HBR.ORG
Harvard Business Review
APRIL 2012
REPRINT R1204H

How Many Direct Reports?

Senior leaders, always pressed for time, are nonetheless broadening their span of control.

by Gary L. Neilson and Julie Wulf

How Man
Direct Re

Gary L. Neilson is a senior vice president in the Chicago office of Booz & Company and a coauthor of "The Secrets to Successful Strategy Execution" (HBR June 2008).

Julie Wulf is an associate professor at Harvard Business School and has conducted extensive research on the internal governance of senior management in large U.S. firms.

ny
eports?

Senior leaders, always pressed for time, are nonetheless broadening their span of control. *by Gary L. Neilson and Julie Wulf*

PHOTOGRAPHY: STEPHEN WEBSTER

If senior executives are feeling ever-increasing pressure on their time—and few would suggest that's not the case—why would they add more to their plates? It seems counterintuitive, but according to our research into C-level roles over the past two decades, the CEO's average span of control, measured by the number of direct reports, has doubled, rising from about five in the mid-1980s to almost 10 in the mid-2000s. The leap in the chief executive's purview is all the more remarkable when you consider that companies today are vastly more complex, globally dispersed, and strictly scrutinized than those of previous generations.

Let's look at Sara Mathew, who became the chairman and CEO of Dun & Bradstreet in January 2010. On top of the six people who had reported to her predecessor, she tacked on the 10 who had made up her team when she was COO. In addition, she chose not to replace herself in the COO role, because she didn't want to burden her staff with additional change, and—more to the point—she wanted to stay on top of what was happening across the organization, so that she could quickly adjust direction if need be.

Mathew exemplifies two trends we've uncovered in our research into C-level roles over the past 20 years. First, new CEOs in particular are taking on a broader array of responsibilities as they seek a comprehensive understanding of the business and as new technologies allow them to reach more people more directly. But over time—once they attain a steady state—they gradually reduce their span of control until the number of reports approaches the old norm. Second, new CEOs are increasingly choosing to go without a deputy. Across industries, the COO position has faded. In 1986 some 55% of *Fortune* 500 companies had a chief operating officer. By 1999 the number was down to 45%, and it has continued to decline over the past decade.

The dual shifts are compatible. The COO has traditionally served as a "span breaker"—someone who managed multiple aspects of the business and translated them for the CEO. Lose the COO, and the CEO takes on the responsibility herself. Accordingly, functional specialists like the chief information officer and the chief marketing officer are more frequently reporting directly to the top, bringing relevant strategic capabilities to bear on direction setting and execution. At the same time, they're increasingly taking on elements of general management. This is in keeping with another trend we've observed, whereby executive talent is developed and broadened more rapidly and creatively than traditional three- to five-year job rotations allow.

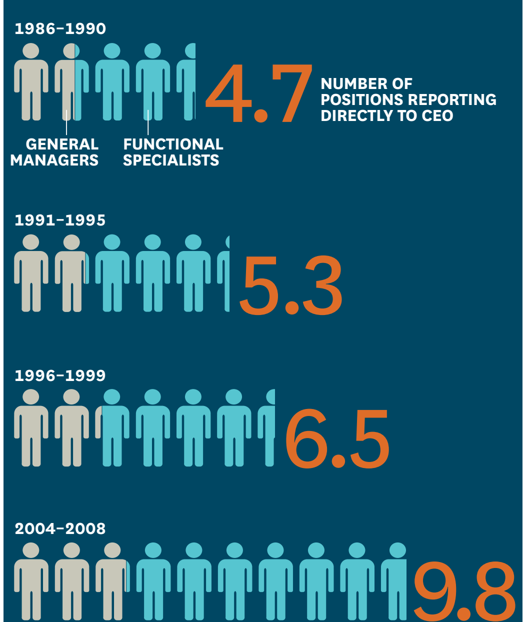
Some CEOs are "double hatting" key executives, giving them significant responsibilities outside of their official jobs. A functional executive might take on operational initiatives, while general managers might be tasked with projects meant to expand their functional skills. Ian Read, the chairman and CEO of Pfizer, shifts responsibilities among his leaders to foster individual and team development. "I try to look for ways to help top individuals bond as a team, so if I've got somebody running a business unit, I might also charge him with running a cross-functional team looking at sustainable cost-reduction ideas," he told us. "Or I'll ask a functional leader, like our general counsel, to take the lead on a business issue such as our strategy in India, working closely with our head of emerging markets and his team. I recently moved oversight for the nutritionals business from one executive, asked that leader to oversee our corporate strategy, and asked a functional head to lead nutritionals."

