The Problem Statement

Given
• An organization needs to move from its current formal organization structure to another
• New operating model has been designed
• Detailed current state has been captured
• Organization has greater than 50,000 employees

Objectives
• Move to the new structure as rapidly as possible
• Ensure maximum ownership of new structure by all members of the organization
• Ensure new structure is as efficient and effective as possible
• Retain the highest talent individuals
• Minimize the number of layers of management and optimize span of control
## Process results in enhanced organization

Creates lean, empowered management

| Better decision making                      | • Senior managers closer to the action  
|                                            | • Decisions implemented more rapidly 
|                                            | • Decisions made by those with detailed understanding |
| Enhanced accountability                     | • Removal of 'double-work'  
|                                            | • 'Shadow organizations' eliminated  
|                                            | • Fewer 'turf battles' |
| Faster, more reliable communication         | • Communication mediated through fewer layers  
|                                            | • Ideas less distorted as they move up organization |
| Better morale                               | • Supervisors no longer micro-managing  
|                                            | • Employees empowered with broader responsibilities  
|                                            | • Decision makers versus analysts |
| More competitive cost structure             | • Fewer managers required as spans increase  
|                                            | • Duplicative departments and low value work eliminated  
|                                            | • Opportunity for significant annual savings |

Source: BCG case experience
Some definitions to provide clarity

**Layer:** Structural dimension of the organization. Determined by reporting relationships

**Level:** Pay grade. Salary and bonus ranges

**Individual contributor:** Anyone without direct reports (excluding admin)

**Supervisor:** Anyone with one or more direct reports

**Span of control:** Number of direct reports (excluding admin)

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**Simplified organization chart**

- **Level 1**
  - = Layer 1
  - Supervisors

- **Level 2**
  - = Layer 2
  - Individual Contributors

- **Level 3**
  - = Layer 3

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**Definitions**
Organization diagnostic often reveals an out of shape organization with large middle management ranks

Managers in out-of-shape organizations typically have few direct reports, thus narrow spans of control

<table>
<thead>
<tr>
<th>Layer</th>
<th>Sr Execs</th>
<th>Execs</th>
<th>Mid Mgmt1</th>
<th>Mid Mgmt2</th>
<th>Analyst</th>
<th>Core</th>
<th>Entry</th>
<th>Total</th>
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<tbody>
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<td>28,694</td>
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<td>3,950</td>
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<td>13</td>
<td>166</td>
<td>9,248</td>
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<tr>
<td>7</td>
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<td>178</td>
<td>481</td>
<td>1,578</td>
<td>5,304</td>
<td>11</td>
<td>166</td>
<td>2,727</td>
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<tr>
<td>8</td>
<td>4</td>
<td>53</td>
<td>100</td>
<td>2,204</td>
<td>3,950</td>
<td>13</td>
<td>166</td>
<td>9,248</td>
</tr>
<tr>
<td>9</td>
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<td>13</td>
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<td>13</td>
<td>166</td>
<td>9,248</td>
</tr>
<tr>
<td>10</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>16</td>
<td>1,688</td>
</tr>
<tr>
<td>11</td>
<td></td>
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<td>14</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>260</td>
<td>1,203</td>
<td>3,638</td>
<td>11,822</td>
<td>18,043</td>
<td>14,969</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Note: Numbers have been modified to protect client confidentiality, but are indicative of situation
Source: BCG case experience

Client example
Two Important Concepts To Consider

Geometric Nature of Organization Structure
- Typical starting median span of control is 4-5; optimal typically 8-10
- Typically greater than 10 layers in the organization
- Implies the process used for change must expand geometrically
- Impossible for a few leaders at the top to do it themselves

Generalized Le Chatelier's Principle:

A system in equilibrium when subjected to a set of forces will respond by changing to relieve the forces
Seven reporting layers can support up to 600,000 staff
Maximum number of employees by layer

<table>
<thead>
<tr>
<th>Layer</th>
<th>Span of control 7</th>
<th>Span of control 8</th>
<th>Span of control 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>49</td>
<td>64</td>
<td>81</td>
</tr>
<tr>
<td>4</td>
<td>343</td>
<td>512</td>
<td>729</td>
</tr>
<tr>
<td>5</td>
<td>2,401</td>
<td>4,096</td>
<td>6,561</td>
</tr>
<tr>
<td>6</td>
<td>16,807</td>
<td>32,768</td>
<td>59,049</td>
</tr>
<tr>
<td>7</td>
<td>117,649</td>
<td>262,144</td>
<td>531,441</td>
</tr>
</tbody>
</table>

Total staff: 137,257 299,593 597,871

Source: BCG case experience
LeChatelier's Principle: Align the forces for change

- Structured process
- Disciplined process
- Engage Top Performers
- CEO direct involvement
- Transparency
- Peer pressure
- Principles
- Coaching
- Fact-based analysis
- Visibility to results
Methodology reshapes organizations and improves management agility

A client-led cascading process that reshapes the organization structure, adjusts management roles and removes excess management layers to improve organization effectiveness and to reduce management costs.

