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Leadership Levels

Empowering Leaders To Deliver Customer Service

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Does your organization have the right number of hierarchical tiers? Are your leaders fully empowered with decision rights? Are you motivating employees in line with your business strategy? Do you have information processes in place to coordinate activities and measure performance?

Booz Allen Hamilton and Panthea Strategic Leadership Advisors partnered to address these questions for a U.S. utility and uncovered answers that could provide lessons for any organization facing similar issues. By redesigning the utility's horizontal work processes and leadership hierarchy, Booz Allen and Panthea were able to reduce organizational complexity and create a structure that maximized each employee's capabilities.

The U.S. utility featured in this case study has revenues of US\$2 billion per year from 800,000 customer accounts; an expense base of \$900 million, including costs relating to 6,500 employees; and a \$2 billion capital budget for major infrastructure improvements.

Booz Allen was commissioned to develop a best-practices model for the utility's customer service activities, covering organizational design and other areas such as technology systems capabilities. Six hundred of the company's 6,500 personnel are employed in the utility's bureau of customer services (BCS), the unit that was the focus of Booz Allen and Panthea's work. The BCS has an operating budget

of \$50 million per year and a capital budget that sometimes exceeds the operating budget. The key objectives of the BCS are billing customers in a fair and equitable way based on accurate metering of service use; receiving revenues to support the utility's operations; collecting money from customers whose payments are in arrears; and improving service levels provided to customers. When Booz Allen was asked to help, these objectives were not being fully met.

Leadership Levels Methodology—Overview

Early on in the project, a "tiers and spans" analysis revealed that the 600 customer service personnel were structured in a hierarchy of 10 tiers, from frontline customer service employee to the utility's CEO. Of the 600 BCS personnel, 120 were in leadership roles; that is, they had at least one subordinate. Hence the average span of control across the BCS leaders was five.

Finding 10 tiers in an organization of 6,500 people and an average span of only five across leaders suggested strongly that the organization was not designed optimally. But the challenge was to work out which roles were adding value in the hierarchy and which could be removed. Exhibit 1 lays out one of the 10-tier chains of command that needed to be addressed.

Panthea's "Leadership Levels" methodology is a proven, practical approach to determining precisely how many value-adding leadership tiers are needed above frontline employees for an organization to deliver its strategy and optimize the benefits it offers customers and other stakeholders.

The approach involves interviewing people in key hierarchies, starting at the bottom and moving through each successive layer, to assess the decision-making accountability in each role and hence identify how the structure and decision rights should change to create a structure with the right number of tiers of the right size. The process focuses primarily on tiers rather than spans of control, because looking simply at spans can be misleading. For example, if we review spans of control alone, the data in Exhibit 1 suggests the role of field office manager is a candidate for de-layering (because it has a span of only two) and the role of deputy CEO is value-adding (because it has a span of 13). But actually, as outlined in more detail below, we found the role of field office manager to be value-adding to subordinates, in contrast to the role of deputy CEO.

The level of accountability for decision making in a given leadership role are assessed through analysis of seven elements: purpose of job, resources, problem solving, change, natural work team, external interaction, and time frame. This assessment places the role in one of eight possible Leadership Levels, with the least complex being Level 1 and the most complex being Level 8, which is required only in a small number of super-organizations (see Exhibit 2). Leadership roles at higher levels carry greater accountability. A similar process can be used to

Exhibit 1

Example of One of the 10-Tier Chains of Command

Tier	Role	Span of Control
Tier 10	Utility CEO	13
Tier 9	Deputy CEO	13
Tier 8	Bureau of Customer Services Director	7
Tier 7	Central Operations Director	3
Tier 6	Field Operations Director	6
Tier 5	Field Office Manager	2
Tier 4	Chief	4
Tier 3	Supervisor	6
Tier 2	Junior Supervisor	4
Tier 1	Frontline Employee	-

Source: Panthea

assess the complexity of non-leadership roles; the process assigns them the same generic levels of accountability as are assigned to the leadership roles.

