone is allowed, hopefully encouraged, and better yet inspired to work together to serve the customer and thereby to deliver results to the shareholder. In addition, of course, the job of the leadership is (i) to help the business understand its potential future by helping it imagine that future and express it in a vision, i.e., through a conceptual goal or series of goals, and (ii) to build a culture which attracts the best people, thereby allowing the organization to pursue its vision. Unfortunately I can think of no way to symbolize those leadership responsibilities in an organizational chart of any variety.

Third, balanced on its point, an organizational pyramid would properly convey the tenuousness of the business. Try balancing a pyramid on its point. The first lesson learned is that leadership responsibility must be shared. Saw off the point, make it flat, and though it remains difficult balance can be achieved and maintained. In order to maintain its balance, even on a now flattened tip, the organization depends on the cooperativeness, commitment, and efforts of all of its members. The second lesson to be learned is that customers, who are now arrayed above the structure, are where they belong . . . at the top! Business organizations do not exist to serve “management”; they exist to serve the customer. If they serve poorly, they will under perform to the detriment of the shareholder, to the detriment of every member of the business including the CEO and all those who are managers, and to the detriment of their shrinking collection of customers. If they fail to serve, they will cease to exist altogether. Upon what does this inverted pyramid now rest? That takes us to the third lesson. The organization rests on an ever-changing business environment, the environment in which its customers live every day. The organization must adapt, change, evolve and grow in order to maintain its balance on this shifting foundation. In that regard, its customers

take on even greater value and importance (if that is possible). An organization's customers provide the best intelligence regarding that changing environment. Organizations thus must not only serve customers' current needs, they must listen to customers to anticipate future needs. By listening to its customers, a business has a chance to understand and thus to change to meet customer needs in the business environment of tomorrow.

People:

Now, what about people? It is all about people. Organizational charts are just convenient ways to crudely and inadequately describe in a formalistic (and in the case of a dynamic firm, perpetually outdated) way the people and their interrelationships which are an organization. In a healthy organization, such charts are largely fiction. People and the way those people work together are reality. The people of a customer focused/customer service organization like RED must continually organize, reorganize, position and reposition themselves, that is to say deploy and re-deploy, to best serve and best understand the customer. Ideally organizational charts would be drawn and redrawn constantly to fit that evolving deployment, but of course one could never keep up with the changes. Organizational charts, therefore, do not accurately and cannot accurately depict the interrelationships between people which create an organization and even an inverted chart with dotted lines running hither and way cannot convey the multiplicity of dynamic communications and interactions between people required to meet customer needs and to constantly realign the organization to address anticipated future customer needs.

People make it happen. People are not only reality, people make the future reality. They are not (we are not) resources to be managed by an organization. It is for that reason that at RED we do not have a "human resources" department, but rather a "Colleague Services" group. [There are implications in words which tend to certain forms of action . . . but that's another story.] People must be allowed, encouraged, assisted and inspired to do what is best to serve the customer. Organizations serve themselves making it easy for their people to do so. In a customer focused/customer service organization, knowledge is the repository of value. And, as knowledge is in the minds of people, in such an organization it is all about people, how they relate to each other, and how they relate to the customer. I'll say it once again . . . people are the organization. You are RED. Just as you, by your actions, constantly redraw RED's functional, which is to say real, organizational chart, over the longer term RED will be what you make it.

Bill

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