

Deloitte.



Spans and Layers for the Modern Organization

Spans and Layers analysis is nothing new

Altering spans of control (spans) and organization layers (layers) has always been a hot issue during organization design for growth, restructuring or cost reduction. If you are looking for an absolute number for the right span of control or layers across all organizations stop reading now, because – you guessed it – there is no one number. And while benchmarks are a mildly interesting data point, they are rarely if ever the answer to designing the right organizational context to get to both the desired cost structure and the right behaviors for business success.

There is, however, real value in understanding the structure you design, knowing different spans and layers are effective in different environments, and predict different behaviors. This article provides guidance on the right questions to ask, the factors that could influence the appropriate span / layer for the organization and how benchmarks can be used as one input for recommendations, along with more important input such as business and operating model, supervisory burden, and the need for both agility and stability.

Span of Control (SOC) refers to the number of people reporting directly (i.e. not through a manager or supervisor) to one individual. It is the ratio of management to staff in an organization. For example: A manager who directly manages five employees has an SOC ratio of 5:1. **Organizational Layers** refers to the number of organizational levels having supervisory responsibilities. Spans and layers influence the way an organization delegates tasks to specific functions, processes, teams and individuals. To ensure organizational efficiency and effectiveness, a formal spans and layers analysis is often a worthwhile solution. A spans and layers analysis is regularly triggered by internal and external business events. **Some typical drivers for analysis include:**

- Improve communications (speed and accuracy)
- Limit grade inflation (and title proliferation)
- Increase productivity (reduce redundancy)
- Speed decision making (reduce bureaucracy)
- Increase responsiveness (to customers and business opportunities)
- Increase empowerment (and create room for creativity and innovation)
- Increase accountability (create room for growth)
- And finally... to reduce costs

Effectively and sustainably delayering an organization

Some organizations use **delayering** as a quick fix solution to address common organizational issues such as uncompetitive (or high) operational costs and slow organizational responsiveness. Often times, these issues are only symptoms of much bigger challenges such as:

- Weak organizational discipline in spending (e.g., weak spend policies and lack of a cost-conscious culture)
- Poor organization design (e.g., functional duplication and accountability overlaps)
- Unsuitable career development process (only creating development opportunities through layering)
- Skill gaps at critical positions
- Weak decision-making / governance model

Understanding the root cause of organizational issues requires a thorough, broad-based organizational assessment to evaluate the current state of the organization across various dimensions (e.g., cost, people, structure and processes). Delayering, as a stand-alone event, is unlikely to bring sustainable cost savings. This can be likened to crash dieting. One can probably shed some weight short term, but may put the weight back on, and sometimes more. Plus, it's a lot of short-term pain, often for little to no long-term gain. And sometimes it can even do irreparable damage.



To establish a successful delayering exercise for an organization, **we believe there are ten critical elements that must be considered:**

1. Position delayering as part of a larger organizational change effort, rather than a stand-alone initiative.
 2. Establish a burning platform and be disciplined in execution.
 3. Ensure that the CEO is onboard and fully committed to boldly examine all areas (no sacred cows).
 4. Be transparent and honest in communications to the organization.
 5. Set up a knowledgeable working group to drive the process (business leaders, HR, SMEs).
 6. Establish strong guiding principles that will enable consistency and fairness in the process.
 7. Be aware of the high emotional impact on everyone involved and develop a mitigation plan.
 8. Delayer from the top, not the bottom.
 9. Realign people management processes during the diagnosis phase rather than reactively after restructuring (changes to total rewards, performance metrics, promotion, skill development, etc.).
 10. Include a proactive design component in the organization structure to prevent unnecessary alterations to the spans and layers.
1. **Nature of work:** How similar is the work that the manager's direct reports perform? It is easier for a manager to oversee staff that has similar responsibilities rather than different ones. As the similarity of work decreases, the appropriate level of supervisory burden increases, negatively impacting appropriate span of control by decreasing the number of direct reports a supervisor can oversee effectively.
 2. **Degree of standardization possible:** To what degree can work be standardized? The more routine, rules-based, and similar the work, the more it lends itself to be coordinated through standardization. Therefore, as standardization increases, the appropriate level of supervisory burden decreases, positively impacting appropriate span of control by increasing the number of direct reports a supervisor can oversee effectively.
 3. **Complexity of work:** How complex are the activities the direct reports perform? It is easier for a manager to oversee staff who perform simple and repetitive tasks than those who perform more complex activities. As activities become increasingly complex and varied, the appropriate level of supervisory burden increases, decreasing the appropriate span of control.
 4. **Interdependency of work:** To what degree must the manager coordinate activities with members of the work group? Interdependent tasks require workers to communicate closely to coordinate their work. These tasks are more effectively performed in small enough work groups to encourage convenient and frequent interaction. It is easier for a manager to oversee a higher number of staff when minimal interdependence is required within the work group than when extensive interdependence is required. As the coordination effort increases, the supervisory burden increases, decreasing the appropriate span of control.

