

Too Many Links in the Chain?

CCI Newsletter: January 2007

Usually, having people specialize in specific tasks within the chain of a business process, provides economy of scale and learning advantages. However arguments can be made for just the opposite approach – having one person take the process from beginning to end. Let's see where the specialized approach can harm and where the opposite approach could operate advantageously.

1. Consulting Contracting as an Example

Some years ago, a leading Canadian software developer with offices in Ottawa, Toronto, Halifax, Seattle and Guadalajara (the Silicon Valley of Mexico), SPS, had as one of its primary activities, the supply of computer experts on contract to those needing certain IT tasks or projects completed. In the early days, SPS assigned account managers to each client. The account manager would establish a relationship with the customer, get to understand the client company operations, and then respond when the customer had a requirement. Such a need might be for a C++ programmer with financial system experience and good interpersonal skills to assume a project for the duration of six months. The account manager, aided by a state-of-the art computer-search system with a database of 10,000 programmers across Canada, the U.S and Mexico would ascertain who was best capable of filling the requirement by talents, availability and cost. Then this manager would put the programming person onto the contract and finally oversee the project to a successful conclusion. That is, one person looked after the entire process chain.

Deciding to increase productivity, SPS added four more specialists (links) to the sequence. Instead of one person handling the whole chain of events, the company had a telemarketer, a salesperson, a recruiter, a customer service rep and a project manager. On paper this looked like the way to go – specialists for every stage – as

exemplified by almost all SPS' competitors at the time. Despite this degree of specialization, the increases in *effectiveness*¹ projected never were realized. At best the company was equally *effective*. If you measured customer retention, the company ended up being less *effective*. Although the company had more sales, could handle a larger volume, it actually made less profit, blaming the decline on demands of the business for reduced margins, the operation was certainly less *efficient*². Five people doing the job of one, even though each might on paper do ten times as much by specializing, the reality was that there were 4 handoffs along the chain. People at the end of any chain often lack an appropriate interest in details at the start of the chain. Now you can also imagine that when any one of those links broke down – which was bound to happen – how finger pointing would take place among the, otherwise cooperative, staff members. The result was that SPS was not only less *efficient* but also less *effective*.

There was no happy conclusion to this. Vested interests – people with specialized jobs – did not want to revert to the old model.

2. Re-stating the Point

As shown above, adding specialists to the chain is not always a panacea. Sometimes it is beneficial; sometimes it may not be. The example company was greatly influenced by what was happening around its software contracting community. If smart people in the industry said adding specialists was the way to go, the company's staff felt it would be wise to take the same path. If someone says subways are popular transportation modes in all the bigger cities, should your city blindly accept that

¹ *Effectiveness* is getting result that satisfies someone's needs.

² *Efficiency* is getting things done with a minimum of wastage.

direction? Or should it look at alternatives, such as light rail or expanding its existing express bus roadway system?

3. The Middleman³

In 1966 while in the far north of Canada, I purchased a beautiful foot-high soapstone sculpture of an Inuit harpooning a seal for \$125. On returning to Ottawa, I saw similar-sized images selling for \$450. "Thank God", I thought, "I didn't have to go through a middleman." Two years ago I purchased a pair of men's shoes for \$50, Florsheims, in Guadalajara Mexico where that city churns out 100 million pairs of shoes per year. The same shoes would cost me \$225 in Ottawa. The difference? No middleman. That is, the existence of several layers of handlers introduces increasing costs. And it has to be that way. If you touch merchandise you want to make a margin that permits you to live. That margin might, for example, be 35%. Now to our shoes. \$50 at the factory door. The shoes pass on to a Mexican distributor with a 35% margin, so the price climbs to \$67.50. Then they pass to an exporter who adds 35% so the price is \$91 and through an importer in Canada who posts 35% to give us \$123, to a Canadian distributor who hocks them for 35% more \$166 and finally to the retailer, which turns to a final consumer price of \$225. Now I don't know the exact percentages for the margin in shoes, but business sense says a decent margin is required and by a nice coincidence, the math works out at 35% in our example.

Have these middlemen added to the value? Yes, if you are a consumer you can only buy the shoes locally because of the middleman. You cannot fly to Guadalajara every time you need a pair of shoes if you want to ensure an economic purchase.

Has this middleman added value to me? No, I happened to be in Guadalajara and could take advantage of the situation.

³ Although I strongly believe in gender neutrality, I'm not sure of the word 'middleperson' would actually be understood, hence the more familiar 'middleman' is employed.

4. The Point to be Made

Is this paper aimed at getting rid of middlemen? Not at all; we all know they serve a valuable purpose as most of the time they are needed in the chain of supply. No, this article is about the fact that adding specialists (who parallel middlemen) to any chain can lead either to a gain or a loss, that is, to a gain or to a loss of both *effectiveness* and *efficiency*. One has to weigh the losses against the gains. For the average consumer the added links of specialists in this shoe purchase all the links of the chain are valuable; for Bill Caswell on this occasion, they were not.

