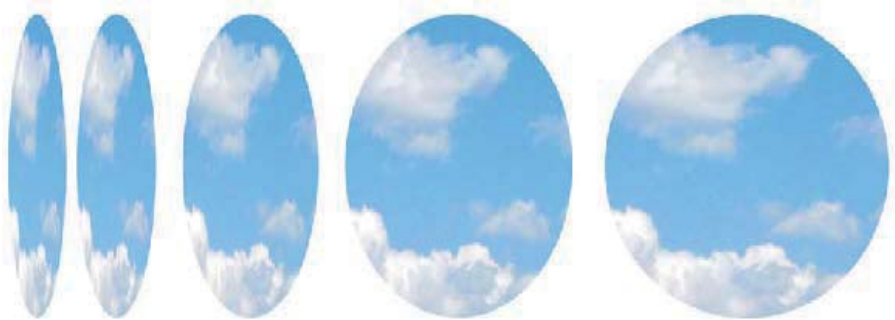




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Case Studies

Story of a New CEO's RO Application at
Canadian Tire Acceptance Ltd

Jos J. Wintermans as told to and written by Paul J. Tremlett

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Story of a New CEO's RO Application at Canadian Tire Acceptance Ltd

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WHAT'S IMPORTANT

- Requisite organization (RO) concepts are applied over a seven-year period by a CEO in a financial services subsidiary of a large Canadian retailer with 450 employees and gross revenues of \$100M (CDN).
- How the CEO used RO to restructure the firm's managerial levels and to develop a new corporate strategy.

Results:

- grew 500 percent in seven years.
- year-over-year increases grew from eight percent to 22 percent.
- salary costs as a percent of revenue reduced four percent.
- became one of top 100 Companies in Canada to work for.

The results were tremendous—and almost instantaneous.¹

—Jos J. Wintermans

This is the story of successful managerial leadership, a story that began when Jos J. Wintermans,² as a first-time CEO, began applying requisite organization principles at Canadian Tire Acceptance Ltd (CTAL). It's a story about difficult, courageous decisions and about learning. It is also about better business results for the company, better working life for employees, about the growth of managerial leadership capability. So let the story begin—at the end—with the results.

The Outcomes

Within months of applying requisite organization principles, year-over-year increases in revenue shot from eight percent to 22 percent. In three years, the company grew from \$100 million to \$173 million (CDN) while lowering salary costs as a percentage of revenue by four percent.

Over the seven years while Jos was at the helm, the business quintupled in size and profitability rose with it. The company moved from an average player in the financial services industry, and one seriously at risk of slipping in 1988, to a leadership position. The new structure and effective application of requisite's accountability-based management principles enabled the top team to formulate a bold new strategy for the company and to rapidly take advantage of market conditions while executing it.

Within nine months of initiating structure and people changes, Jos began to see previously stifled managers highly energized and dealing with business issues head on, and very effectively. Eighteen months out, Jos said, "We were in full flight implementing our strategic growth programs, and it was happening!"³ CTAL became the first non-banking organization in the world to acquire a MasterCard license. The structure change "primed the revenue engine and produced the results the CEO was accountable for."⁴ Along with all this achievement and growth, the company became publicly recognized as one of the top 100 companies to work for in Canada.

1 Quote from Jos J. Wintermans, CEO Canadian Tire Acceptance Ltd., *Canadian Business*, May 1992.

2 The co-authors chose to write in the style of a story about Jos Winterman's experience at CTAL.

3 Quote from GO video interview with Jos J. Wintermans.

4 Comment at August 2005 GO Conference CEO panel.

The Beginning

What occurred that enabled such outstanding results? Why requisite organization principles as the foundation? Why not re-engineering or any of the other approaches of other companies as described in successful management books of the time?

To answer these questions, look to the new CEO. Jos was taking on the CEO role for the first time, and he knew that he was accountable for it all, not just a function as in previous executive roles. He knew that the company, its employees, and the parent company (Canadian Tire Corporation) would suffer if he did not figure out how to be a good CEO. As such, he was looking for guidance, for a track to run on. But he also knew that whatever guide he chose, it had to be consistent with his own intellectual sense of the world of work, as well as provide answers to some past managerial frustrations. It had to be well thought out and systematic, provide order, and allow quick implementation.