- Geometrically scaling process that moves through the organization layer by layer
- Client enabled, not controlled
- Increasing or decreasing spans of control
- Speeding decision making, increasing accountability
- Typical management cost reduction of 15–30%

Source: BCG case experience
A short diagnostic phase is typically followed by a cascading, layer by layer organization redesign.

- Pyramid analysis
- Cost analysis
- Productivity analysis
- Quantify the opportunity
- Determine the role of mgmt

1. Create the fact base (8 weeks)
2. Outline the process (4 weeks)
3. Develop outline of operating model (12 weeks)
4. Structure and staff the organization layer by layer
5. Track the progress (~4-6 weeks per layer)

- Set objectives and design rules
- Establish principles for new design
- Reach shared vision and commitment from senior team
- Determine how the BUs, Functions and Geographies will be organized and interact with each other
- Launch team with each layer designing layer below
- Design each layer using data from fact base
- Assign staff to all management positions
- Actively manage redundancies
- Communicate to the organization
- Track progress using using baseline and targets, project results ahead to avoid missing goals

Source: BCG case experience
Large North American Telco
Delaying the US operations

Client situation and approach

A United States telecommunications services provider (>$50B market cap)

Delaying diagnostic revealed the client's multiple layers and low spans of control made decision making slow and added cost to the organization

The BCG case team worked with senior executives to redesign management structure across six main business units to improve organizational effectiveness and reduce costs

The team supported the client in an accelerated de-layering of the client's management organization by increasing supervisor spans of control and removing excessive reporting layers in the structure

Final outcome

The BCG team developed support tools for analysis, organization mapping and change tracking to support BUs in performing analyses on organization

They drove implementation of the de-layering force reduction effort through

• Transparent tracking of progress vs target objectives for both headcount and organizational structure
• Monitored the evolution of organizational structures along key diagnostic criteria to identify ongoing realignment issues

Goal

• Remove $300M in costs
• Reduce layers from 14 to 8

Source: BCG case experience
4. Principles and Guidelines

**Utilize principles and design rules**

Principles are like the Constitution

- Sets the tone of the cascade
- Forces meaningful discussions where there may be deviations
- Holds people accountable against a core set of ideas

Design rules are like laws

- Sets boundaries for decisions and behaviors that support Principles
- Stipulates escalation criteria
- Provides transparency for key metrics and what types of decisions lead to positive and negative impacts on goals
Example: Principles

- All decisions are subject to senior management approval; Steering Committee decisions on design and staffing, once agreed, are 'set in stone'

- We will deal in an open and direct fashion on all issues

- We will act in unison across L2s to assure momentum and to maximize talent mobility

- We will have all of the organization in place through L6 completed by XX/XX/XXXX

- Cost reductions are only counted when costs are off the books (e.g. employees off payroll and severance, etc)

- We will achieve the best team – talent will drive our selection

- We will relevel positions as needed based on the scope changes in the role and our leveling guidelines (e.g. releveling of VP and SVP positions will be explicitly highlighted for discussion to the SCM)

- We will execute as fast as possible, while ensuring fair/equitable treatment in handling positions and people

- Any violation of these principles will require a change in the Principles to proceed
We will follow ten organization design rules
Any variances require approved exceptions

1. Managers will have a minimum direct line\(^1\) span of 7
2. Officers (VP+) will have direct reports
3. Officers (VP+) will not be below Layer 5; Sr. Directors below Layer 6; Directors below Layer 7
4. No Individual Contributor (IC) roles in L4 and above
5. No "same paygrade" reporting (e.g., VP-to-VP, Director-to-Director)
6. We will not exceed 8 layers in the organization
7. Level demotions will not occur
8. No shadow organizations / duplications of activities in multiple places
9. Peer reviews will be conducted for each layer to ensure designs meet rules
10. Any exceptions or changes to these rules must be approved by the EC

\(^1\) Only primary reporting lines counted in the Span of Control metric
## The cycle for each layer is spread over multiple steps

