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# *Management spans and layers*

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**Streamlining  
the out-of-shape  
organization**



## Contacts

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### Beirut

**Joe Saddi**  
*Senior Partner*  
+961-1-985-655  
joe.saddi  
@strategyand.pwc.com

### Chicago

**Gary Neilson**  
*Senior Partner*  
+1-312-578-4727  
gary.neilson  
@strategyand.pwc.com

### Rio de Janeiro

**Paolo Pigorini**  
*Partner*  
+55-21-2237-8448  
paolo.pigorini  
@strategyand.pwc.com

### Sydney

**Ian Buchanan**  
*Senior Executive Advisor*  
+61-2-9321-2853  
ian.buchanan  
@strategyand.pwc.com

**Vinay Couto**  
*Partner*  
+1-312-578-4617  
vinay.couto  
@strategyand.pwc.com

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# Introduction

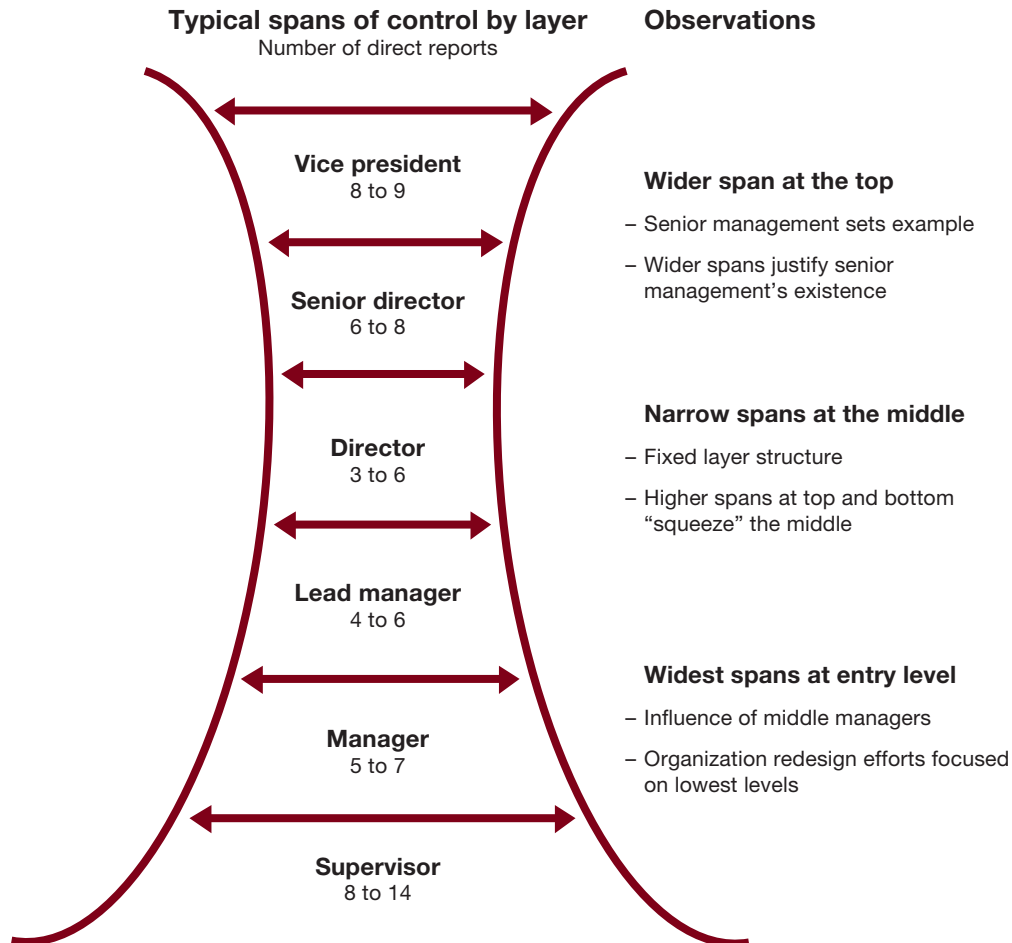


**Do you recognize** the hourglass organization (see *Exhibit 1, next page*)? If you look closely at the management ranks of many Fortune 500 corporations, you'll see this unfortunate phenomenon: excessive layers and narrow spans of control, particularly among mid-level directors and managers. The result is often bureaucratic buildup, bottle-necked decision-making, and a general lack of innovation. Employees laboring at the customer-facing end of this attenuated organization structure are hamstrung by vertical decision-making and multi-matrixed reporting relationships. Their career prospects are unenticing and their creativity diminished. The view at the top is equally uninspiring ... and crowded. Organizations like these need to look beyond simple headcount reductions to find more lasting and effective methods for getting in shape.

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*Exhibit 1*

**The “hourglass” organization**



Source: Strategy&

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# ***Rooting out the underlying causes***