The golden rule of Leadership Levels is that a healthy hierarchy requires no more than one leadership role per level. In a specific chain of command, if more than one leadership role is found in a given level, it denotes over-tiering, with the roles in that level having overlapping decision rights (“compression”). Level 1 leaders are the only leaders who should oversee direct reports in the same level of accountability as their own. Level 2 leaders should oversee direct reports in Level 1, not Level 2, and so on up the chain.

It is also possible for a hierarchy to be too flat by having a missing leadership role. We have seen cases in which one part of the same chain of command was too flat while another was over-tiered. These issues do not cancel each other out; rather, they compound dysfunction.

To give further insight into how we undertake the assessment of a leadership role’s level, we will focus on one of the seven decision-making elements: resources. There are a number of factors to consider with regard to the resources for which a role may be accountable. These include whether the role holder can decide (not simply recommend):

- Whom to hire as a direct report; the leader should at least have veto power
- What each direct report’s main duties will be
- What formal appraisal rating immediate subordinates will receive and, hence, what bonus or merit increase they can receive, in line with the reward policy set for the organization
- Whether reports will be fired (or, at a minimum, transferred out of the team) for nonperformance
- How to allocate an annual budget.

A fully empowered Level 2 leader should have all of these decision rights and more. If he or she does not, this points to Level 1 leadership accountability, what we call supervisory leadership as opposed to managerial leadership.

Exhibit 2

Examples of Leadership Levels

Level	Examples of Work Involved	Examples of Role
8	Lead a cluster of Level 7 corporations, i.e., businesses led by a Level 7 manager (this level of work occurs only at the top of a small number of super-organizations)	CEO of global consumer packaged goods company with 230,000 staff in 100 countries
7	Set, sustain, and govern a purposeful, long-term corporate direction, vision, and culture; develop and pursue worldwide strategic plans	International retailer CEO with 380,000 staff in 13 countries
6	Lead a group of independent businesses across several nations; anticipate and address critical world events that could affect the corporation adversely	Home improvement retailer CEO with 38,000 staff in six countries; clothing and food retailer CEO with 65,000 staff; retail and business bank CEO with 7,000 staff in 12 countries
5	Unify a large business, integrating full-fledged functions; set strategy in light of ambiguous conceptual variables and likely downstream effects	U.K. telecommunications managing director with 12,000 staff; retail bank U.K. managing director with 6,500 staff; group IT and operations director with 7,500 staff; retail and business bank country managing director with 2,000 staff
4	Recommend strategy, including major resource reconfiguration; create a set of plans and progress in parallel, e.g., to design a new venture product	Retail and business bank country managing director with 1,000 staff; contact centers manager with 1,500 staff; IT infrastructure and service delivery director with 1,700 staff
3	Integrate operations overall; construct alternative plans, then select and implement one operational plan through all phases.	Regional manager with 1,100 staff at 120 retail outlets; head of processing center with 900 staff; hypermarket manager with 750 staff
2	Manage first-line team; judge, diagnose, and overcome discrete problems	Area manager with 120 staff at 13 retail outlets; operations manager with 150 staff at one site
1	Execute prescribed tasks; take action as frontline worker or supervisor	Retail outlet supervisor with 15 staff

Note: This table sets out all known leadership levels that can exist in an organization, but it is highly unlikely that all levels will be needed in any one organization. This is true for two reasons: First, the complexity of the top job in an organization can range from Level 2 (employer of a small number of employees in Level 1) to Level 8. Second, the front line, or most junior function, in the organization can be Level 1 (in most situations) to Level 3 (e.g., in a small, non-leveraged strategy consultancy with no in-house support staff). The exhibit includes the frontline Level 1, the usual case, but the frontline job or function in an organization might actually be Level 2 or even Level 3.

Source: Panthea

We can bring this theory to life with an example from the U.S. utility. Our interviews determined that the first leader who had an annual budget was the BCS director in Tier 8 (counting up from the front line). There were therefore six tiers of leaders without accountability for an annual budget between the BCS director and the BCS front line. An ideal hierarchy has only one type of leader who can be fully empowered and yet not have accountability for an annual budget—a Level 1 leader. Although it is possible for a leadership role with some missing aspects of accountability for a given level to be assessed on balance as being at that level when all the other role's responsibilities are considered and weighed, such a role cannot be assessed as fully empowered without all relevant accountabilities, including budget, in place.