<table>
<thead>
<tr>
<th>4a. Team</th>
<th>4b. Design</th>
<th>4c. Staff</th>
<th>4d. Communicate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Launch Team</strong></td>
<td><strong>Establish the Baseline</strong></td>
<td><strong>Identify Staffing Candidates</strong></td>
<td><strong>1-on-1 Communications</strong></td>
</tr>
<tr>
<td>- Kick-off with layer designers</td>
<td>- Prepare targets for layer designers</td>
<td>- Deliver staffing information packages</td>
<td>- Prepare offer packages¹</td>
</tr>
<tr>
<td>- Prepare baseline packages</td>
<td>- Deep dive, as needed, into specifics for regions, functions, etc.</td>
<td>- Identify initial candidates and conduct high level evaluations</td>
<td>- Prepare separation / retention packages</td>
</tr>
<tr>
<td>- Current baseline &amp; organization structure</td>
<td>- Review and validate baseline</td>
<td>- Identify open positions and notify Talent Pool or recruiting</td>
<td>- Extend offers to candidates</td>
</tr>
<tr>
<td>- HR rules</td>
<td></td>
<td>- Submit design ‘strawman’</td>
<td>- Update staffing database with accepts / declines</td>
</tr>
<tr>
<td>- Management FAQs</td>
<td></td>
<td>- Write layer job description</td>
<td>- Submit final staffing list</td>
</tr>
<tr>
<td>- Delayering training deck</td>
<td></td>
<td>- Evaluate impact (HC &amp; $)</td>
<td>- 1-on-1 meetings with offerees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Confirm baseline</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Perform initial design review</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
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</tbody>
</table>

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¹ Only if new role is offered

Source: BCG case experience
Delayering created a step-function reduction in layers...
Reduction from 14–8 layers

'It takes (us) much less time to make decisions ... one recent example is (our) move back into [a] business in less than six weeks ... it would have taken the old (firm) a year to study it' - CEO, BCG Client
Key lessons from BCG experience: Critical to manage the common pitfalls

<table>
<thead>
<tr>
<th>Common pitfalls</th>
<th>Outcomes experienced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving only shallow buy-in by CEO and BU heads</td>
<td>“Our support evaporated during implementation”</td>
</tr>
<tr>
<td></td>
<td>“The powerful players opted-out”</td>
</tr>
<tr>
<td>Attempting major process and systems changes without holistically addressing leadership and behavioral hotspots</td>
<td>“Progress bogged down in middle management. Silo behaviour. There was no leadership and accountability”</td>
</tr>
<tr>
<td>Setting incremental targets</td>
<td>“We went through 6 months of work and only got 6% out. We could have just cut the travel budget and got on with life”</td>
</tr>
<tr>
<td>Setting voluntary targets</td>
<td>“I was actually in a prisoner’s dilemma: ‘What if I offer something radical and no one else does?’”</td>
</tr>
<tr>
<td>Not managing stakeholders proactively from the start</td>
<td>“We had a great plan, then we hit roadblocks ... it seemed like everybody went back to doing what they always did”</td>
</tr>
</tbody>
</table>

BCG experience: key blockers are leadership and organization ... not technical/systems issues ... and must be managed proactively from beginning
Appendix
## Delayering offers significant cost savings ...

<table>
<thead>
<tr>
<th>Case examples</th>
<th>Client situation</th>
<th>Final outcome</th>
</tr>
</thead>
</table>
| **1 Global Diversified Financial Services Institution** | • Multiple layers, low and inconsistent spans of control  
• Mediocre productivity due to numerous duplicative / low value added activities | • Achieved savings of ~$300M - levels varied between 20%-35% of cost base per BU  
• Additional improvements in decision making, accountability, communication and morale |
| **2 International Financial Services Institution** | • Cost-to-income ratio up 6%, lagged mkt. leader by 8%  
• Highest total personnel cost in region (14% above best-practice) | • Diagnostic completed in 2 months  
• Identified saving levels of 10-25% of cost base per BU |
| **3 Leading NA Financial Services Institution** | • Slipped into 3rd quartile TSR in two years  
• Delayering was identified as key lever for a large-scale transformation effort | • Transformation completed in 9 months  
• ~30% savings of addressable baseline from FTE reduction in head office alone |
| **4 Global Consumer Products Manufacturer** | • Operations spread across 40 countries  
• Long reporting line (as many as 12 lines from CEO)  
• Experienced downturn in many core markets after many years of aggressive growth | • Reduced layers from 12 to 8  
• Aggressive managerial reduction of ~20%  
• Achieved over $150M saving in total (~12% of employee cost base) |
| **5 Large North American Telco** | • Mgmt headcount had not dropped commensurate with total headcount reductions and declining revenue  
• Corporate center much larger than norms | • ~30 weeks from diagnostic to execution  
• Reduced mgmt layers from 14 to 8  
• ~$280M annual cost savings from ~25% reduction in mgmt headcount |

Source: BCG case experience

THE BOSTON Consulting GROUP
Royal Bank of Canada is expected to eliminate as many as 100 head office jobs this week.