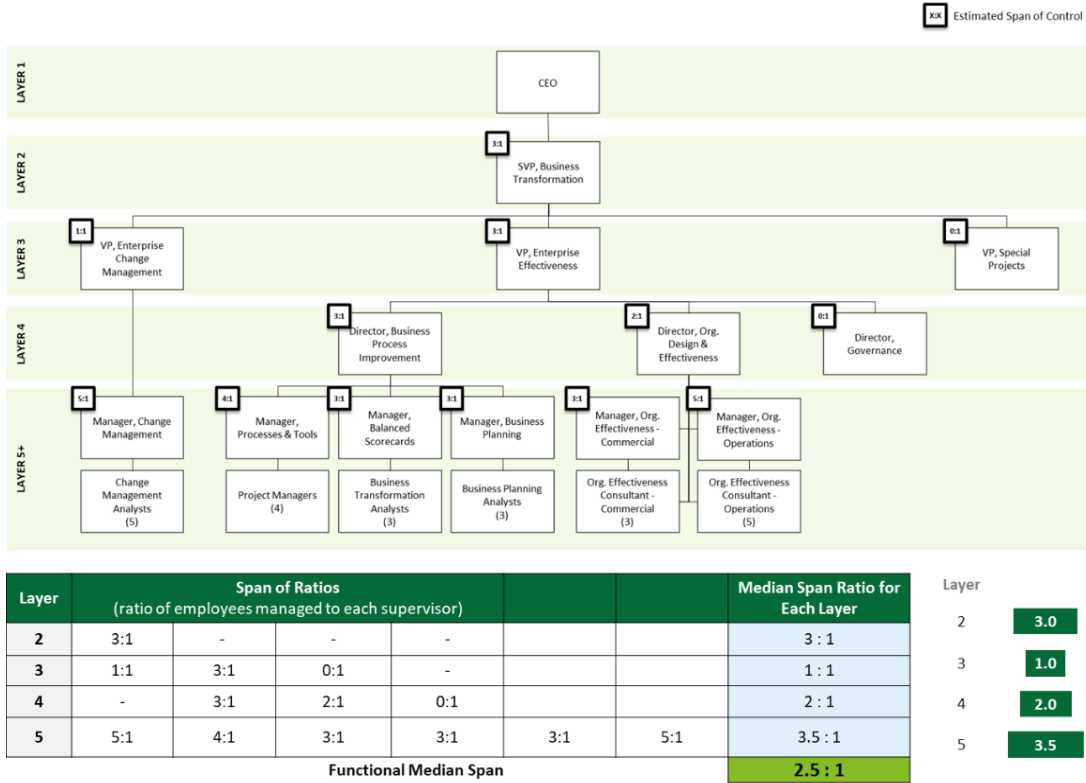
Defining and measuring supervisory burden

Organizational realignment involves transitioning the workforce to align with the redefined service delivery model. This transition may include separation of employees who have no roles in the future state organization. Span of control analysis is then conducted as a supplement to understanding the current state and proposing a future state organization that will produce cost savings. As part of this, a **supervisory burden analysis** provides leaders with the strategic and operational context of their organization's span of control, deconstructs span of control into four measurable supervisory burden criteria that leaders, managers, and employees can understand and translate to their daily activities, and provides a fact-based, bottom-up approach to developing and implementing span of control targets. We define and measure supervisory burden across four components¹:

When a span is too **wide**, upper management is not connected to frontline issues, which can create increased stress at manager-level due to excessive workload, reduced opportunities for continuous one-on-one performance feedback, and potential for greater need for "assistants" or "chief of staff" roles. When a span is too **narrow**, middle managers spending close to 100% of their time too closely managing others (micromanaging), or significant time performing work (working supervisors). With an **optimal span of control**, upper management is connected to work happening on the ground, middle managers spending most of their time managing and some of their time improving operations and on other highly impactful "improvement projects" which are implemented.

1. Don Miller, Michael Puleo, Tiffany McDowell, and Faisal Shaikh. "Organizing to thrive | Understanding supervisory burden to create a value-driven organization design." Deloitte. 2016.

