



READINGS IN GLOBAL ORGANIZATION DESIGN

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REPORT OF A MAJOR REQUISITE ORGANIZATION PROJECT AT COMMONWEALTH INDUSTRIES

by Elliott Jaques

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The first example of a total organizational design is related by Elliott Jaques and details the implementation of requisite concepts at Commonwealth Industries, a major aluminum rolling company that produced sheet aluminum and specialized aluminum products. Although Jaques notes that one cannot attribute the turnaround in the company's fortunes solely to the implementation of requisite organization concepts, it is clear that it contributed substantially to it. The data provided on the turnaround, including changes in union-management relations, are spectacular.

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Organization Design, Levels of Work & Human Capability

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Report of a Major Requisite Organization Project at Commonwealth Industries

Elliott Jaques

WHAT'S IMPORTANT

- One of the few case studies Elliott Jaques ever wrote about his clinical support of major organization redesign projects.
- A Global company using RO sponsors in a full RO implementation together with Statistical Process Control in a newly acquired US subsidiary.
- The company also used RO to assess proposed acquisitions for fit and ease of integration into parent company.
- Management levels were reduced from eight to four.
- Substantial gains were achieved in productive effectiveness, competitiveness, sales, customer satisfaction and mutual trust.
- Examples of how to sequence an organization design project.

This is not intended as a description of some kind of utopia, but merely as an example of the great social power of the CEO. It is quite possible for any CEO in any company to maintain a principle-based set of managerial structures and managerial leadership processes that really do provide enhanced productive effectiveness and a high-morale, mutual-trust organization that is actually good for employees personally, inevitably good for their families, and eventually good for society.

—Elliott Jaques¹

It is not my intention to claim that certain gains in effectiveness can be traced to a direct one-to-one result of certain specific changes in organization along the lines that I have been describing. Changes in the effectiveness of any given organization are always and inevitably the result of multiple other changes occurring both simultaneously and interactively. Nevertheless, it will also be clear that the organizational developments made a significant contribution to the changes achieved, and indeed made possible smoother transitions than in the past. I will illustrate the kinds of progress that would be reasonable to expect with full scale implementation of the requisite organization structures and processes based upon the concepts and principles that I have been outlining.

For the purpose in hand, then, I have decided to give a reasonably full account of highlights of development in one company. I have chosen this particular example, because there has been a consistent development over a period of nearly 20 years with the same leadership, including a Board and ownership committed to a requisite organization, and this development with this same leadership is still actively continuing. In this last regard, the project is different from most others. One of my difficulties has been that major developments accompanied by significant results, even over periods of years, are suddenly terminated by changes in top management in which the new leaders find that the requisite developments run counter to their assumptions or traditions, or as I believe, run counter to their misconceptions.

The results are in terms of substantial gains in productive effectiveness, in competitive sales, and customer satisfaction, and of substantial gains in mutual trust, good feelings, high engagement and identification with the company and its man-

¹ This article was originally published in 2002 as Chapter 17, “Some Results in One Company”, in the book *Social Power and the CEO: Leadership and Trust in a Sustainable Free Enterprise System* by Elliott Jaques. It is reprinted here in its original form by permission of Quorum Books Westport, Connecticut, London.

agement of employees within the company. I shall add some specific examples of various types of result from some other organizations.

The Company: 1985-1992

The company in question, Commonwealth Industries, Inc., is an aluminum rolling company producing sheet aluminum and specialized aluminum products for a wide range of industrial uses. At the beginning of the project in 1987, it had head-quarter offices and one plant in the mid-west United States. It employed some 1,350 people and it was producing about 25 million pounds of rolled aluminum per month.

In 1985 the Company was purchased by CRA, an Australian mining company, whose Board intended to use it both as an outlet for its own produced aluminum and as part of a plan for expansion into North America. The new parent company had been engaged since 1979 in a substantial organization development, in which I had been involved. This development led to the establishment of systematic concepts and principles for organizational structuring, managerial accountability and leadership, and human resourcing and talent pool development. It contributed to many of the new ideas that I have described in these pages.

The new Australian owners found that its new subsidiary was in considerable trouble. Substantial capital had been put into production process improvements, but had not paid off. Quality and delivery standards were inferior to three-quarters of the nation's aluminum producers, and recovery rates were low. In addition, a serious strike threat was brewing over industrial relations difficulties that had been building up over the previous two to three years.

By the end of 1987 the CEO was retiring. In order to try to overcome the problems, the Australian owners decided to appoint one of their most experienced managers as the new CEO. He was a metallurgist who had become expert in the parent company's systematic approach to organization and managerial leadership. The terms of reference given to the new CEO were to turn the company around if it were not to be sold. He decided upon a three pronged thrust:

1. A requisite organizational development.
2. Introduction of statistical process control and continuous improvement at all levels.