This latest initiative is designed to rip out unnecessary costs across the head office groups, which number more than 7,000 employees.

The idea is to make [RBC] more efficient by taking out some of the jobs that aren’t focused on revenue growth.

The focus in recent weeks has been combing through the head office and trimming management bloat, based on a "layer" approach developed by Boston Consulting.

Mr. Nixon responded last spring by hiring the Boston Consulting Group to help assess the bank’s organizational issues and look for solutions.
Delayering 'flattens the pyramid' — Decreasing management layers and increasing spans of control

Focus of delayering is middle management

- Too many managers at middle bands
- Low, inconsistent spans of control
- Too many bands between customer and CEO
- People costs out of line with other cost drivers
- Redundancy in activities within the organization

- Less than 25% managers
- Seven spans of control optimum
- CEO within seven layers of customer facing staff
- Eliminate >10% personnel costs
- Removal of duplication and inefficiency

Source: BCG case experience
Redesign of operating model for a corporate function might require additional actions

- **Manage demand**
  - Stop non-critical activities to reduce cost and eliminate work
  - Redefine authority and accountability for line management and employees

- **Reorganize for scale and efficiency**
  - Simplify and standardize processes to reduce workload
  - Consolidate and improve resource allocation through a regional and market structure
  - Increase spans of control

- **Leverage shared services and outsourcing**
  - Centralize and/or outsource transactional, non-strategic activities
  - Leverage technology to enhance capabilities, avoid capital investments, and eliminate need for customized systems

- **Active cost control/cost avoidance**
  - Actively manage and reduce non-FTE spend in budget

Source: BCG case experience
Need to define target span of control
Span of control driven partly by nature of job

<table>
<thead>
<tr>
<th>Similarity of functions</th>
<th>Identical</th>
<th>Some similarity</th>
<th>Fundamentally distinct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity of functions</td>
<td>Simple, repetitive tasks</td>
<td>Some complexity</td>
<td>Highly complex, unique tasks</td>
</tr>
<tr>
<td>Direction and control required</td>
<td>Minimum supervision</td>
<td>Moderate supervision</td>
<td>Constant, close supervision</td>
</tr>
<tr>
<td>Amount of non-supervisory work</td>
<td>Little or none</td>
<td>Moderate</td>
<td>Extensive</td>
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<tr>
<td>Examples</td>
<td>Call center supervisor, Senior sales manager</td>
<td>Finance manager, HR manager, Divisional head</td>
<td>Strategy development, Business development, Systems architect</td>
</tr>
</tbody>
</table>

Source: BCG case experience
Global Consumer Products Manufacturer
Overhaul of operating model and delayering across 40 countries

Client situation and approach

Global consumer products company
• ~45,000 employees in scope in over 40 countries in across 4 geographic operating units
• Long reporting chains with as many as 12 reporting lines from CEO to the last person
• Nearly 60% of the workforce below layer 8

Experienced a downturn in many of its core markets after many years of aggressive growth
• Driving the need for overhead cost reduction

Redesigned the organization layer by layer
• Structured approach to design, staff and communicate decisions

Targets established centrally with execution performed at the regional level
• Targets de-averaged by growth goals

Final outcome

Fundamentally restructured and streamlined the management layers in the organization
• Developed a new organizational outline
• Reduced layers from 12 to 8
• Increased median spans of control from 5 to 6
• Achieved over $150M in savings (~12% of in scope staff cost)

Highest impact was on the managerial ranks, as intended
• Aggregate managerial reductions were ~20%; >25% among senior management

Initial diagnosis to final announcement took 5-6 months depending on the region

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1. With exceptions for works council considerations which added 1-3 months to the process depending on geography
Source: BCG case experience
Delayering reduced layers from 12 to 8
~10% reduction in headcount in scope

Note: Numbers have been modified to protect client confidentiality, but are indicative of situation
Source: BCG case experience