Requisite organization filled the bill. Jos learned of it through a combination of an introduction to it by his boss who was mentoring him in this new role, by reading Elliott Jaques's *A General Theory of Bureaucracy*, and through consultants dedicated to helping managers successfully apply the principles.

Consultative Diagnosis

A second place to look lies in another key principle Jos firmly believes in, that one should enter a new role or organization consultatively. Jos spent his first four months or so establishing a sense of what he had inherited and what would need to change. He spent considerable one-on-one time with his direct reports, instituting a “morning coffee with the CEO” where he met with six to eight employees over coffee and muffins in his office, ultimately meeting with almost every employee. He chatted with them about what they thought of the company, how it was working, and what they wanted for the future—for the company and for employees. He also talked with customers and Canadian Tire dealers. What he learned began to align with his growing understanding of requisite principles and how they could provide some of the answers to both the deficiencies and opportunities that he found:

- The company appeared to have enormous potential, but had a senior management team Jos has described as “more interested in golf and curling than building

the business.” Costs were rising and the usage of the Canadian Tire credit card had fallen from 100 percent (before Visa and MasterCard) to as low as 38 percent.

- The company had talented people with great potential who clamored for increased opportunities to contribute, but who had little space to do it. Jos wanted a way to unleash this potential, but found that the organization’s structure itself prevented it. Work functions had been grouped in confusing ways and the structure appeared to be “too tall,” with too many layers.
- The roadblock to advancing the company was mostly at the top. Management lacked a methodology or model for managing the total organization and its key processes in a systemic way. The management ranks had “dead wood” and their approach at CTAL seemed like “a 1950’s type domination organization” in style and tone.⁵

These conditions led Jos to believe that the company needed significant transformation. He understood that this change would have to start with himself. In order to fight the excuses that he would encounter along the way, the journey had to begin with building within himself the conviction, courage, and persistence which would be required to lead. He wanted to do this right and so enlisted the help of the consultants to perform an exacting diagnosis of the business and provide recommendations for change.

Structure Review

A structure review was undertaken in the spring of 1988. The results shocked Jos.

“They told us we had 11 layers of management, when we should have five,” Jos said. “I hadn’t anticipated that it would be that bad—but it was.”⁶

In requisite organization terms, the most complex work and role in the company was the CEO, and it needed to operate at stratum V. This meant that CTAL required only three levels of managerial leadership between the CEO and frontline (stratum I) work roles. In effect there was considerable compression (or “jamming”) in middle management. Accountability for key outputs was too widely dispersed, there was no ability to give people required accountability for completing entire tasks at their level, and too many managers were too close to the work of subordinate roles, such

⁵ Comment at August 2005 GO conference CEO panel.

⁶ Quote from Jos J. Wintermans, CEO Canadian Tire Acceptance Ltd, *Canadian Business*, May 1992.

that there was no value-adding, context-setting, work being performed. No wonder employees told Jos about being stifled and unable to bring their full potential to bear. Jos saw that reducing the levels of work in CTAL was “a clear solution to the mess, to cut through things and to clarify accountability.”⁷

Matching People to the New Roles

With Jos’s growing understanding of requisite organization principles, he further knew there is a correlation between complexity of work and an individual’s capacity for managing it. People’s capability, specifically their information processing capacity, needs to match role complexity if work outputs are to be achieved successfully. Armed with requisite-based assessment tools, Jos began the process of determining the fit to level of work (in this case stratum IV) of his current vice presidents. Rather shockingly, Jos found that four of his vice presidents were not operating at this level and likely would not do so in a time frame acceptable to him given the business challenges facing the company. Jos felt that a fifth Vice President might get to stratum IV sooner, but not without a significant amount of coaching regarding other dimensions of his managerial effectiveness.