Let's return to Mathew. Not only is her team bigger than teams in the past; it also includes a much broader mix of roles. This gives her a direct view into aspects of the business that her predecessors were content to delegate. As a consequence, the spans of control at levels right below her are also broader than in the past—and this, too, reflects a larger trend. More people at the table means a broader perspective. It also means that greater detail is visible all the way up the chain of command, so functional leaders had better know what they're talking about.

We identified these shifts, along with several related trends, through academic research by Julie Wulf (conducted in partnership with Maria Guadalupe of Columbia Business School and Raghuram Rajan of the University of Chicago's Booth School of Business) that drew on an extensive database of detailed managerial job descriptions in a large sample

CEOS' SPAN OF CONTROL HAS DOUBLED OVER THE PAST TWO DECADES

Data from a sample of *Fortune* 500 companies show a dramatic increase in the number of positions that answer directly to the CEO. Most of the rise is due to the growing presence of functional specialists at the top table.



SOURCE RAGHURAM G. RAJAN AND JULIE WULF, "THE FLATTENING FIRM" (*THE REVIEW OF ECONOMICS AND STATISTICS*, NOVEMBER 2006); MARIA GUADALUPE, HONGYI LI, AND JULIE WULF, "WHO LIVES IN THE C-SUITE?" (HARVARD BUSINESS SCHOOL WORKING PAPER, 2011)

Idea in Brief

Not so lonely at the top

CEOs have doubled their span of control over the past two decades: Increased geographical and market complexities demand new points of view in the top team.

CEOs are increasingly engaged in the business, and more are playing the span-breaking COO role themselves.

CEOs are changing the leadership mix: Functional leaders account for 80% of the increase in positions reporting to the CEO.

And the COO position is fading. By 1999 just 45% of *Fortune* 500 companies had a COO, and the figure continues to drop.

Executive development vehicles have expanded: New development options offer ways for leaders to collaborate across the organization.

More functional leaders are taking on elements of general manager roles.

of *Fortune* 500 companies and explored how those jobs have evolved in the past 20 years. Our discussion also integrates insights from more than 30 years of Gary Neilson's work on organizational change, undertaken with colleagues at Booz & Company and involving CEOs and other executives in more than 250 companies. Finally, we conducted interviews with five CEOs, whose experience provides an in-depth look at how the trends have played out in a variety of situations.

Our goal was to help answer a perennial question asked by CEOs and other senior executives: How much should they take on? It's a tough question, because so much depends on circumstance as well as on how each CEO allocates and manages time. Nonetheless, we uncovered patterns that suggest several guidelines.

In this article we'll look at how the span of control logically evolves and offer advice for managers as they progress in their careers. We'll suggest five important areas to consider and explore the implications of each. Although much of our discussion is addressed specifically to CEOs, the points will help executives at least two levels down from the top spot build the right teams for themselves and their organizations.

Evaluate Where You Are in the Senior-Executive Life Cycle

Timing wields a significant influence when it comes to designing the structure at the top. The length of your tenure matters. You might think that as you gain experience, you should broaden your purview—that the more experience you have, the more you should directly control. In fact, the opposite is true. (See the diagnostic tool "What Is Your Target Span of Control?") For any senior executive, the first year on the job is a time for learning and assessing. New CEOs are likely to expand their span of control as they set their strategic agenda, evaluate existing talent, get up to speed on all aspects of running the business, and, oftentimes, undertake transformational programs. The span of control is typically highest at the start, a finding exemplified by Sara Mathew and many other executives we have worked with.

"When I got in here, I spent the first 90 to 180 days in what I would describe as a look, listen, and learn period," Don Knauss, the chairman and CEO of Clorox, told us. "The first nine months I was getting the strategy right, and then we did the structural work." Until the CEO distills crucial information and identifies the company's star performers, he or she is better off keeping the span of control broad.