Leadership Levels Methodology: Insight into Role Assessment Interview Approach

Exhibit 3 (see page 4) highlights two of the questions we asked people in various roles, along with their responses and our bracketed comments regarding the implication each response offers about the role's level. As we will describe further below, it is noteworthy that over-tiering was found in this hierarchy. Therefore, the example questions and answers provide indications of the role's level that do not always point in the same direction. This happens quite often in an over-tiered hierarchy, because over-tiering can have the effect of hollowing out some aspects of a leadership role. This is due to there being another role immediately above or below it in the hierarchy that is actually at the same level.

Exhibit 3

Examples of Leadership-Level Interview Questions and Answers

Tier	Role	What's Your Role in Hiring Direct Reports?	What's Your Role in Exiting People?
Tier 6	Field Operations Director	<p>"A field office manager recently retired. I sat in on the interview process with the BCS administrator who's responsible for HR. We selected our agreed choice and recommended her to my boss. My boss then interviewed her with me."</p> <p><i>[Level 2 or higher.]</i></p>	<p>"If a field office manager is not performing, I can make a suggestion that my boss pull out the person from that role to work on a project."</p> <p><i>["Suggestion" is weaker accountability than we would expect, given the response to the first question. This may indicate that the boss of the field operations director is at the same level as the field operations director, and compressing him by reserving rights for himself that should be delegated. Alternatively, it might indicate some more general weakening of managers' powers—for instance, causing difficulty for them in removing nonperforming employees.]</i></p>
Tier 5	Field Office Manager	<p>"A field office manager plays very little role in hiring. The BCS director decides whether to backfill a role that is vacated or to move head count elsewhere. If a vacancy is to be filled, interviews are set up by the head of department administration. Field office managers do not generally participate. However, I did interview candidates for the clerical chief role alongside my boss and the BCS administrator, and I got the person I wanted, even though they favored someone else."</p> <p><i>[In general, this role holder is not at interviews, suggesting Level 1, but in the case of clerical chief had right of veto, implying Level 2.]</i></p>	<p>"The supervisor does a write-up of the performance issue and the chief's summary is added. I review it and decide whether it requires sending the employee to disciplinary council. I've never asked the field ops director to [make] a transfer out of the office, but I'm about to."</p> <p><i>[Historically, the decision to transfer someone out of the team has not been used, but this role holder has recently decided to do this for the first time. This suggests Level 2.]</i></p>
Tier 4	Chief	<p>"The interview panel would be the field ops director and field office managers. I would like to be there as a chief, as I would have to work with the person."</p> <p><i>[Suggests Level 1.]</i></p>	<p>"Depending on seriousness of offense, I—not my supervisors—decide on disciplinary action. I would write to the field ops director, copying my field office manager. The director would then send it to disciplinary council. He can make his recommendations also. I might be asked to give evidence at a hearing."</p> <p><i>[Suggests Level 1.]</i></p>
Tier 3	Supervisor	<p>"The interview panel does not involve me."</p> <p><i>[Suggests Level 1.]</i></p>	<p>"Chiefs can refer people to disciplinary council. The field office manager is also notified."</p> <p><i>[Suggests Level 1.]</i></p>
Tier 2	Junior Supervisor	<p>"I'm not involved in hiring."</p> <p><i>[Suggests Level 1.]</i></p>	<p>"For ongoing poor performance, a record of a supervisor's discussion with a frontline person is needed, with the meeting witnessed by my immediate supervisor."</p> <p><i>[Suggests Level 1.]</i></p>

Source: Panthea

Leadership Levels Methodology: Summary Diagnosis of "As Is" Structure

Exhibit 4 gives our view of the level of the leadership roles in the 10 tiers of the utility's hierarchy, including the two layers above the BCS director. It shows over-tiering in Level 1 (three tiers of supervisor), Level 3 (field operations director compressed by central operations director), and Level 4 (BCS director compressed by deputy CEO).

