Global Delayering for Competitive Advantage

The benefits of delayering have become apparent over the past several years. In addition to lowering costs, delayering speeds decision making, improves communication up and down the hierarchy, and increases accountability and morale. But until recently, few companies wanted to take on the challenge of delayering in a global context: they believed that the costs could outweigh the benefits. In fact, although the execution hurdles are high, the benefits of global delayering may be greater than those of domestic delayering.

For the most part, delayering has been deployed at centralized and largely domestic corporations such as banks and telecommunications operators. Global corporations with multiple businesses pose a new set of challenges: Corporations tend to expand globally as opportunities arise and do not necessarily establish optimal organization structures. Speed to market trumps organizational effectiveness.

Decentralization is a hallmark of many global corporations—one that brings its own special challenges. A larger set of decision makers must accept the need to delayer. Also, a decentralized organization may require greater intervention in order to create the proper spans of control—the number of direct reports for each manager—because the size of business units tends to be smaller and subscale.

At global corporations, organizational complexity, inefficiency, and redundancy are easier to ignore and harder to combat than at their domestic counterparts. The overall size and scale of global corporations impose high barriers to action, and proposed solutions often must extend across regions. Still, these obstacles are negotiable. Companies that go through the exercise of delayering will flatten their corporate pyramid and break down organizational scar tissue common at global entities. Delayering becomes a lens through which it is possible to examine and then fix many other issues. If corporations do not delayer, it is unlikely that they will tackle many of the tough organizational issues that creep into global operations. These business transformations can actually be more valuable to the company than the savings from delayering, which for a global corporation can reach hundreds of millions of dollars.

Rethinking Global Operations

In recent global and pan-European delayering projects, The Boston Consulting Group has seen how delayering has uncovered not only excess reporting layers and low spans of control but other key organizational deficits as well.

Think about how most corporations expand globally. They send an entrepreneurial executive overseas to start an offshoring operation or to launch a new business. Temperamentally, the executive is likely to be a builder rather than a manager. The executive is also likely to be more interested in meeting financial numbers or building market share, which will be noticed back in the home office, than in creating the optimal organization, which will not. The momentum of the marketplace rather than business logic dictates organization design. Before long, there may be several research-and-development centers conducting similar work or several finance operations. A company may have multiple regions within a country, with employees having more affiliation with their division than with the country operation or even the company as a whole.

1. The Boston Consulting Group has applied for a federal trademark on its distinctive approach to flattening the corporate pyramid. This is our third article on the subject. See “Shaping Up: The Delayered Look,” BCG Perspectives, October 2004, and “The Fallacy of the Player-Coach Model,” BCG Opportunities for Action, April 2006.
Alternatively, a corporation may buy a small competitor in a local market, folding its operations into an existing regional organization. The head of the region is looking for improvement within the confines of his or her organization but is unlikely to be thinking about opportunities that cross boundaries—for example, opportunities to consolidate finance operations across regions.

In either case, the organization is less efficient than it could be. Spans of control are likely too low simply because many foreign outposts are subscale, but that is only one of many potential problems with the fundamental organization design. Should operations be organized by function or by region? Even if a regional structure is maintained, are there opportunities to consolidate such activities as finance, human resources, information technology, or operations into shared service centers? Are duplicative activities occurring in the center and in the regions?

Corporations could conceivably address these issues without delayering. The reality is that most executives do not lose sleep worrying about whether they should break apart a regional structure and create global operations or make other organizational changes. But they do stay awake worrying about whether their costs and market responsiveness are competitive. And that is when they start to think about flattening the corporate pyramid. We have long believed that lower costs are a secondary benefit of delayering. Agility, accountability, and speed are the primary benefits. BCG’s recent work on global delayering strengthens that belief.

**Delayering Uncovers New Opportunities**

Delayering rests on a hypothesis and a proven methodology. The hypothesis is that a cleaner and simpler organization structure leads to cleaner and more effective decision making. When managers have a greater number of direct reports to oversee, they are forced to stop meddling and micromanaging and to start communi-

As part of a global delayering, a large industrial conglomerate recently moved its Hong Kong manufacturing operations into mainland China to reduce management redundancy and to leverage expertise. Overall, the corporation achieved greater savings from these organizational changes than from delayering. We believe that this is true at most global portfolio businesses. Delayering helped another company examine plants and distribution centers in Europe in a
new way. These facilities had developed organically or had been acquired. All of them had different structures, and generally they all had too many layers. By applying operational and delayering best practices, the company found a more common and effective operating model and saved almost $2 million a year.

As a management tool, delayering also enables executives throughout the organization to have a hand in the company’s redesign. Employing a cascading process, senior executives first agree on key guiding principles and then delayer the layer immediately below them. Each succeeding layer of managers delayers the layer below it. In the process, managerial positions are often eliminated or moved up and sometimes down the pyramid, and layers disappear. When a global corporation tackles organizational issues through delayering, the process becomes inspirational and aspirational. Executives take joint responsibility for making their corporation more competitive and ensuring its future. As they lead a fundamental business transformation, they are empowered to address many lurking organizational issues that were too difficult to tackle without the delayering mandate. Although that mandate may have come from the top, people in the middle of the corporation—those who can make or break change management initiatives—are steering the boat.

This scenario is different from a domestic delayering, in which the changes resulting from the business transformation are generally more modest, and most of the gains come from delayering itself rather than from organization realignment. In a global delayering, cost savings are the caboose of a long train of organizational benefits.

**Taking the First Step**

Domestic delayering is difficult work. Global delayering is even more difficult for all the reasons cited above and then some. In a global context, there are cultural, legal, and technological barriers. Europe, for example, has strict laws that limit corporations’ flexibility in collecting employee information and in reducing staff. Work councils—collections of workers who must be consulted during staff reductions—have a role in the delayering process. Advance planning, communication, and transparency are the keys to making delayering work in Europe. In Asia and South America, corporate outposts may not have advanced human-resources systems that facilitate diagnosis and analysis. But these challenges are all speed bumps rather than roadblocks. And there are also advantages to a global process. At one company that delayered by region, the best practices of one region served as the bar for subsequent regions. The exercise created an internal momentum that would not have been possible on a domestic project.

As corporations globalize their operations, they should also be thinking about when those operations need to be optimized. Delayering is a tool that helps corporations tune their global organizations, and it travels across time zones and national borders with amazing effectiveness.

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