

Healthcare Consulting | Valuation

Partner Insight Series:

Optimizing Organizational Structure

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How can Healthy Organizational Structure be Applied to Healthcare Organizations?

Organizational structure helps outline the relationships among the many components of an organization to optimize performance. Leaders struggle to implement and maintain management reporting relationships within an organizational structure which align with effective practical application. As hospitals, health systems, and physician organizations grow, management reporting relationships and structures must change to allow for utmost effectiveness.

One of the most important details to consider when reviewing or developing your organizational structure is the span of control each manager is given within the organization. Span of control refers to the number of subordinates or direct reports a supervisor is responsible for overseeing.

Today, we are seeing leaders with far too many direct reports. The challenge here is focus, prioritization, and direction. With too many direct reports, a leader is constantly fighting fires rather than truly leading. Much of what we do in healthcare involves addressing the crisis of the day. We do not have to set ourselves up for that each day by lacking a thoughtful, well-constructed way to manage our teams.

Another challenge is that many of our younger, less experienced team members are, in our minds, not fit to manage anyone or be responsible for segments of operations. This is a growth opportunity where we as senior leaders must “bring up the next generation” of leaders. Constructing reasonable job descriptions, providing ongoing feedback and direction, training them to lead, and building up younger leaders by adding more and more duties as they are ready to absorb them will allow us to delegate more effectively to our up-and-coming leaders.

Succession planning and the feared but always top of mind “smacked by a bus” mindset is at play here as well. Leaders who truly care for their organization should care enough to plan for the imminent departures of key leaders. Things do change, and the organization should be able to withstand a leader’s departure (or even a vacation) without cratering. Therefore, I recommend preparing others to step up and be able to fill in when needed. This readiness planning helps younger, less experienced leaders to grow and mature faster and be better equipped to take on more and more responsibilities over time.

Span of Control

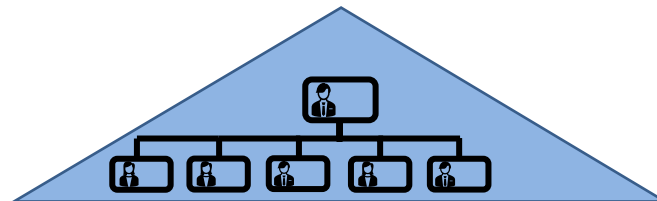
The concept of span of control was first developed in 1921 by British Army Officer Ian Hamilton who concluded in his book “The Soul and Body of an Army” that management effectiveness greatly decreased when the number of direct reports surpassed six people. Similarly, George A. Miller’s paper published in 1956 titled “The Magical Number Seven, Plus or Minus Two”, explains that humans can only remember a maximum of 7, plus or minus 2, pieces of information in our short-term memory at one time. This theory can hold true when it comes to a manager’s span of control and the ability to maintain many effective professional working relationships at one time.

We often see within healthcare organizations a leader having either zero direct reports or too many to count (literally). Span of control is a good tool to use when evaluating each leader’s ability

to effectively execute his or her responsibilities.

Wide Span of Control

A wide span of control in organizational management refers to a management structure where a manager has many subordinates. The advantage of a wide span of control is that it can lead to lower managerial costs and increased efficiency, as fewer managers are needed to supervise a larger workforce. It also allows for greater employee autonomy, as employees have more decision-making power and are less reliant on their manager for guidance. Because employees can problem solve and make decisions for themselves, growth for the organization as a whole is normally much faster. Also, there are fewer levels of management in the organization, which allows for easy communication from top to bottom.



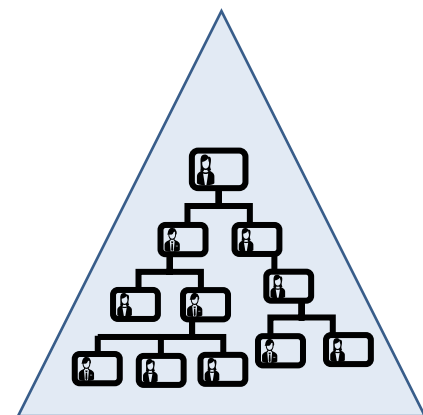
Informal or programmatic enablers, such as matrix management or a formal coaching or mentoring program, may support an effective structure with a wide span of control. Matrix management is rarer today than twenty years ago in healthcare organizations, but can still be effective. Coaching and mentoring programs allow junior staff to “coach” subordinates without having a formal reporting relationship.

A wide span of control can also have drawbacks. It may lead to less personalized attention and feedback from managers, since their time is spread overseeing a larger number of employees. This can make it more challenging for managers to identify and address individual employee needs and concerns, and for those employees to feel seen, heard, and valued within the organization.

Narrow Span of Control

Alternatively, a narrow span of control refers to a management structure where a manager has a limited number of subordinates reporting directly to them. This low manager-to-employee ratio allows each manager to provide more personalized attention, coaching, and feedback to their subordinates. It also allows managers to retain greater control over operations, and enhances communication and collaboration among managers and their teams.

However, a narrow span of control also has downsides. For instance, it can increase managerial costs, since more managers are needed to oversee a larger workforce. It can also hinder decision-making, seem bureaucratic, and limit



employee autonomy and growth opportunities, since easier access may lead employees to become overly dependent on their manager for guidance.

Final Thoughts

There is no “one size fits all” solution with regard to the optimal number of subordinates for each manager, but many factors impact the effectiveness of the organizational model. We mention the “7, plus or minus 2” rule as a starting point, which can then be adjusted for the particular circumstances and goals of the organization. The most important thing to remember is that each individual has a maximum number of subordinates they can be accountable for before productivity, quality, and effective communication drastically decline. Therefore, if you notice a lack of productivity for one individual or department, it may be worth evaluating the efficiency of the span of control reflected in your organization.



Kyle W. Kirkpatrick, FACHE
Partner – Director of Consulting Services
214.675.3608 | kkirkpatrick@jtaylor.com

Kyle has over 25 years of consulting and operational experience working in healthcare and life sciences with public and private organizations across the nation. He is a former hospital CEO with experience running hospital groups, managing joint ventures, implementing new strategies, driving EBITDA enhancements, and creating positive organizational cultures. He has worked as a consultant within Big 4 firms focused on strategic planning, M&A, and operational improvements. Call or email Kyle if you need assistance with any of your healthcare challenges.

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