Figure 1. Span of ratios in this hierarchy must be reexamined to optimize the organization’s structure



Source: Deloitte Consulting LLP

In Figure 1, there are a few reporting relationships worth analyzing. Several managerial positions possess a 1:1 or 0:1 reporting relationship. Our research shows that managers with only one direct report spend approximately 94% of their time meeting with that direct report, creating significant inefficiencies. Often, managers with one direct report tend to overlap duties with their subordinate or simply sign off on their work, creating significant inefficiencies and creating high overhead costs for the organization with little benefit. Managers with no direct reports may have inflated titles, and it could be argued that their roles are individual contributor positions that could be moved down in the organization, closer to the customers they support. Shifting down managerial levels allows span of control to increase and potentially create faster time to informed decisions. This presents an opportunity to review spans that are too wide, too narrow, and/or do not create parity between roles of the same title/level.

Successfully flattening a hierarchy is predicated on how effectively tasks are delegated. There are many benefits to delegating tasks; it enables decision making to reside closer to the locus of knowledge, results in positive motivational effects on subordinates, and creates growth opportunities for them. However, these benefits must be carefully balanced against the potential for loss of control and coordination. The success of flattening a hierarchy

is predicated on the well-known benefits of delegation – such as allowing decision making to reside closer to the locus of knowledge, positive motivational effects on subordinates and creating growth opportunities. This must all be carefully balanced against the loss of control and coordination created by delegation². Put simply, we should not be complacent about the costs of pushing authority downwards; they are real precisely because authority offers the benefits of control and coordination, which delegation forces us to give up in some measure.

If you are to undertake a span widening and layer reduction reorganization, people management processes to support new structure should be considered, including:

- Promotion / succession planning
- Performance management
- Capability building / skill development (especially on being effective managers)
- Governance
- Compensation
- Accountabilities reassignment

2. Panish Puranam and Eucman Lee. "How to Make Corporate Hierarchy More Likable." INSEAD Knowledge. November 22 2017. <https://knowledge.insead.edu/blog/insead-blog/how-to-make-corporate-hierarchy-more-likable-7761#4jGxB5rZ2hS0FqRP.99>

Spans and Layers Analysis is Not New

In addition, evaluate the technology needed to support the work; implement a communication, change management and workforce transition strategy; develop a talent retention plan to help stem the flight of critical talent; and establish metrics to measure the effectiveness of the new structure.

In conclusion, there are only two ways to delayer an organization: Either shrink the organization so that with a given span, the hierarchy will have fewer layers as the number of members in the organization contracts; or keep the same number of members but increase spans of control. Assuming we are focused on increasing span of control, we must first understand the conditions in which we can successfully do this without simply overwhelming the already overwhelmed employee and manager and in turn decreasing speed of decision making and overall performance.

One final important note is that optimizing your organizations shape is not restricted to hierarchal designs. Today we design adaptable organizations that are equipped to succeed in an unpredictable world. While the vast majority of organizations are designed in a deeply mechanistic way, we know that in reality, organizations are living human systems. Understanding the work done by the business is a key factor behind designing for efficiency or adaptability (see figure 2). Routine work lends itself to outsourcing, automation, and designing for productivity, and the nature of deep problem-solving or creative work aligns to more adaptable, flexible team designs that are speedy and responsive. Whether you choose to organize for efficiency or flexibility, architecting your teams intentionally will lead to better collaboration, productivity, and overall business outcomes. We explore this topic more fully in our [Adaptable Organization perspective](#).

Figure 2. Teams must be designed intentionally for efficiency or agility based on the nature of their work

Efficiency <i>(Where Work is Standardized and Routine)</i>	Agility <i>(Where Work is Fluid and Changing)</i>
<p style="text-align: center;">Hierarchy</p> <p style="text-align: center;"><i>Designed for high efficiency, function specific</i></p> <ul style="list-style-type: none"> • Functional or business unit hierarchy • Work is clearly defined • Supports economics of scale across business units • Organized by knowledge set • Standardized services that are knowledge-intensive • Decisions made via hierarchy 	<p style="text-align: center;">Networks of Teams</p> <p style="text-align: center;"><i>Designed for adaptability, mission specific</i></p> <ul style="list-style-type: none"> • Mission based teams • Work is fluid, issues are ambiguous • Requires local interaction with customers • Supports unique customer needs • Relationship management • New/customized services, products, solutions • Self-driving and makes team decisions

Source: Deloitte Consulting LLP

Authors

Tiffany McDowell, PhD
 Principal
 Deloitte Consulting LLP
 tmcowell@deloitte.com

Don Miller
 Managing Director
 Deloitte Consulting LLP
 domiller@deloitte.com

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a detailed description of DTTL and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.