Jos was coming to grips with just how much change was needed. Not only did the structure need to change drastically, but significant people changes were also required. “This was not the crew that was going to bring this company into the next decade.”⁸ As a result, CTAL removed four vice presidents from their positions, and through the organization review recommendations regarding grouping of work, eliminated two of the existing vice presidential roles. Jos would later point out that although staff reductions are not a goal of this process, they are an inevitable by-product and must be dealt with both at the beginning and along the way, where there is clear evidence roles are not needed and/or individuals are not performing to level. In CTAL’s case, with the growth in the business that occurred, so came growth in the number of employees. However, the principles helped maintain salary cost as a percentage of revenue quite low by not allowing level creep.

Requisite organization principles provide significant guidance in determining how work can be grouped for increased clarity of accountability and reduced

⁷ Quote from GO video interview with Jos J. Wintermans.

⁸ Quote from Jos J. Wintermans, CEO Canadian Tire Acceptance Ltd, *Canadian Business*, May 1992.

coordination cost by minimizing the amount of cross-boundary activity. The principles assist in better understanding the interdependence of various kinds of work and determining where the structural integration point should occur, i.e. at what level—ideally, the lower in the managerial decision hierarchy the better. Decisions on grouping are iterative with those on level. The two principles come together neatly to clarify individual role accountability and provide people with fuller, richer, roles matched to their ability to contribute. They also help delineate the required lateral role relationships at each work level to effectively coordinate the organization's business process flow. In CTAL, the consultant study findings on grouping again confirmed Jos's intuition that too much integrating of work was occurring at the CEO and vice president levels. As a result, a new top team design was developed by merging some functions. Of most significance, according to Jos, was putting the finance and credit functions together to better deal with the inherent interdependence of funding with controls and to ensure more integrated decision making at the right stratum (IV not V) to effectively balance risk.

Communicating the Change

The announcement of this new structure, with mostly new incumbents, and the plan to continue to cascade structure and people decisions down through each function using requisite organization principles, created shock in the company. This had to be dealt with. Jos took many steps to communicate with employees to demonstrate a number of points. First, that the structure was a better representation of the CEO's accountability and that it was his accountability to the corporation and to shareholders to make the necessary changes. Second, that these were normal, business-driven changes and were not personal in terms of the people involved in job loss. Caring and supportive steps were taken to assist individuals leaving the company and dialogue was established with those remaining. Partly because Jos had done such a good job of engaging people, being enthusiastic, and demonstrating trust and openness during his entry to the company, most employees welcomed the changes. They quickly sensed that the right changes were occurring and would continue as the process unfolded.

Cascading the Change Down the Organization

The next step was for the stratum IV vice presidents, working individually and collectively with each other and Jos, to design the functional organizations. Each vice president was charged with creating his or her structures and choosing the people to staff it. Some further head count reductions occurred as a result of this cascading process, but more opportunities for integrating work occurred. The new roles that resulted were much more robust in terms of what VPs were accountable for. In the end, about one-third of the management structure was eliminated.

Individual Contributor Role

A further positive learning and structural outcome for Jos, the senior team, and several role holders was applying the principle in requisite organization that recognizes the need for individual contributor roles at the appropriate level of work (usually higher than one would expect). These roles fall into two types.

The first type is direct output support that provides managers with specialist knowledge and skills important for effective delivery of the manager's outputs. A credit and collections manager had most of what was required to be accountable for the outputs, the right information processing capability and particularly strong people management skills, but lacked the analytical skills for the work. CTAL created an individual contributor support role with this analytical capability at the next level down. It made a huge difference in performance.

The second type of individual contributor role is needed to manage significant enhancement work in the company: project roles that, by definition, are ad hoc parts of the structure. In CTAL, with the need to improve and enhance a variety of processes and systems, especially those requiring more sophisticated information technology, creating individual contributor roles in the information systems function, at higher levels of complexity than was typical in the company (i.e. stratum III), became a critical component of the new structure. Jos is adamant that the proper use of individual contributor roles provides a company with "creative, competitive advantage" because of what occurred at CTAL.