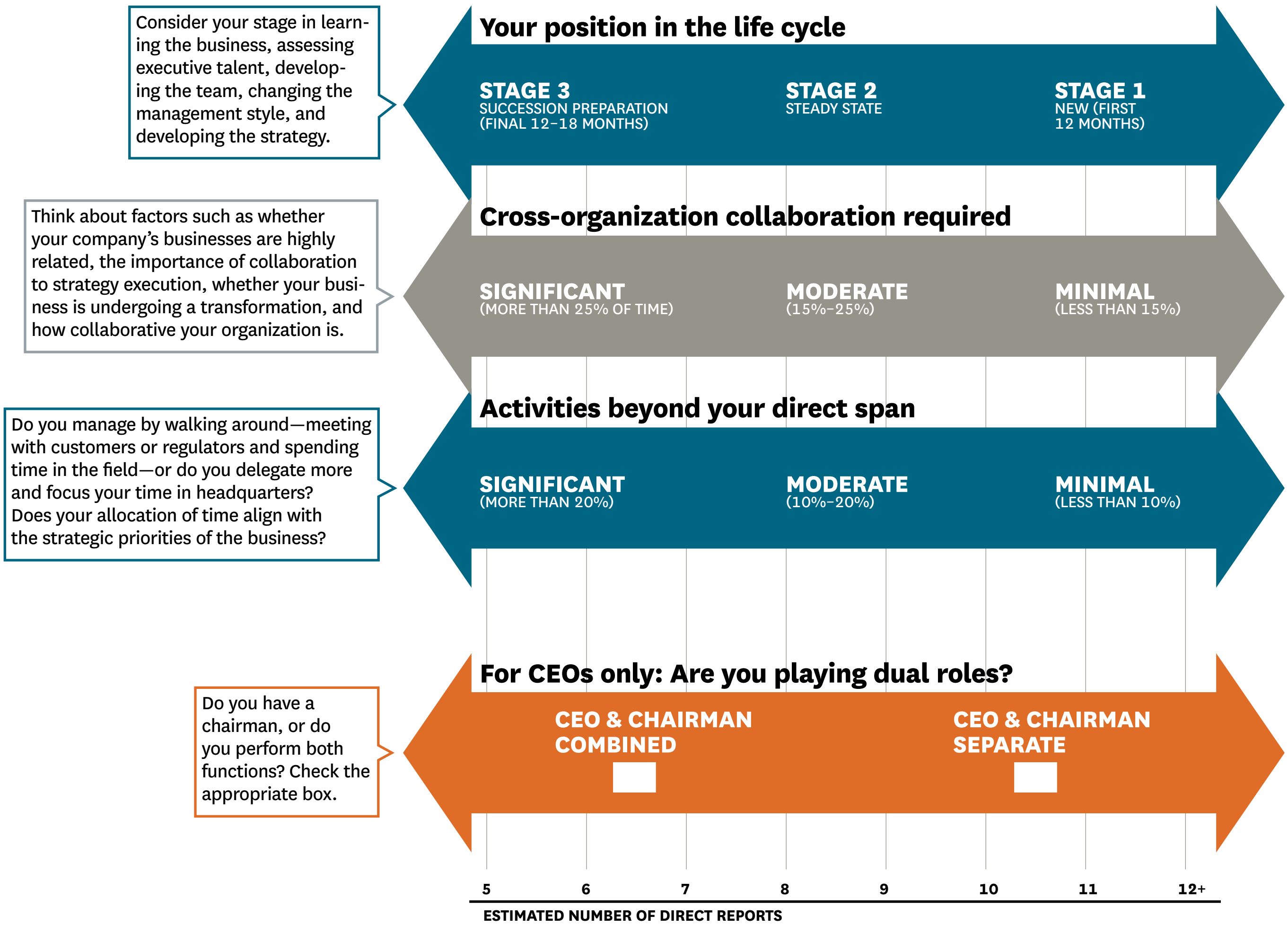
As they gain experience and enter the steady state of running the organization, CEOs begin to reduce the number of direct reports and adjust the mix. At this stage they take a relatively hands-off approach to many aspects of the business. As Mathew fixed on a strategic direction for Dun & Bradstreet, she made changes to her top team, giving up direct responsibility for roles and functions that were fairly mature or self-sustaining and elevating new strategic priorities, especially marketing and innovation, to grow the company. She recognized the importance of honing execution in three key markets—Europe, Asia Pacific, and North America—so she brought the operating executives of those regions into her direct-report span. Today Mathew has seven direct reports,