The objective in streamlining the hourglass organization is not just the obvious potential for stripping out excess cost; it's the concomitant opportunity to increase revenues by simplifying decision-making, enhancing customer responsiveness, and unleashing innovation. Achieving these benefits, however, requires a new approach to organizational restructuring, one predicated on true and lasting behavior change, rather than slashing boxes on an organization chart. Headcount reduction alone is a shortsighted remedy; it does not address the underlying drivers of organizational obesity. Indeed, it can often do more harm than good. Companies thinning their ranks often either cut into the productive muscle of the organization or lop off excess positions only to have them reappear elsewhere a few months later.

To achieve enduring, productive gains, companies need to look more than skin-deep for solutions. They need to look beyond organizational charts and job descriptions to the company's "DNA" — the collection of behaviors, assumptions, beliefs, habits, incentives, and rules that determine how people work together (*see Exhibit 2, next page*).

An organization's DNA is less visible and harder to get at, but it is essential to motivating stronger performance and ensuring sustainable gains.

While proliferating lines and boxes on an org chart are an important indicator, not all spans are created equal; some spans legitimately should be narrower than others. But narrow spans can also be symptoms of serious organizational problems. By this logic, eliminating lines and boxes does not cure a dysfunctional organization; it merely masks the symptoms. The root causes of organizational dysfunction and obesity are more fundamental:

## ***Root cause #1: Lack of accountability***

***"We need to protect our employees from themselves"***

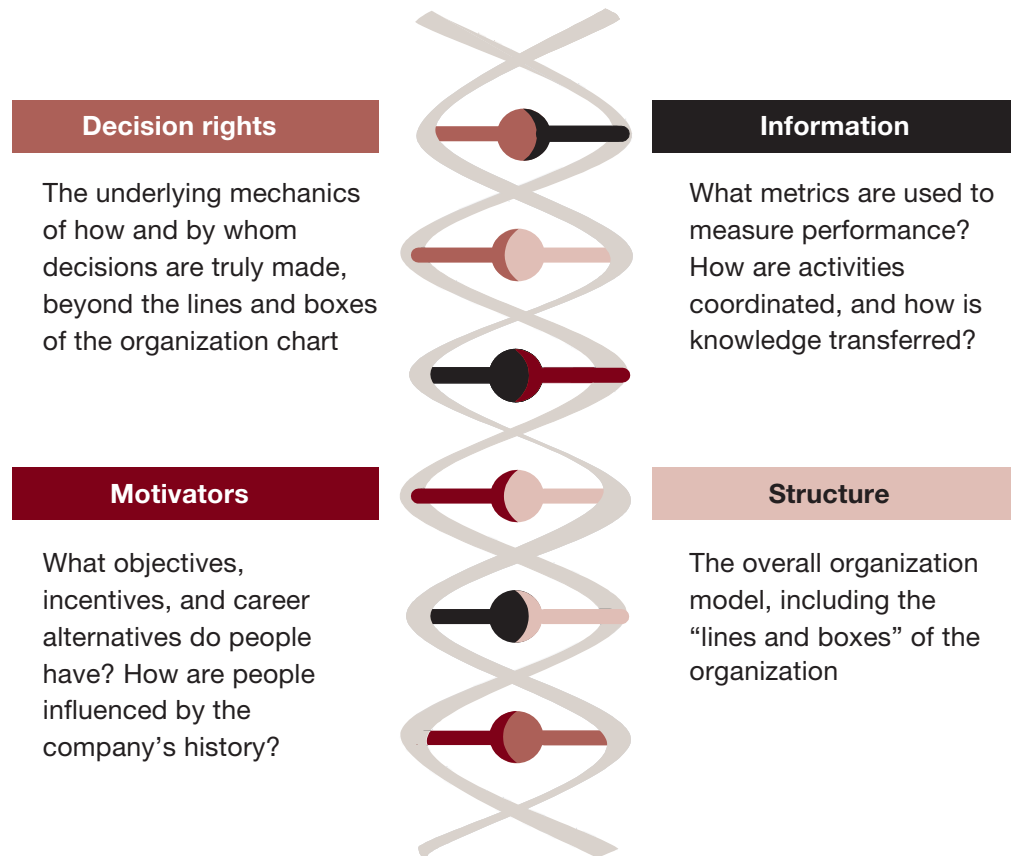
Organizations that do not hold employees accountable for their actions, results, and budget commitments breed a culture of mistrust and incur