Values

A final component of the beginning part of this story relates to values. A key aspect of requisite organization important to Jos was, and is, the fact that its underpinnings are about building a trust-enhanced company. Getting the structure right and operating with other requisite principles in place goes a long way to developing a trust-based organization. When people come to work every day knowing what they can count on from their manager, from their manager's manager, from their collateral teammates, and from critical cross-boundary colleagues, there is a huge impact on business results and on the quality of working life.

Jos, however, didn't want to rely on the structural change alone. He wanted to identify the company's desired values and bring them alive in the structure as appropriate in different functions and roles. He engaged a consultant to support the senior team in developing a set of CTAL values that would be used to run the business. The consultant then conducted 70 four-hour sessions with the CEO, another senior manager, and 15 employees at a time. These 70 sessions brought every employee into full dialogue about the meaning of the values and implications for working by these values in their function and role. For example, a credit collector could work in such a way as to actually improve the relationship between company and customer and the customer's regard for CTAL and its customer service. This helped connect people at the values level and brought out their inherent sense of the "rightness" of all that was happening in the company through this process.

Jos argues that this trust component of requisite organization is critical. Requisite defines work as the exercise of human judgment and discretion to complete assignments and create required outputs for the business. If there's no discretion involved, you automate. He found, and believes, that with good context setting by the manager and good fit, trusting that person to do the work is not only essential but, when done well, provides competitive advantage—and that occurred at CTAL. By having the right people at the right level doing the right work, Jos found that employees, including frontline workers in the company's call center, used the discretionary time and resources in their jobs in ways that helped the business and customers. He further argues that not a lot of companies understand this method and miss the pay-offs it provides in terms of both results and employee satisfaction.

The Middle

As time went on, the initial glow of the beginning and the early wins faded and new challenges and opportunities arose. One of the principles of requisite, value-adding management is the need to set context for people around tasks being assigned—*why* we need to do this component of the work. A second principle is about *what* is expected. Called QQT/R, the model is clarity about quantity, quality, time deadlines, and the resources such as money, people, and decision authorities that will be provided to achieve the output.

In CTAL, Jos and the senior team implemented QQT/R presentations by the directors at stratum III. The top team had come to recognize, in a stratum V organization, that the stratum III roles are, as Jos puts it, “the glue in the organization.” This is the stratum at which information is developed about trends, and at which critical hand-offs in the organization occur. It is the level that drives process change and improvement. These sessions were conducted in a three-tier setting, with levels V, IV, and III together in the same room.

At about year three in the journey, through the QQT/R presentation process and the fact that there was now a 20 to 30 percent increase in volume of work, a push arose for more people. Jos describes this as the point in the process where you get tested on your commitment to the principles and are tempted to compromise them. The answer to simply adding more people, and with it the likelihood of more levels, had to be “no.” More creative solutions were required to diffuse the emotionality that had arisen around this issue. In the end, the top three-tier group determined that better measures were required to reflect role output accountabilities. Some critical process improvements were deemed needed in conjunction with it. Consultants were engaged to provide the required technical support.

Jos describes a real fit between the re-engineering work and a requisite management structure in terms of where in the hierarchy process accountabilities need to fit. The alignment of the two was so effective it encouraged him to use the combination of requisite organization and process re-engineering in subsequent CEO assignments.

Effective Managerial Leadership Practices for the MoR

In this period, changes and enhancements were made to other significant parts of the requisite management system. Emphasis was placed on the concept of three-tier

management and the role of the manager-once-removed (MoR). This construct shifts the accountability for development of employees from their managers to the MoR, requiring him or her to get to know their capability, potential, and career aspirations. It also requires MoRs to assume accountability for their fair and equitable treatment: how their performance is judged, how they are progressing developmentally, how they are paid for the work they do and the contributions they make, holding on-going discussions about structural alignment and having the right people in the right roles, and succession planning. CTAL implemented regular MoR-led meetings of direct reporting managers, supported by human resources personnel, to discuss these matters.