New CEOs increasingly choose to go without a deputy and take on the COO role of "span breaker" themselves.

SELF-DIAGNOSIS

What Is Your Target Span of Control?

The tool below can help CEOs and other senior executives approximate the right number of direct reports. Estimate where you fall on the continuum for each item and, using the numbers at the bottom, average your responses to find your target range. Omit the fourth item if you are not a CEO.



a number she describes as "comfortable," although looking ahead, she expects to have nine.

Finally, as they start to think about their departure and move into the succession-planning phase of their tenure, CEOs continue to trim the team, aware that even with their increased experience, they can manage only so many direct reports. At this stage, they're apt to reserve berths for strategically invaluable executives and true up-and-comers. We've found that they typically consolidate direct reports to six or so and focus their time and attention on grooming one successor (traditionally the presumed successor was the COO, but the field has widened with the decline of that role) or preparing a few significant executives who've had experience running large segments of the P&L.

Assess the Degree of Cross-Organization Collaboration Required

How much time do you spend in cross-organization committees and meetings? How much time *should* you be spending in them? If the answer to either question is "a lot," your span of control should be relatively small. Staying on top of integration challenges uses up management capacity. At the same time, evaluate your cross-organization activities carefully, with an eye toward whether your direct involvement is always warranted.

Sara Mathew found herself overly enmeshed in tackling integration challenges head on. "I thought hub-and-spoke worked pretty well earlier in my executive career, when I was in a smaller hub. Our team talked several times a day and made all the decisions," she says. "Then I became CEO and found I was often in the middle unnecessarily. If the two of you need to work together, and you both work for me, you can either talk to each other or bring it to me. I found myself in the center of several issues that really didn't need my direct participation, and that was something I had to work on. I had to step out while ensuring that whoever was going to be integrating on my behalf had the readiness and capability to do it well."

The degree of integration required and, in turn, the importance of having strategic functional specialists in the corporate center's top team are often a function of how related a company's businesses are. The more highly related the business activities, the more time a leader is likely to spend on integration issues, working with colleagues at the next level down in committees or one-on-one. Companies fall along a spectrum: At one end are diversified holding companies, in which senior management typically takes a fairly hands-off approach to day-to-day operations and concentrates on overall portfolio management instead. At the other end are single-industry companies, in which an actively involved corporate center oversees highly related operations. When such collaboration is needed, key factors are the team's experience working as a group and its familiarity with others' operations.

As a leader tries to allocate her capacity and determine her span, she must also take into account whether the business is undergoing a transformation. If it is, what proportion of her time needs to be spent managing the transition, and what proportion should go toward running the current business? One CEO we spoke with, who was closely involved in running his current business while also attempting to transform it, started our meeting by declaring, "I don't have time to think."

Greg Page is the chairman and CEO of Cargill, a $100-billion-plus company with more than 70 business units. He keeps his top team small: The company's senior governing body, the Cargill Leadership Team, contains just six people. The CLT's role is to allocate human and financial capital and set the broad strategy, messaging, and tone, but it is committed to shared leadership, with several layers of responsibility. The next layer is the Corporate Center, which includes CLT members and about 25 others who serve as functional and platform leaders (the latter oversee the business units). The non-CLT Corporate Center members are "tagged," to use Cargill terminology, to a CLT member to ensure that administrative matters and accountabilities are aligned and appropriately handled. Members of the Corporate Center, along with some business unit leaders and next-level functional leaders, populate 12 committees, including the corporate food risk committee, the technology committee, the strategy and capital committee, the people team, the business conduct committee, and the Cargill brand reputation committee; these set company policy and direction. Many of the functions and business units mimic this model, handling daily operations with leadership teams that share best practices and tackle key issues collectively.