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## Exhibit 2

### Organization DNA encompasses a lot more than structure

#### The four building blocks of organization DNA



Source: Strategy&

extra costs associated with excessive oversight. Additional layers of management become institutionalized to “chaperone” employees as they make day-to-day decisions. From the outside, the organization looks bureaucratic and/or incompetent, when the real culprit is ill-defined accountabilities and performance measures. There is no license for employees to improve the organization and no incentive to deliver against critical objectives. Moreover, redundant levels and approvals enable everyone to pass the buck until the people making the decisions are no longer accountable for the decisions they make.

### ***Root cause #2: Suboptimizing silos***

**“What’s good for my unit is good for the company”**

Business unit and/or functional silos will naturally crop up in any large, complex organization as managers compete for capital and other resources. In the attempt to optimize individual performance, however, business units and functions often suboptimize the overall company’s performance. Typical symptoms of silo behavior include poorly placed investments, redundant staffing and services, and inconsistent messages to the marketplace. While some might diagnose the symptoms as warring internal factions, the truth is most units and functions probably don’t know each other well enough to battle. The organization is too highly fragmented and/or dispersed, and corporate coordination and governance mechanisms are absent. Ironically, this very fragmentation drives the need for more managers to coordinate both within and across silos.

### ***Root cause #3: Micromanagers***

**“Our managers like to get their hands dirty”**

It’s no coincidence that slow-moving organizations tend to be bloated in their midsection with multiple layers of management, all eager to justify their positions. In pursuit of that goal, they “make work,” manifesting an insatiable desire for detail and requests for tremendous volumes of information that must be assimilated and reconciled at each level. Excessive time is spent requesting, tracking, and approving spending, personnel, and operating decisions. While the resulting organizational sclerosis could be attributed to inexperienced or incompetent subordinates, the root cause is management’s unwillingness to delegate decision rights to those employees closest to the relevant information.

#### ***Root cause #4: Implied promotion promises***

**“It’s been two years ... time for another promotion”**

In the paternalistic corporate cultures of yore, it was an article of faith that promotions automatically accrued to those solid performers who “did their time” in a particular position. That practice has fostered unrealistic career advancement expectations among the current generation of middle managers. To keep the best and the brightest from exiting, companies are instituting “promote from within” policies and dangling vertical advancement opportunities. The problem is too many companies rely on promotion as their chief incentive mechanism, placing pressure on the organization structure to create additional — and largely artificial — levels of management.



