Perspectives

Shaping Up:
The Delayered Look

The Boston Consulting Group
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The Delayered Look

Even after all the job cuts of the last few years, many organizations are still out of shape—literally. They have too many layers; there are too many pay levels within those layers; and, not surprisingly, spans of control are too narrow. Companies are too lean in some places and too fat in others.

By layers, we mean the hierarchy of reporting relationships. Levels refer to pay grades. And spans refer to the number of direct reports. The costs to companies of being out of shape are enormous, particularly in terms of reaction time and decision making.

Why, then, are so many companies still out of shape? One reason is that belt-tightening (across-the-board layoffs and department closings), while fast and uncomplicated, is often a blunt and unfair instrument that does little to fix an organization’s basic structure. At the other extreme, process redesign, which seeks to change the detail of organizational interactions, is a lengthy approach that often doesn’t question whether something really should exist. “Value-based” cost reduction, which also focuses on process activities rather than the
interaction of people, is another alternative, but it can miss the big opportunities and still doesn’t improve decision making or responsiveness.

Focusing exclusively on delayering at the management level, on the other hand, speeds up both information flows and decision making. Moreover, with leaner managerial ranks and the focus on work rather than coordination, activities that don’t deliver value get eliminated.

Jack Welch understood this when he took over at General Electric. He inherited an organization that had at least 12 layers and an average span of control between three and four. Imagine: on average, each manager had only three or four direct reports. Within a few years, there were only six layers at GE, and the average span of control was more than ten. It’s clear now that Welch’s “strategy” was focused on organization and human resources. Managers may be tired of hearing about the lessons they can learn from GE, but this is one they should remember.

Nonetheless, they would rather forget it. Delayering is certainly not a new idea, but it has been shelved for more complicated schemes because it is hard to let people go when you work directly with them or they are your friends’ friends. It is much easier, or at least less personal, to order the elimination of
frontline employees. Taking out layers of management, particularly middle management, requires discipline, a willingness to confront sacred cows, and a clear sense of where you want your company, division, or unit to go. Outsiders hesitate to offer help because flattening a steep organizational pyramid is an emotionally bruising process for everyone involved. If it is conducted mechanically or in a way that seems unfair or inconsistent, the delayering process can damage relationships across an organization.

Mapping the Problem

So, how do you do this right? First, find out if you really have a problem. Conduct a detailed analysis of the layers, levels, and spans in your organization. The data exist in your company to help you assemble—which within a few weeks—a picture like the one shown in the exhibit below. You may be surprised by what you see.

The exhibit—“before” and “after” snapshots of a large company—shows that before delayering, no fewer than 18 officers were separated from the CEO by 4 reporting layers, almost 40 percent of the company’s managers were 8 or more layers deep, and more than 800 people were in reporting chains of 11 or 12 layers. (Imagine how fast decisions got made in this company.) What’s more, middle
One Company’s Changing Profile: Reducing Layers and Increasing Spans

Before Delayering

Layer | Median span of control
--- | ---
1 | 6.0
2 | 6.0
3 | 6.0
4 | 6.0
5 | 6.0
6 | 6.0
7 | 6.0
8 | 6.0
9 | 6.0
10 | 6.0
11 | 6.0
12 | 6.0

Total | 123

Before Delayering

Layer | Median span of control
--- | ---
1 | 6.0
2 | 6.0
3 | 6.0
4 | 6.0
5 | 6.0
6 | 6.0
7 | 6.0
8 | 6.0
9 | 6.0
10 | 6.0
11 | 6.0
12 | 6.0

Total | 123

After Delayering

Layer | Median span of control
--- | ---
1 | 5.0
2 | 5.0
3 | 5.0
4 | 5.0
5 | 5.0
6 | 5.0
7 | 5.0
8 | 5.0
9 | 5.0
10 | 5.0
11 | 5.0
12 | 5.0

Total | 123

After Delayering

Layer | Median span of control
--- | ---
1 | 5.0
2 | 5.0
3 | 5.0
4 | 5.0
5 | 5.0
6 | 5.0
7 | 5.0
8 | 5.0
9 | 5.0
10 | 5.0
11 | 5.0
12 | 5.0

Total | 123

Reduction | 30% 29% 24% 21% 0% 0% 0%

Source: BCG analysis.
management had the narrowest spans of control, not the top or bottom layers. This is typical. In most cases, the CEO is well aware of the top few layers, so the spans are usually good. And the bottom of the organization is lean as a result of traditional cost cutting. But the middle ranks of management seem to remain immune to shape-up efforts.

Assembling a picture like this allows you to see what kind of organizational challenge you face and the value of reshaping the pyramid. In the company illustrated in the exhibit, management decreased the layers from 12 to 8 and achieved savings of roughly 30 percent. If flattening the organization will produce savings of 10 percent or less, you don’t have a big problem—at least not one worth solving with delayering. Just assign your managers to reduce costs in the course of their budget execution. But if your excess structure represents more than 10 percent of excess costs, then you need to consider a more formal process that will maintain morale and retain the right people.

Keep this reality in mind: any process that aims to restructure an organization by taking out significant numbers of people can’t be executed without an iron will. That means CEO ownership of and commitment to a fact-based and transparent approach. There is no such thing as a covert reorganization. Treat
your employees like adults and be clear about the what, the why, and the how of the delayering process.

Debate the issue with your top team and then establish some principles such as the following to guide the process:

1. We are not a democracy—all decisions are subject to senior management’s approval.
2. Our commitments, once we agree on them, are set in stone.
3. We will deal in an open and direct fashion on all issues.
4. We will restructure to create competitive advantage.
5. We will complete all organizational changes by a certain date.
6. We will count cost reductions only when the costs are off the books.
7. We will put together the best team (the lowest performers will have to leave).
8. We will execute quickly without taking shortcuts that undermine success.
9. We will use the same process and timing throughout the company.
10. If we violate any of our principles, we will be required to change them.

**A Cascading Process**

Organizations are geometric structures and therefore require a geometrically scalable
process to redesign them. Senior executives who think they can redesign a major corporation over a weekend are fooling themselves, considering that everything two layers below them recedes into a fog. The best way to delayer an organization is for managers to participate in a cascading process. The people who are closest to the problems are best able to solve them, and when senior management sets the right example, others will follow. All this means that you start the delayering process at the top, not at the bottom.

One objection we hear to this approach is that it will take too long and reduce productivity because it increases uncertainty. On the contrary, well-communicated processes result in less disruption and better execution than blitzkrieg reorganizations, which rarely work.

Delayering is an honest, effective, and empowering way of reducing costs while speeding up decision making. The goal is to put the right people in place and let them make decisions about what is important. Delayering looks to the future, not just at the present. After getting the structure right, there are fewer “jump balls,” less confusion over who follows up, increased responsiveness to customers, and, in general, cleaner ways of doing business.

Delayering’s success rests on a couple of hypotheses. The first is that increased spans of
control force managers to do their jobs differently. If you have just three or four direct reports, you will be tempted to meddle and micromanage. But if you have 15 reports, you have time to do only two things: communicate your goals and manage exceptions. Effective management requires trust in your reports and an ability to focus on the trouble spots. The second hypothesis is that breaking down hierarchy sets the stage for the formation of networks that cut across processes and functions, and that these networks, properly engaged and motivated, are the key to superior performance.

Flattening the pyramid is just the first step, but arguably the toughest one, toward leaving a legacy of organizational readiness and agility—a legacy far more important than any particular strategy or market position.

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