"By keeping the CLT too small to conduct the day-to-day affairs of the company, it forces that accountability and ownership down the line," Page says. "With it comes a lot of engagement and shared, or collective, leadership. There's an expression a colleague coined: 'The role of the CLT is to put our noses in and keep our fingers out.' That's the right way to run a company this size."

Consider How Much Time You Spend on Activities Outside Your Direct Span of Control

Once you've emerged from your initial year or so, ask yourself: Are you spending enough time on the strategic capabilities that will make a difference to the business? Are you working with regulators or meeting customers to learn firsthand what they think, not just what others tell you they think? Or are you staying too close to the functional areas or business unit you used to lead? This is partly a matter of style: Some executives manage by walking around or spending a day a week in the field, while others delegate outside activities and concentrate their time in headquarters. It's natural to follow your own style, but that doesn't always lead to the best use of your time. First, be aware of how you're spending your days and how that meshes with the needs of the business; awareness is the starting point of any adjustment that may help you in the longer run.

Don Knauss of Clorox makes interacting with customers a priority, because it supports his sales teams' efforts. "I see about 20 customers a year. I want to continue to do that. If I had a broader span of control, I don't know that I could," he says. "I probably spend more time with customers than anybody in the company. As CEO, I need to bring that external perspective to the company. Everybody else has their head down and they're much more internally

About the Research

DATA SET
Approximately 300 *Fortune* 500 companies

POSITIONS STUDIED
CEOs and general managers of business units

Other C-suite positions, including COO, CFO, CMO, general counsel, and chief of R&D

ACADEMIC PAPERS
Studies by Julie Wulf and coauthors, including:

"The Flattening Firm" (*The Review of Economics and Statistics,* November 2006)

"Who Lives in the C-Suite?" (HBS Working Paper, 2011)

"The Flattened Firm—Not as Advertised" (HBS Working Paper, 2011)

OTHER
Detailed review of compensation data

Extensive interviews with senior executives

Typical Mistakes

WORKING TOWARD A "MAGIC NUMBER" Many executives seem to have read somewhere that "seven is the right number of direct reports," or they use a successful colleague's span as a benchmark—overlooking differences in strategies, styles, and executive-development agendas.

RUSHING TO THE "END STATE" MODEL An executive's desire to look decisive often trumps the value of taking the necessary time—12 months or so—to assess the business, evaluate people, and adjust strategies before setting up the organization for the longer term.

STICKING WITH AN OUT-OF-DATE MANAGEMENT STYLE Leaders should adapt their approach to suit their new office and the business's needs and strategy. Traditional hub-and-spoke leaders, for example, sometimes hold on to their old decision-making model even though a more horizontal and collaborative capability-building approach is called for.

oriented. Let's get the numbers. I'm the one who's got to keep pushing them: 'Well, I saw this customer, I saw that customer, and they're telling me we're way off on this.'" That's the sort of thinking—*What is the best use of my time?*—needed to make good span-of-control choices.

Consider the Scope of Your Role

Even as many new CEOs are taking on the role of COO as well, fewer are assuming the chairman's job. If you are acting as both CEO and chairman, your ability to manage a large number of direct reports will be somewhat constrained. Dividing the roles may allow you to take on more functional responsibility.

When Greg Wasson was promoted from COO to CEO of Walgreens, in February 2009, he was the company's first CEO not to hold the chairman position. In response to shifting demographic and industry trends, Walgreens was transitioning from a traditional drugstore business toward community health care. The business was becoming less about filling prescriptions and more about meeting broader health needs, ranging from one-stop shopping for an aging customer base to flu shots and personal service. The company was expanding rapidly—at one point, it was opening a new store every 16 hours—and it seemed important that Wasson be closely involved with the execution. So the board opted to have a different person serve as chairman.

