

Behavior breeds behavior

The recession is forcing many companies to re-think their overheads

With an eye on spend, senior teams are calculating the cost of their global structures and asking, “Should we be doing things differently?”

The centralized-decentralized debate

Cost pressures are forcing them to consider moving from a core centralized model to a decentralized model – or vice versa. Either bringing activities into the center and having them run by one team, or distributing central functions out to the territories. While some businesses believe it will be cheaper to centralize, others think it will be cheaper to decentralize.

What if this debate is a complete distraction from the bigger topics of revenue and product innovation – the business imperatives? If you have a revenue problem, structure isn’t always the answer.

Focusing on structure is easy to understand. But it’s a frequent knee-jerk reaction to problems inside the organization that becomes a rearrangement of the Titanic’s deckchairs – a distraction that won’t fix the underlying problem.

Structural components

We find it helps to consider the structural issue in its component parts.

1. The product part: product innovation, design and build.
2. The market part: customer segmentation. Who is buying, what are they buying and how are they buying?
3. The revenue part: the territory or branch network. Outside strategic marketing and production, people operate on the ground in territories, countries, branches, shops, or as franchisees.

Some businesses centralize the structure of those three parts into one business entity that controls all three across the globe. Other companies decentralize their structure in up to three separate entities: separate product company, a separate market company and separate territory management.

It’s not working!

Centralization can have some advantages. But when things go wrong, staff are likely to blame the structure. “Perhaps we should decentralize? Then the territories could control their own budgets.” The disharmony around central structures is usually a lack of product adaptation for local markets and few marketing conversations on the ground.

The advantage of decentralized structures is more local application, autonomy, flexibility and application on the ground. Some argue decentralized structures cost more than centralized and some argue the opposite. Others argue that either structure in the same company can be cost efficient depending on how much resistance there is to the structure.

For every advantage of a decentralized structure, there are equally compelling disadvantages.

...so let’s decentralize!

“We’re a centralized structure, so let’s decentralize,” is a typical response from an organization when things aren’t going too well. People say, “Yay!” and the energy goes into the reorganization for a few years while everyone gets focused on how the organization might eventually look.

But once they’re in the decentralized structure, they begin to see its disadvantages. Everyone that liked the previous structure voices their opinion and spends the next couple of years arguing for centralization. They win the argument and back goes the organization to its centralized structure.

Then the reverse argument wins the day as centralization fails. The company moves back to a decentralized structure – and then back again to centralized, all the time ignoring the underlying business problems.

Is changing the structure the answer?

Not necessarily. The change could create bigger problems if it doesn't energize staff and customers and could cost the business more overall, even if it saves a small amount on administration. Added to which, the cost of the change project itself is likely to be significant. Plus the accompanying staff distraction while they look to see who'll end up in which chair – including their own.

For every advantage of a decentralized structure, there are equally compelling disadvantages. And the same for the centralized model. In most cases the centralized-decentralized debate is just a distraction because structural change feels like an easy solution. It energizes people momentarily while they feel they are getting somewhere. But don't confuse movement with progress.

Behavior must acknowledge that to generate abundance you must behave abundantly.

Behavior is at the heart

When problems occur it's common for people to focus on structure and say, "We'd all get along better if we were decentralized (centralized)." In a decentralized business the idea of working better together if the organization were centralized is a common one – just one company and not separate companies, or just one structure and not several.

But the answer isn't commonly structural. It's behavior and behavior is about personal choice. If I work in a different business from you in a decentralized structure, it's up to me to participate with you. Forcing you into the same centralized structure as me won't necessarily get us to work more closely.

Behavior generates more (or less) customer referrals

For example, even in centralized sales and marketing structures people still don't refer customers to each other. We often talk to executives in decentralized territories about how to get people referring more customers internally. They regularly ask, "Should we become centralized?" Our response is that centralizing won't force people to work together better and we have plenty of centralized examples where people still don't refer work.