(Do edits this paragraph preserve intended meaning?)

We found the role of field office manager to be a value-adding tier, despite its having the lowest span

in the chain (a span of two). It adds value to the work of its direct reports by being aligned to the organization's mission and strategy. This role is also valuable because it can handle frontline roles that are numerous or geographically widespread, or employees who are scheduled to work extended hours in shifts. It is the only leadership role in the chain in Level 2. The role's very low span is a function of the unnecessary tiers of supervision below it.

Another issue that emerged was that a primary purpose of the deputy CEO role is to focus on the utility's overall financial matters, such as the need to

Exhibit 4

Example of One of the 10-Tier Chains of Command with Leadership Levels

Tier	Role	Span of Control	Leadership Level
Tier 10	Utility CEO	13	Level 5
Tier 9	Deputy CEO	13	Level 4
Tier 8	Bureau of Customer Services Director	7	Level 4
Tier 7	Central Operations Director	3	Level 3 (but no budget decision rights)
Tier 6	Field Operations Director	6	Level 3 (but missing key decision rights)
Tier 5	Field Office Manager	2	Level 2 (but missing key decision rights)
Tier 4	Chief	4	Level 1
Tier 3	Supervisor	6	Level 1
Tier 2	Junior Supervisor	4	Level 1
Tier 1	Frontline Employee	-	Non-leadership role in Level 1

Source: Panthea

borrow money and raise prices to fund a substantial capital program that would improve service quality. The CEO created the role, inserting it over roles that previously reported only to him. Indeed, all 13 roles that report to the deputy CEO—including the BCS director and the equivalent of that role in other hierarchies—also still report directly to the CEO. As the BCS director put it: “We all report to the deputy CEO and the CEO. For example, I’d go to the deputy CEO on a budget issue, but on a bigger issue I’d deal directly with the CEO.” Hence, the deputy CEO is a key support role for the CEO, but need not sit between bureau directors and the CEO. Removing the deputy CEO from these hierarchies would remove the bureau directors’ current confusion on their dual reporting lines and reduce the deputy CEO’s span from 13 to zero.

When analyzing the levels in an organization, we like to interview up at least three key hierarchies. In the case of the BCS, we interviewed six. Exhibit 5 (see page 6) summarizes Panthea’s diagnosis of the level of accountability of key roles within the BCS. Compression is highlighted in red. The exhibit indicates that the BCS was over-tiered in at least one chain of command in Levels 1, 2, 3, and 4 (as deputy CEO in Level 4).

To design an optimal hierarchy, it is important to understand the requirements at each level. For instance, leadership Level 1 roles are needed only where Level 1 frontline are numerous, geographically widespread, or scheduled to work extended hours in shifts, all factors that applied in the BCS. It is also important to know the Leadership Level of the top job—Level 4 in the case of the BCS director and Level 5 in the case of the utility CEO—to determine the appropriate number of tiers between the bottom and the top.