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Achieved over $150M in savings
~20% aggregate reduction in management headcount
Higher in more senior positions

Source: BCG case experience
... resulting in 25% reduction in management HC
~$280M in annual cost savings

### De-layering impact on cost categories

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>~25%</td>
<td>Reduced management layers and increase of spans of control</td>
</tr>
<tr>
<td>~30%</td>
<td>Eliminate duplicative and redundant activities across functions</td>
</tr>
<tr>
<td>~30%</td>
<td>Reduce resources on lower value activities, declining products</td>
</tr>
<tr>
<td>~15%</td>
<td>Move work to lower bands</td>
</tr>
</tbody>
</table>

### 25% reduction in management ranks

<table>
<thead>
<tr>
<th>Management Rank</th>
<th>Pre-restructuring</th>
<th>Post-restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sr execs</td>
<td>3,277</td>
<td>1,089</td>
</tr>
<tr>
<td>Execs</td>
<td>1,089</td>
<td>3277</td>
</tr>
<tr>
<td>Mid mgmt 1</td>
<td>620</td>
<td>168</td>
</tr>
<tr>
<td>Mid mgmt 2</td>
<td>2,451</td>
<td></td>
</tr>
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</table>

~$280M annual savings
- $205M in comp and benefits
- $75M in equity

Note: Numbers have been modified to protect client confidentiality, but are indicative of situation
Source: BCG case experience
### Key themes for our approach

<table>
<thead>
<tr>
<th>Fast</th>
<th>Managed selection, not self-selected attrition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimized impact on morale and operations</td>
</tr>
<tr>
<td></td>
<td>Getting on with building capabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fair</th>
<th>Processes applied consistently</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not necessarily equal outcomes</td>
</tr>
<tr>
<td></td>
<td>Actions and decisions based on pre-agreed principles</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disciplined</th>
<th>Detailed timeline adhered to</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Meetings structured and crisp</td>
</tr>
<tr>
<td></td>
<td>Decisions supported by facts</td>
</tr>
</tbody>
</table>
Clearly defined objectives, design rules and principles

Example objectives

- Create competitive advantage
- Empower people and make them accountable for results
- Improve decision making
- Select the best team
- Maintain controls to ensure proper running of the business

Example principles for reduction

- All decisions are subject to senior management approval
- Commitments, once agreed, are 'set in stone'
- We will deal in an open and direct fashion on all issues
- We will have all of the org changes completed by August 1
- Cost reductions are only counted when the costs are off the books (eg, employees off payroll and severance, etc)
- We will achieve the best team
- We will execute as fast as possible, but not take steps out that will undermine ultimate success
- Any violation of these principles will require a change in the principles to proceed

Example design rules

- 25% reduction in management
- Reduce support staff along with managements
- Average span 8+
- 7 layers maximum
- Senior execs within top 3 layers; execs within top 4

Source: BCG case experience
... and yielded higher spans and tighter distribution
Most common span ~8

Sr Exec SoC distribution

Exec SoC distribution

Mid-management 1 SoC distribution

Mid-management 2 SoC distribution

Note: Numbers have been modified to protect client confidentiality, but are indicative of results
Source: BCG case experience

THE BOSTON CONSULTING GROUP

BCG approach to delayering.ppt
Designing and staffing the new organization is a cascading, layer by layer process.

Each layer designs layer below:

- **Launch team**
  - Managers from layer above

- **Design layer**
  - Establish the baseline
  - Perform targeted analysis
  - Design layer using fact base and design principles

- **Assign staff to new structure**
  - Identify staffing candidates
  - Staff all management positions

- **Communicate new structure to the organization**
  - One-on-one communications
  - Announce to organization

Tracking progress along the way is critical to avoid missing goals.

- Remove managers by increasing spans of control to 6 (assumes 100% bump and out)
- Delayering "suction effect" draws lower level managers and their staff upwards

Source: BCG case experience

BCG approach to delayering.ppt
Concepts to solve the problem

**Address geometry through the use of a cascade**
- Each layer designs and staffs the layer below it
- Number of designers and staffers grows geometrically with each cascade
- Each designer and staffer must adhere to specific principles, guidelines and rules
- Exceptions will be escalated to the top of the organization for approval/disapproval

**Advantages**
- Each manager has ownership of the design and staffing
- Grows geometrically
- Success can be measured at each layer

**Disadvantages**
- Attenuation of intent
- Requires leadership by example from the top
- Each layer must be successful to achieve success for the entire organization