3. Analysis and improvement of all major systems, including information, finance, and marketing and sales.

PHASE ONE: CREATING A REQUISITE ORGANIZATION

In line with the parent company's established practice, the new CEO took as his phase one a full-scale reorganization driven by a special internal project team of six, plus a team leader immediately subordinate to himself and trained in requisite organization, with a six-month completion target. That target was achieved, with the following results:

- The company had four managerial layers instead of eight.
- Every managerial role, including the shop floor first-line managers, carried full managerial accountability not only for the work of subordinates, but for exercising full-scale managerial leadership, as defined.
- The beginnings were made of a change from results-based performance appraisal to personal effectiveness appraisal.
- Evaluation of potential capability (time-horizon) and talent pool analysis began to work down from the top layers, and eventually reached the shop and office floor.
- Two-way manager-subordinate meetings were introduced at all levels, and offices for such meetings were built down on the shop floor.
- A clear separation was developed between mainstream business functions and specialist staff functions.
- Cross-functional accountability and authority was established.
- There was also a move towards, but not yet full implementation of, equitable payment.

PHASE TWO: INTRODUCING SPC

Following the establishment of an effective managerial leadership organization, statistical process control was introduced. An outside specialist consultant was brought in. This consultant, as is common, wanted to set up quality circles at each level to initiate changes. But he was instructed to work from level to level directly down through the new managerial hierarchy.

As a result of this process, all managers (and many operators) had sufficient preliminary training to be held accountable not only for the permanent sustainment of continuous improvement priorities and projects, but also for ensuring that quantitative procedures were used in ferreting out problem causes and priorities.

PHASE THREE: BROAD SYSTEM IMPROVEMENT

The ongoing development was then filled out with the methods improvement work in sales and marketing, and in finance and information.

Some Other Significant Changes

While the above developments in managerial organization and managerial leadership were going on, two other significant events occurred.

The first of these events was the appointment of a new factory general manager, Mark Kaminski,² as an immediate subordinate of the CEO. This manager took like a duck takes to water to the requisite concepts, principles and practice, and gave an enormous push to their rapid and effective implementation throughout the production shops. Mark Kaminski was promoted to become the company CEO in 1990, as the CEO from Australia was taken back home for a promotion in the parent company. Kaminski later arranged for the financing of the purchase of the company from its Australian parent. It became a free-standing American public company with its own shareholders and Board of Directors. Kaminski stayed with the company in its new situation, and remains its CEO today.

The second of these crucial events was that the strike that had been brewing occurred in 1989. It was a very militant 11-week strike, with the full panoply of baseball bat smashing of car windshields of managerial and office staffs who remained at work and kept some production under way. In terms of appreciating later constructive developments on trust, morale, and productive collaboration, it is important to understand the low level to which morale and trust had plunged.

The morale and industrial relations situation is perhaps best described by the response on the shop floor to the news that the new Australian parent company was replacing the retiring CEO with a CEO from Australia. The response was for the local trade union leaders to buy a life-sized stuffed toy kangaroo, and to hang it by its neck from one of the telephone poles at the door of the local union house used as an office just outside the front gate of the plant. This attitude was reflected in the way in which union supporters would turn their backs on managers as they walked through the shop. The kangaroo remained in its hanged position for well over a year after the strike.

² Editorial note: Mark Kaminski was CEO when this article was written in 2002.

Some Results of Developments to 1992

Recall: new Australian CEO, and new general manager, 1987; introduction of improved managerial system, 1988; strike, 1989; new American CEO, 1990; improved systems, 1990-1991. By 1992 the following results had been achieved.

In summary, there were dramatic improvements in productivity and in customer relationships. For example, a 35 percent increase in output was being regularly produced with 20 percent fewer people. The company moved to the top third in the nation in quality and delivery and continued rapidly to rise, and customer satisfaction continued to grow. Internal recovery had risen by 7 percent to world class, customer rejects had fallen by 50 percent, and total inventories had been reduced by over 50 percent.

It will be obvious that these substantial improvements were not produced by organizational and managerial developments alone, but they were certainly facilitated by the new managerial developments. And indeed, it is the unequivocal conclusion of the CEO and executive staff that these results could not have been achieved without the improved managerial system. This conclusion is supported by the following developments that occurred during this same period.

A major influence was the effect that the new managerial arrangements and leadership practices had upon shop floor relationships and attitudes. There was widespread shop floor involvement in improvement work through first-line managerial leadership. First-line managers began to meet regularly in full team meetings with their operators in two-way discussion of issues, just as any executive manager would be expected to meet with his or her subordinates. Operators were actively involved as members of first-line managerial, and unit managerial, improvement project teams. A state-of-the-art learning center was built, in which operators could be periodically involved in updating work process specifications, and upgrading their own skilled knowledge.

Against this background of total managerial change, the long years of embattled trade union relationships culminating in the 11-week strike had been totally transformed into an extraordinarily positive collaboration from the union, directly as a response to the new organization and positive managerial leadership of the operators. The turning-the-back hostile behavior changed to a reassuringly friendly reception of managers from all levels, and an extraordinary willingness and desire

to discuss useful ideas on how the work could be improved. Quite an extraordinary change had taken place, and it is an indication of how mutual trust can be created out of trustworthy systems, for the employees remained the same.

Systems drive behavior. A further indication of shop floor change was that shop floor grievances had fallen from 315 still being processed at any time in 1990 to a mere three in 1991.