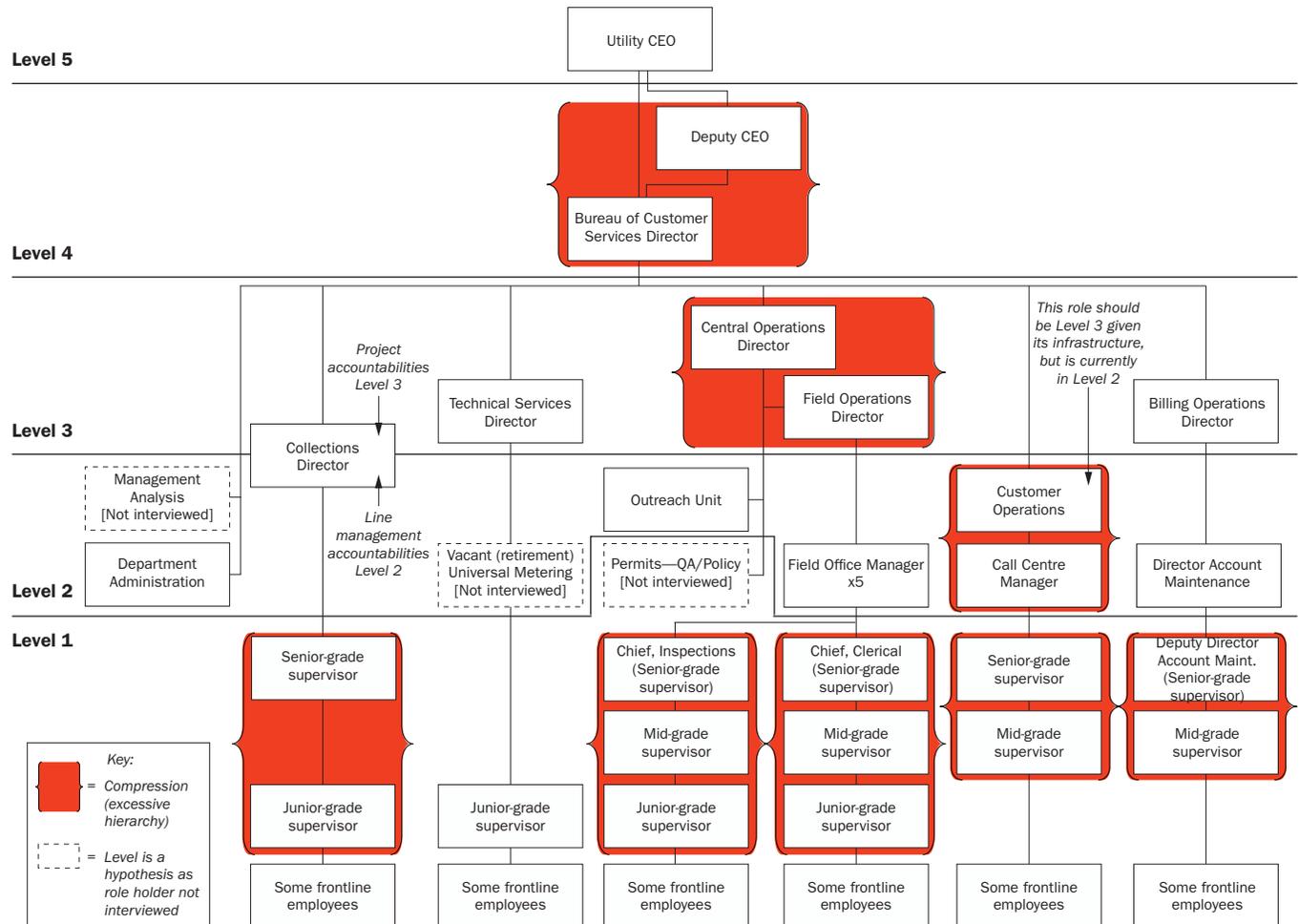
Combining these insights with the golden rule of Leadership Levels (a healthy hierarchy requires no more than one leadership role per level), Panthea concluded that the utility required no more than five leadership tiers (four in the BCS, plus the utility CEO). Adding a sixth, non-leadership tier for frontline employees in Level 1, this meant that the 10 tiers found in the utility could be reduced by four, as described below.

Horizontal Work Processes Analysis

While Panthea redesigned the hierarchy from the bottom up, Booz Allen Hamilton reconfigured the utility’s horizontal processes. Booz Allen identified the BCS’s processes as customer account setup, billing,

Exhibit 5

Selected Roles in Bureau of Customer Services (BCS) Analyzed by Level



Source: Panthea

billing adjustments, collections, customer handling, inspections, metering, refunds, and remittances. The key challenges that emerged for these processes:

- Accountability for many processes, such as customer handling, was shared by central management and field office management.
- Processes, such as billing adjustments, were implemented in nonstandard ways across the central office and field offices.
- Each of the five field offices operated independently, without sufficient sharing of best practices.
- Owing to the use of manual, paper-based processes, the organization was unable to move work between

the central office and field offices, either to deal with backlogs in some offices or to reap economies of scale.

Five field offices accounted for nearly 300 of the 600 BCS personnel. These offices ranged in size from 30 to 80 people, with an average of 60. The five field office managers each had one chief overseeing inspections staff and another chief supervising clerical personnel focused on customer handling and other local customer service activities. The five inspections chiefs had almost 150 staff between them, and the five clerical chiefs nearly as many.