5. The People Situation

Now we need to consider a plight in Western society where it adds ineffective links to the chain in the MOST important aspect of a business. Which would that be? It is the human aspect of business. If the basis for company success is people, it would seem to follow that the company's relationship with people would be at the head of its list of 'must pay attention to'. Certainly many companies espouse the people-concern approach. However, consider the following current anti-people behaviors of many businesses:

- Most companies do not respond to all people's email job submissions with a simple thank you note.
- Many companies even advise the public in their job ads that the individuals' submissions will not be responded to unless they are viewed as successful employment candidates.
- Many companies pass the initial resume search tasks to junior staff rather than to senior staff.
- Many companies pass the resume evaluation task to third parties (such as HR departments) rather than to the manager for whom the person would be working directly.
- Many companies tell applicants NOT to phone the company to enquire more about the job or details of the company.
- Many candidates who call a company to learn more about the enterprise or more

about a specific group, such as the engineering department, are steered away from gaining that knowledge often they are sent directly to the Human Resources department.

- Many managers will not answer their phones directly because it might be a 'salesman' or someone looking for employment on the other end; instead these leaders leave their phones on the message mode.

Does this sound like a company with an interest in its people? It would seem otherwise: that people are not so important to these companies – at least not until such people have been qualified as important.

A chap named Kevin, shall we say to disguise his (or her) real name, with a science background including several post-graduate degrees, approached CCI for job search assistance after a two-year unsuccessful job search for a position as an IT security specialist. He was broke and he was desperate, taking on construction jobs and newspaper delivery in the meantime – anything to get money to survive. Fortunately, after a dozen sessions with a CCI coach, he obtained not one, but three job-offers in his field. He selected the preferred one and after a few weeks found the job to be a joy. It was mutual: after one month his peers expressed their admiration for his work and expressed how much they valued him and needed him. In fact he was asked: "Where have you been these past two years?" His answer: "In these past two years I submitted my resume to your HR department on four different occasions. It never even received an acknowledgement."

6. Dangers of Specializing

If nothing else the above stresses one of the dangers of specialization – the loss of concern for the final objectives by one or more links in the chain.

We all must be careful

Business is not alone, our school system, in fact, the entire Western world school system, has added more and more links to the chain to the point where it has lost sight of its objective; it is no longer *effectiveness*.

The measure of *effectiveness* is: are we meeting the needs of our customers? In this case the customers are the children. (Parents are secondary clients; it is the children we are educating, not the parents.) The measure of *effectiveness* is simple: how many children look forward each day to school, to another day of learning? Learning is a basic human trait – all people, all animals learn every day and want to learn. Unfortunately, the current situation is summarized by what a school-teacher friend confessed to me: "That beautiful child curiosity is destroyed by end of the first term in kindergarten. Going to school becomes a necessary drudgery for many." Of course education does not have to be painful and it is not. Commercial business education centres thrive everywhere. People WANT to learn. People thrill at learning – and so do children, given an *effective* environment.

Back to people, as the most important issue of any company. Should a manager abdicate his responsibility for his staff? Not likely. Do they? Yes indeed, thanks to the passing off of most of this responsibility to a third party such as an assistant or a human resource group. If people are the most important asset you, as a manager, you should be in contact with those seeking to join your team. You should be assessing their resumes and insuring that applicants are treated respectfully every step of the way. Specifically, we suggest that too many links in the human hiring chain keep some of those links out of touch with the overall purpose of soliciting, assessing and hiring new staff.

Specialization creates efficiencies of scale, yet every hand-off creates inefficiencies, i.e. losses – usually of information. Thus, the more links in the chain the more insensitive will be the individual who are two or more links away from the overall job or purpose. The individuals are not really to blame, but lack of information from other pieces of the chain and specialized goals leave people unaware of the grand picture. Hence the demons of arrogance and disrespect can readily creep in.

7. Conclusion: the Lessons that we can Learn

a. If you plan on adding links to your process chain, you should weigh each new link carefully against the alternative of not adding that specialist or that middleman. As stated above, the difficulty is that a loss of information occurs at the hand-off of each step of the chain.

b. Create a means to measure the resulting *effectiveness* of adding a link to the chain and objectives for that new link. If the *effectiveness* is in order, then you may proceed but create a way to measure the resulting *efficiency*. If the outcome does not meet those pre-established effective goals in a reasonable time, don't be afraid to go back to the simpler system –regardless of what *efficiency* may tell you. Remember *effectiveness* must rule *efficiency*, not the other way around.

c. The lower cost of pursuing specializations (increased *efficiency*) may be overwhelmed by the high cost of no longer being *effective*. Loss of *effectiveness* is usually easy to measure, just ask the stakeholders how well they are being served. Are they excited or distressed?

In summary, we do not conclude that specialization is bad, we simply say do not follow the path of specialization blindly. Continually check your *effectiveness*; it is fairly easy to do.

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