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# *How to be flat and happy ... for good*

As with any type of organization change, there is no single best way to remove layers. Some start at the top, with the CEO or CFO commissioning an organization audit. After benchmarking the organization against internal and external best practices, the senior team sets stretch goals to restructure management spans and flatten layers.

Others “bubble up” solutions from below by engaging the entire organization in “spans and layers” interviews and workouts. These sessions drill down to uncover the root causes of dysfunctional organization structures. Once these root causes are identified, organization leaders are charged with addressing them. Solutions might include setting up self-managing teams, altering management and employee responsibilities and incentives, and redesigning career paths.

Whichever solution is adopted, however, it is wise to remember the eight tenets of genetic reengineering when it comes to organizational DNA.

- 1. Not all spans are created equal.** Avoid the seduction of simplistic targets (e.g., “no more than five management layers/no fewer than three direct reports”). Sustained improvements hinge on developing the right size and number of building blocks based on the nature of work, the core business processes involved, and the interactions required to drive smart decision-making.
- 2. Create cross-functional teams with process owners around key business processes.** These teams cannot be afterthoughts or window dressings. They need real authority.
- 3. Design fulfilling career paths** and staffing strategies, including horizontal moves and increased compensation, to challenge and reward managers faced with fewer classic upward promotion opportunities.
- 4. De-program micromanagers.** Train and hold accountable the next generation of middle management to delegate more decisions to the front lines where relevant information resides.

## Case study: Spans and layers

As the lead initiative in an overall global effectiveness program, a Fortune 100 client of Strategy& launched a “spans and layers” program designed to reduce high G&A costs driven by organizational complexity. Recognizing that the existing multi-matrix structure was costly, sluggish, uncoordinated, and inwardly focused, management was convinced that a flatter and more streamlined organization model was critical to effecting its strategy and competing in a global marketplace. The

team charged with leading this effort followed a four-step process over a period of 12 weeks, first baselining the existing spans and layers, then sizing the prize from a top-down perspective, then designing and implementing solutions to reduce layers and optimize the organization model. In the end, the company realized approximately \$200 million in savings, which constituted 25% of the total cost savings generated by the entire global effectiveness program.

Driver	Less of	More of
<b>Performance management model</b>	<ul style="list-style-type: none"> <li>– Cumbersome reporting processes to satisfy management</li> <li>– Volumes of information generated, assimilated, and reconciled</li> </ul>	<ul style="list-style-type: none"> <li>– Agreement on key measures required to drive the business</li> <li>– Top-down setting and cascading of targets for underlying drivers</li> </ul>
<b>Decision rights</b>	<ul style="list-style-type: none"> <li>– Frequent, long meetings to achieve consensus</li> <li>– Excessive time spent requesting, tracking, and approving investments</li> </ul>	<ul style="list-style-type: none"> <li>– Clear, explicit decision rights with well-defined boundaries</li> <li>– Streamlined delegation of authority</li> <li>– Rules to deal with exceptions</li> </ul>
<b>Control model</b>	<ul style="list-style-type: none"> <li>– Hands-on operating style and micro-management</li> <li>– Senior managers making strategic, tactical, and operational decisions</li> </ul>	<ul style="list-style-type: none"> <li>– Management “coaching” rather than “control”</li> <li>– Senior managers approving only strategic, high capital, and high risk decisions</li> </ul>

Source: Strategy&

5. **Modify job titles and compensation levels** to reflect and encourage more simplified and streamlined work processes.
6. **Institutionalize communications vehicles** to break through traditional roadblocks to the free flow of information.
7. **Implement measures and incentives** that sharpen the organization's focus on accountability and consequences for performance gains and losses.
8. **Coach the change agents**, the line managers who will not only design and deliver the changes, but who will most directly feel their implications.

In a competitive environment where fleet-footed rivals and finicky customers drive the pace of change ever faster, organizations need to be fit and flexible to prosper. Too many, however, are burdened with excessive organizational structure. Developing a flatter, more streamlined profile is not only a key to reduced costs in the short term, it is an invitation to increased revenues over the longer haul.

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