Change Continues to 2001

The company, without outside specialist assistance, has continued to grow and develop in customer satisfaction, productivity, profitability, and growth in size. By 2000 the position had become as follows.

The company has acquired other companies, and has grown to \$1.2 billion in sales, 10 operating locations, and approximately 2,000 people. All new acquisitions have been reorganized in line with the company's managerial and organizational policies and practices. They are recognized as world class.

In addition to its full implementation and use over the years in the parent company, the application of requisite organization has been useful in two other ways. The first way is in due diligence evaluation of a possible acquisition. Here a rough and ready diagnostic evaluation of the extant managerial structure, talent pool, and managerial practices gives a useful idea of how readily a potential acquisition could be fitted into the company organization, and where the difficulties likely would arise. The planning that becomes possible smoothes the way to a much quicker adjustment.

The second way is by the immediate implementation of requisite organization within a new acquisition. In a most notable example in Commonwealth, one such development contributed (did not cause, but contributed) to an increase in output of over 100 percent within the first two years.

Turning now to the impact on the employees of the implementation of requisite managerial structures and processes, there have been many examples of major changes for the better. One such example is that trade union relations have improved beyond recognition and a further change has taken place. They had been a "me-too" company, that is to say, a small company which followed and automatically accepted the conditions negotiated every three years by the two major firms and the national trade union. Their local union took the initiative in instituting their own

	1996	1997	2000
Production (tons)	110,780	132,828	168,268
Recovery %	71%	75.51%	80.20%
Cost per lb.	\$0.21	\$0.19	\$0.19
Promise Performance	55%	71.41%	92.10%
Customer Claims	1.0%	0.50%	.2%

TABLE 3.1.1: IMPROVED RESULTS IN PURCHASED FACTORY

negotiations and conditions, 3 to 6 months in advance of the national negotiations. That change is a major sign of growth in mutual trust, which is the most significant criterion of a healthy and constructive atmosphere that breeds a sense of well-being and security in employees.

The same atmosphere and outlook pervades at all levels. During recent years a number of mid- to high-level people who left to accept greater opportunities offered by other employers have sought to return. They report that they found the standard conditions that exist in other “good” companies to be really unacceptable. There is highly-effective cross-functional collaboration as a result of the clarity of accountability and authority bolstered by the general sense of well-being and opportunity for self-actualization that suffuses the company.

This is not intended as a description of some kind of utopia, but merely as an example of the great social power of the CEO. It is quite possible for any CEO in any company to maintain a principle-based set of managerial structures and managerial leadership processes that really do provide enhanced productive effectiveness and a high-morale mutual-trust organization that is actually good for employees personally, inevitably good for their families, and eventually good for society.

To take the most recent example, a new plant was purchased in 1997. Table 3.1.1 shows the results of a rapid application of requisite organization practices. Within the first year, production had increased by 20 percent with a 10 percent decrease in total expense. Revenues had improved by a significant 4 percent. And promise performance had increased by over 15 percent. At the end of four years, production had increased by 50 percent with no further increases in total expense, recovery had increased to world class by another 5 percent, and promise performance had shot up to a record 92 percent. A sharp increase in customer satisfaction was shown in a reduction of customer claims from 1 percent to 0.2 percent. Did the organizational

developments explain all these results? The answer is no. But did the organizational developments contribute significantly to the achievement of these results? The answer is yes.

ABOUT THE AUTHOR

Elliott Jaques, pioneer in the theory of human development, is considered one of the 20th century's leading psychologists. Dr. Jaques, whose contributions were multidisciplinary, is well-known for identifying what he called the *mid-life crisis* and for the breakthrough idea that the capability of human beings to perform complex tasks is predictable and evolves over time. He made fundamental contributions to society's understanding of the meaning of work, to the evaluation and development of the worker, and to a method for objectively measuring the complexity of work roles. And, he was the first to develop a numeric, provable method for testing and measuring human behavior, which has subsequently been used to analyze the work of military generals and to assess leaders in politics and business. Dr. Jaques is the author of more than 20 books, including *A General Theory of Bureaucracy*, *Human Capability* (with wife Kathryn Cason), *Requisite Organization*, and *The Life and Behavior of Living Organisms*. His noteworthy awards include the Joint Staff Certificate of Appreciation, presented by General Colin Powell, for "outstanding contributions in the field of military leadership theory and instruction ..."



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To support the organizing of work in a responsible, fair and healthy manner in which people are led in a way that enables them to exercise their capabilities.

The Society believes this requires applying a systems framework* emerging from reflective inquiry in which levels of work and capability are the initial paradigm and growth in human awareness is the essential process.

The benefits are organizational effectiveness, fulfilled people and organizations designed for value-creation, sustainability and social well-being.

* Note: inspired by the work of Wilfred Brown and Elliott Jaques

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The GO Society fulfills its purpose by:

- 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. The GO Society supports the learning and development of current and future practitioners by holding world conferences and professional development workshops, publishing books and a journal, and maintaining a resource-rich web site with related articles, monographs, books, videos, blogs, discussion groups, and surveys.

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