Compensation

This MoR management process produced two key outcomes that Jos feels were particularly significant. The first outcome was the ability, over time, to align CTAL to another key component of requisite organization—felt-fair pay. A key finding of the requisite organization research is that people have an innate sense of what is fair to be paid for a combination of the level of work complexity and a demonstrated capability to carry it out effectively. They also feel it is unfair if individuals working at their level of complexity get pay corresponding to higher levels of work. The combined efforts of the management team and human resources enabled compensation adjustments to stay true to felt-fair pay principles. They were also able to implement a variable, but not automatically repeated, pay component that appropriately rewarded outstanding contributions.

People Development

The second outcome of the MoR management process was extraordinary people development. Through ensuring appropriate developmental plans for people were both in place and executed, the process delivered what Jos feels may be the biggest achievement of all—the incredible growth he saw in people. He feels this period in CTAL's history left a legacy of people “growing up” as managers. Many of them have since told him that the time together at CTAL was “the best part of their working life—period!”

Lessons Learned and Gifts to other CEOs (New or Not)

Jos believes that being a professional means being truly knowledgeable about your field of work. The professional work of a CEO is to comprehend organization and management as an integrated system. Jos found that requisite organization principles enhanced his professional knowledge. They guided him well in the CTAL journey as a “rookie” CEO and have guided other journeys since. They didn’t provide all the answers, but they did enhance his ability to make good judgments.

Some thoughts on how to get the best from the principles include the following:

- Be yourself; don’t be an “actor.”
- Decide what you believe are true principles, then don’t compromise them or let others do so.
- See the application of the principles as competitive advantage, because they can be.
- Be a sponge and be curious—seek to find out why something in the company is like it is; look for fundamental properties of the system. Requisite means “as required by the nature of it.”
- Be skeptical and challenging.
- Be open to unexpected possibilities and opportunities.

Jos has held three other CEO roles in turnaround situations since his CTAL experience and has used requisite organization principles in each of those roles to good effect.

ABOUT THE AUTHORS

Paul J. Tremlett is president and a co-founder of *CORE*international Inc., a management consulting business dedicated to helping executives plan, design, and manage their organizations for outstanding performance. He has an extensive background in complex organization change management, strategic planning, organization restructuring, and management education and training. Prior to consulting he held various management roles with Imperial Oil Limited and Xerox in sales, marketing, operations, training, and organization development.

Tremlett focuses particularly on organization design and redesign. He has helped more than two dozen public and private sector organizations align their work sys-

tems to more effectively achieve strategic and operational goals. He has also provided services in management, organization, and human resources development and effectiveness. Tremlett has also designed and facilitated numerous management education, team development, consulting skills, and change management programs. Academic credentials include a BComm from the University of Alberta and an MSc in organization behavior from The American University, Washington, DC.

An experienced CEO with a record of significant value creation in challenging business environments, **Jos J. Wintermans** is president and CEO of Cygnal Technologies. Wintermans's major goal is to deliver value in turnaround situations by organizing people, assets and processes to put the business in delivery mode.

Wintermans served as president and CEO of the Sodisco-Howden Group from 2001 to 2004. He restructured the company, which subsequently became the leading distributor of Hardlines and Building Materials for Independent Merchants across Canada. He also served as president and CEO of Skyjack Inc. and Rogers CableSystems Ltd, and president, CEO, and member of the board of Canadian Tire Acceptance Ltd.

With an MBA from Queen's University of Kingston (Ontario) and a Master of Law from Leyden University, Leyden, The Netherlands, Wintermans has an honorary fellowship from Ryerson University for introducing requisite into business in Canada. He is also chair of the Junior Achievement of Canada Foundation.



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The Global Organization Design Society is a not-for-profit corporation registered in Ontario, Canada to promote the following objective:

The establishment and operation of a world-wide society of academics, business users and consultants interested in science-based management to improve organizational effectiveness for the purposes of:

Promoting among existing users increased awareness, understanding and skilled knowledge in applying concepts of Levels of Work Complexity, Levels of Human Capability, Accountability, and other concepts included in Requisite Organization and/or Stratified Systems Theory.

Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources.

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