At the same time, if you decide not to appoint a COO, you'll have more on your hands and no middle layer to serve as a deputy. Wasson decided not to replace himself as COO. Early in his tenure as CEO he had 14 direct reports (his predecessor had had seven). Having direct access to the business and freedom from orchestrating board business allowed him to fully restructure the organization. He ripped apart some areas that had been consolidated, separating merchandising from marketing, for example. He hired a new chief marketing officer from outside the company, choosing someone with experience marketing services, not just products. He tapped an expert in customer experience and loyalty from the airline industry, which has been working the loyalty agenda for 30 years.

Consider Your Team's Composition

As noted, it's not just the number of people on a top team that's been in flux in recent years; the mix has been changing as well. As the span of control broadens, more and more functional specialists (chief information officers, chief marketing officers, and so on) are elevated to the senior team. On average, four out of five positions added to a *Fortune*

Many leaders populate their teams with the usual suspects, adding others only if there's room. Turn this logic on its head: Start with the capabilities that will drive your strategy forward.

USING IRRELEVANT METRICS Executives often rely on measures such as budget or the number of people in a unit ("it's so large it has to report to me") to decide on their direct reports, instead of letting strategy guide where they spend their time.

APPOINTING A CHIEF OPERATING OFFICER TOO SOON CEOs who name a COO too early may limit their own ability to drive the strategy forward. They also risk losing promising people who view the succession plan as fixed.

SECOND-GUESSING YOUR REPLACEMENTS Some new executives linger in their comfort zone, doing their old jobs instead of tackling new challenges, as if they don't trust that their former responsibilities are in capable hands.

500 CEO's span of control in the past 20 years have been functional specialists rather than the more traditional pick—the major business-unit head.

This is good news for functional managers anxious for a seat at the table. If CEOs aren't taking on the chairman role, they have more time to devote to business strategy—and our research and experience shows that they're finding more opportunities to include new points of view in their strategic planning.

What are the few strategic capabilities needed to drive success for the company, or for the portion you lead? What voices do you want at the table (signaling to the rest of the organization what is important)?

Some of the capabilities you need may be new to the company. Recall that Greg Wasson made key outside hires to acquire the deep functional expertise he needed to deliver on his strategy for Walgreens.

Also consider the degree of relatedness of your businesses. Firms with a single business or with closely related businesses typically have corporate centers that coordinate activities across business units in order to exploit synergies. (These sorts of companies, rather than the holding-company model, are increasingly the norm.) The research shows that the more closely related a company's businesses are, the greater the number of functional specialists in the top team, suggesting that the corporate core becomes more involved in running those businesses. Because the various businesses within such a company draw on the same functional expertise (marketing, R&D, and so forth), and because that expertise is strategically important in differentiating the company from its competitors, it needs to be represented at the highest level of decision making, where it can be most effectively leveraged on a global basis.

Here's how Don Knauss sums up the rationale for putting functional specialists on Clorox's top team: "First, I did it to get real-time feedback on strategy and operations and on the leaders from those functions who control most of the spending and people. Second, I wanted to force a more global view of the business. You're not just responsible for the U.S.—you're responsible for the company in total, and for driving capabilities, marketing, sales, R&D, and product supply globally. Third, it was to support their personal development. I think it forces people to be on their game a little more, too."

Take a look at the more mature areas of your business and consider consolidating some of the activities under a few strong leaders. Ask yourself if you are spending sufficient time and attention helping the organization execute a forward-looking strategy. Too many leaders populate their team with the usual suspects—the same roles that have always reported to the position—and include different roles only if there is some room. Our advice is to turn this logic on its head: Start with the capabilities and roles needed to push your strategy forward.

THE CHANGING structure at the top is, in many respects, a response to changes in the environment in which firms operate. It reflects and enables expanded leadership capacity on the part of chief executives. But there are downsides to increased spans of control (see the exhibit "Typical Mistakes"). In amassing direct reports, some CEOs succumb to the temptation to micromanage or to consolidate power for themselves. Others, instead of using their increased capacity to focus on key constituencies (such as customers, the government, and the broader community), retreat to what they know best—running a P&L and supervising day-to-day operations. They become the problem-solver-in-chief, exercising capabilities that may have helped them land the corner office in the first place but are not adequate for leading the entire enterprise. The best leaders stay mindful of the ever-evolving demands of the job and continually tweak their teams as they go.

HBR Reprint R1204H