From a horizontal work process perspective, therefore, centralization of some inspection and customer-handling processes, such as addressing account problems, scheduling inspections in response to customer requests, or handling telephone communications with customers, would offer advantages including process standardization and economies of scale. However, many BCS processes had to be delivered locally; these include providing service to walk-in customers and inspecting services at customer properties. Centralization of these processes would involve departmentalizing primarily by process (e.g., customer handling or inspections), rather than by geography (e.g., by field office), but would not require having all staff in a central location.

Booz Allen also identified benefits that would arise from coordinating particular processes better, such as more closely linking customer handling and collections. For instance, more accurate and up-to-date information on outstanding balances could help the utility determine how best to proceed with customers who requesting additional services.

Proposed Top Structure

On the basis of this research, Booz Allen recommended that the BCS deploy a centralized, process-based structure. The changes included removing the five field office managers, so as to

departmentalize field-based staff primarily by process (inspections or customer handling) rather than primarily by geography.

The proposed BCS management structure included the following top jobs:

- Customer services director
- Technical services and meter director
- Account services director (including account maintenance)
- Management services director (including methods and procedures and quality assurance)
- Financial services director (including accounts receivable)

In the context of the proposed top structure, Panthea recommended ways to address over-tiering, even in Level 1. Taking field-based clerical staff in the customer service unit as an example, the core Panthea recommendation is illustrated in Exhibit 6.

Panthea used benchmarks from other organizations with geographically dispersed customer-facing staff, such as retail banks, to determine that the true best practice would be to have just one Level 2 manager for the staff of nearly 150. However, we also determined that 150 is the maximum number of staff that a capable Level 2 leader can be expected to manage effectively. Moreover, the BCS is not yet familiar with

Exhibit 6

Example of One of the 10-Tier Chains of Command with Leadership Levels

Tier	Role	Leadership Level	Comment
Tier 6	Utility CEO	Level 5	
Tier 5	Bureau of Customer Services Director	Level 4	
Tier 4	Customer Services Director	Level 3	Role also has other direct reports beyond three customer service managers—relating, for example, to call center and collections
Tier 3	3 x Customer Service Managers	Level 2	Each is focused on one of the three largest field offices or districts, but two of the three are also accountable for customer service in one of the two smaller districts each.
Tier 2	11 x Customer Service Supervisors	Level 1	One per field office for the two smallest districts, each with a span of 15; three per field office for the three largest districts, with average span of 12.
Tier 1	Customer Service Frontline Employee	-	Non-leadership role in Level 1

Source: Panthea

operating a lean hierarchy. So Booz Allen proposed that the BCS deploy three Level 2 managers initially, with the possibility of scaling back to one over time.

A mirror image structure was proposed on the inspections side—in part to aid informal integration of clerical and inspection activity in each field office. The proposals meant that the number of supervisors in the field would be cut in half, from about 44 to 22, raising the average span of control in these areas of the BCS from six to 11. Because most supervisors had their own casework to undertake, as well as leadership responsibilities, it made sense to retain some people who had previously been supervisors in frontline roles, supporting the remaining supervisors, instead of reducing head count. Similar suggestions were made in the other over-tiered areas.

In parallel to this organizational design activity, Booz Allen Hamilton helped the client in other areas, such as the utility's business and technology strategies.

In summary, this case highlights how Panthea's Leadership Levels approach and Booz Allen Hamilton's process analysis can be combined for effective organizational design. Although the right answer depends on an organization's complexity, each organization requires a specific number of leadership tiers to best harness people's capabilities. This number—not too many and not too few—can be determined using the Leadership Levels methodology. Each leadership tier also needs to be of the right size, with decision rights that fully match the role's accountabilities. The methodology can further be used to reward employees in line with their responsibilities and performance.

For further information on Leadership Levels, see *The Healthy Organization: A Revolutionary Approach to People & Management* by Brian Dive (Kogan Page, 2004 [second edition]), ISBN 0749442522.

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