



Streamlining spans and layers: Tuning your organization for better decisions

Most companies start out lean, but over time they find complexity creeps in—especially in spans and layers. Teams proliferate, with each manager having only a few direct reports. Layers accumulate, increasing the distance between the company’s leadership and the frontline. Soon, costs pile up and ideas and decisions—the life force of a strong company—stop flowing smoothly up and down and across the organization.

Even the best-performing companies with strong HR practices find that they are not as lean as they’d like to be and need to reduce layers and increase spans. A few years ago, AT&T cut management layers by half to just seven. In 2006, Intel increased the span of managers from six or seven, to eight or nine. The reality is that, while spans narrow and layers build up insidiously over time—at all levels of the organization—it’s very difficult to lose the bloat. In our experience, there are four potential objectives for tackling spans and layers (see Figure 1):

- **Cost cutting:** This is often the most immediate return from a spans-and-layers effort. When a global technology company was faced with declining margins, it used spans and layers to trim payroll costs. The CEO led the top-down effort with the full commitment of the leadership team and quickly executed the hard decisions needed to fix spans and layers. The results: \$50 million a year in savings.

- **Organizational effectiveness:** This approach couples a spans-and-layers exercise with efforts to eliminate low-value-added or duplicative activities. By stripping out excessive data tracking, frequent re-forecasting and ad hoc reporting, one white goods company reduced its layers from 11 to eight and increased spans from around seven to more than 11.
- **Decision effectiveness:** Companies adopting this approach combine spans and layers with other tools such as RAPID® to clarify decision rights so that the newly lean organization can make decisions faster and execute them better. When a leading telecom equipment company found decision making slow and inefficient, it thinned the management ranks and clarified accountability.
- **Holistic organization simplification:** Often, when organizations become complex, a more comprehensive approach is needed. An integrated petroleum company started out in 1994 with just a handful of geographic and customer units. As it expanded, its organization grew more complex. The company used spans and layers as a guideline while designing leaner functions and new business areas—and reduced its head count by 15 percent.

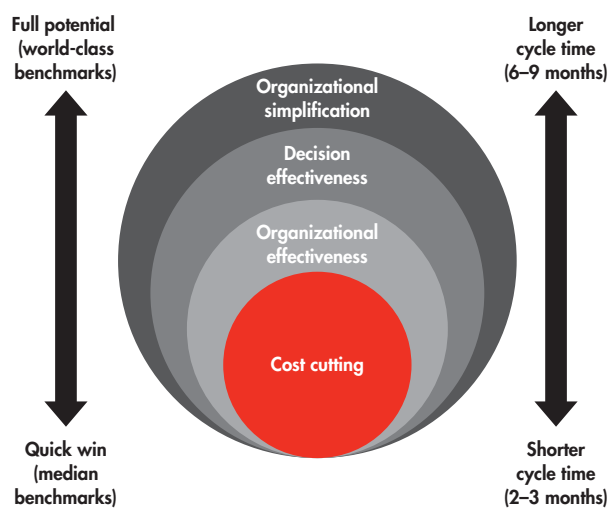
Finding the right spans-and-layers mix

Bain & Company has helped hundreds of clients tackle these issues. In the process, we have built a detailed spans-and-layers database that includes more than 125 global companies. Our analysis shows that in an average company, a manager has a span of six to seven direct reports and the organization has eight to nine layers between the top leadership and the frontline employee. Best-in-class companies in the database have average spans ranging between 10 and 15 direct reports and no more than seven layers. Of course, much depends on the type of job: “skills-based” jobs such as brand managers or engineers are usually well served with a span of six to eight, while “task-based” jobs such as shop-floor or call-center supervisors have higher spans of 15 or more.

In our experience, bringing spans and layers back under control requires four steps:

- **Establish the baseline:** This can be difficult because the data on spans and layers is usually scattered around the organization; people use different definitions; and the organization evolves as people get hired,

Figure 1: Spans and layers can be a standalone initiative or a broader, integrated effort



fired or transferred. But arriving at a common baseline is the first step, as it reveals the extent of the company's problem—as well as the potential rewards for fixing it. Taking a consistent approach across the organization is important: How to handle contractual or part-time employees? How to count spans when someone has multiple reporting lines? At one bank we worked with, it took considerable effort to sort through the snarled reporting lines. But once the work was done, the process identified savings of \$25 million a year.

- **Set stretch targets:** No magic number exists for all organizations or job types when it comes to setting targets for spans and layers. But benchmarking against best-in-class companies helps get to the right goal. In our experience, it is best first to understand the mix of employees and job types (skills-based versus task-based), set targets by function or business area and work top-down—but constantly check that in practice, targets are realistic and feasible. In the case of the bank, for example, after the initial estimates of \$25 million, best-in-class benchmarking showed the potential to double those savings.
- **Make it happen:** Agreement on the right level of spans and layers doesn't always translate into action. Managers protect people or move employees to other areas of the business. Very often excuses mount. ("It's not a good time.") At this stage, senior management reviews, where people are held accountable for the targets, can give momentum to the change. It also helps to link the targets for spans and layers to key performance metrics—and ultimately, the compensation—of top executives.

Many companies first focus on targets that can be achieved in 12 months, which typically require making easy span changes and eliminating low-value-added activities. To reach world-class benchmarks, they then target more fundamental changes to processes and systems, for example, automating manual activities. At one global technology company, management set the short-term goal of increasing each manager's span from below five to six. When that brought in savings of \$50 million a year, management spurred the organization to move to 6.5, then seven direct reports.

- **Keep out the fat:** Companies need to invest in management processes and systems that prevent the organization from sliding back to its old size. Some smart preventive tactics include setting up an HR dashboard that allows the organization to track the right metrics; holding managers accountable for spans in their departments; and ensuring that HR does a span check before a new job is posted. If managers revisit remaining lean as an issue at reviews, controlling spans and layers becomes a habit.

It also helps to recall the success that comes from running a leaner, more nimble organization. At the white goods company, the decision to increase spans from eight to 11 saved more than \$200 million a year. At an airline company, restructuring led to head-count reductions, which generated more than \$150 million in savings—nearly a third of which came from spans and layers. The companies in our database improved spans by 24 percent and reduced layers by 14 percent, on average. In all cases, the impact was considerable: Costs declined, decision making improved and the organization emerged leaner and more competitive.

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