A centralized structure doesn't force people to work together effectively because structure doesn't force behavior. Behavior is a choice we all make as individuals and we're seeing the recession's effects where businesses have been hit particularly hard.

Scarcity mindset creates silo behavior

For those employed on smaller base salaries with big bonuses, their bonuses are being cut in line with the recession. Their immediate response is to pull back within themselves. "My bonus has been cut, so I must focus on getting more work for myself to increase it. I don't care about anyone else in the organization. I only worry about me."

Recessions force a feeling of scarcity, which drives silo behavior. "There's not enough around so I'll grab what I can." Once people become siloed, their feeling is always one of isolation.

In this example, scarcity is creating scarcity because no one refers any work. When asked why, people respond, "No one refers work to me so why bother? I'll behave in an abundant way when we are abundant. When I make enough money I'll refer my clients to other people." Instead, behavior must acknowledge that to generate abundance you must behave abundantly.

Too many brands?

In addition to the structural debate is the one around brand. One company with many brands is asking us, "Do we need so many brands? Are they all cost effective? Is brand extension a good idea or should we have just one brand?" It's almost the same conversation as structures – to centralize or decentralize the brand.

Many manufacturing companies run a multitude of sub-brands as well as a central brand. Take BMW for example. BMW is the company brand and the strongly sub-branded products within it include the 5 series saloon, Z4 sports car and GS enduro motorcycle. Diageo is a further example, but a business that doesn't much use the company name in the market. Instead it is known variously for Guinness, Smirnoff and Baileys.

Single versus multiple brands

Some businesses decentralize their structure around their sub-brands. In other words, separate company entities. While many FMCG companies maintain centralized structures alongside sub-branded products, service-based companies find that difficult and tend to decentralize around both brand and structure. Several accounting and legal professions have tried to create a one-stop-shop with a centralized structure. But clients have not reacted positively to a single brand for both accounting and legal services and are disinclined to trust a central brand to do both jobs.

Financial services are driven down the decentralized route by legislation, jurisdiction and tax. Countries have different legal requirements and expect financial services to operate in a specific way in each location. Financial services are decentralized because they have to be. The administration cost of managing, say 25 different jurisdictions with different rules would be too high and some jurisdictions won't allow a centralized company to operate in their locality.

Once size certainly doesn't fit all circumstances.

Can we generate more revenue?

Revenue generation is the third area for debate, particularly generating more revenue through cross-business customer referral.

During a recession, external market referrals typically dry up. This causes companies to review their client base and ask if they are actively developing it. Businesses spend time and money on external marketing, advertising and trying to develop different channels. But when the results of these activities slow down they ask, "Where can we find more business?"

At this point, people realise they have clients they haven't contacted for the last two years. Time to review the state of play on internal referrals.

Distant colleagues

We've been working with eight territory managers in a global company, each working on the same product suite around the world. But there isn't one referral between them. Each person is doing their own thing and they don't try to help each other.

The managers say, "We have a cultural problem of not referring to each other." They tried to fix it through a cultural conversation, out of which they began to swing into the structural question. "Maybe it's not working because we're not a central structure?" Switching their structure to the opposite will very likely end by people discovering they're still not making referrals to each other.

These senior territory managers all say, "In my territory I feel isolated, so I might as well look after myself." But this isolation comes from their own behavior. They make the choice of whether to pick up the phone and connect with other people. Connection comes from behavior, not from structure. Forcing these individuals into a central structure, won't stop them feeling isolated if their behavior remains the same.

Call a halt to recurring problems

Without tackling the fundamental issues behind company growth, the same problems just keep recurring. And recurring problems lead to future frustration and poor performance.

The current recession, in particular, is driving the cost conversation around brand and around structure. These considerations result in flipping between the centralize-decentralize question. But ultimately, the recession should be forcing behavior conversations instead. Behaviors that will lift performance and increase revenue generation.

Connection comes from behavior,
not from structure.