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Fast to Cut, Slow to Build

Why big companies lose the ability to change, and how they can get it back

Large companies can cut costs in weeks. Moving money from what worked yesterday to what they need next is much slower, and often barely happens. This paper looks at why, and at five practices that can help. Most of the causes are inside the company, so its leaders can change them.

BY

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ABOUT THIS PAPER

This paper draws on published research and public data, listed in the references. Monderman builds diagnostics that measure some of the conditions this paper describes.

EXECUTIVE SUMMARY

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About 1 in 3
business units whose funding barely changed from year to year (1,600+ U.S. companies, 1990 to 2005)

30%
higher yearly shareholder returns for the companies that moved the most money between their businesses, compared with those that moved the least

7.1 years
average tenure of CEOs who left in 2025, down from 8.3 in 2021

1.

Budgets That Barely Move

Every year, large companies go through the same ritual. Leaders pull up last year's budget and start planning the next one. There are offsites and strategy presentations. There are long meetings about where the market is going and what the company should do differently. At some companies, the whole process takes up to three months.

Then the new budget comes out, and it looks a lot like the old one.

That is more than a feeling. Researchers studied more than 1,600 U.S. companies that each ran two or more businesses. The researchers tracked how much investment money each business inside a company received from one year to the next. For about a third of the business units, the money each one received barely changed from year to year. Across the whole study, the match was nearly as close.

One of the researchers put it bluntly. For most companies, he said, a dartboard would give about the same result as the planning process, and it would save a lot of time.

The same companies can move quickly when the goal is to cut. A cost-cutting program can be announced in a single meeting. A round of layoffs can be planned in a few weeks. Money can go back to shareholders with one vote of the board. When money is leaving the company, it can move very fast. When it needs to move from one part of the company to another, it moves very little.

That difference is what this paper is about. Big companies tend to stay fast at cutting and slow at building. They keep the ability to shrink and to hand money back. What they lose, a little at a time, is the ability to move money and people away from what worked yesterday and toward what the company needs next.

This matters for a simple reason. In the same study, the companies that moved the most money between their businesses earned yearly returns for shareholders about 30 percent higher than the companies that moved the least. Companies where money moved more freely were also less likely to go bankrupt or to be bought by another company.

So why don't more companies do it? The same study points to part of the answer. Over any stretch shorter than three years, the companies that moved the most money delivered lower returns to shareholders than their steadier peers. The researchers offer one possible reason: investors are cautious at first and see the value only once results show.

Executives have been asked directly how they handle that kind of short-term cost. In a survey by researchers at Duke University and the University of Washington, more than three out of four senior finance executives said they would give up real long-term value to keep profits smooth from one quarter to the next. More than half said they would pass on a very good project if starting it meant falling short of the profit analysts expected for the quarter.

Those two findings fit together. The move that builds the future can hurt results in the short run, and the pressure to protect short-run results is strong. So when a company has to choose, it often protects the short run. It can make the same choice the next year, and the year after that. Over time, the company gets very good at defending what it already does and less able to build what comes next.

Many people who have worked inside a large company have seen a small version of this. In a meeting, everyone agrees that a new idea is a good one. It goes into the plan. Then it waits for money that does not come. In the same year, the company may announce a round of cuts and carry them out within weeks.

This paper looks at why this happens and what can be done about it. The short answer is that it is not mainly about lazy or foolish leaders. It comes from how large companies are built, how long their leaders stay in the job, and who inside the company gains when things stay as they are. The good news is that most of these causes are inside the company. That means the people who run it have the authority to change them.

2. How the Layers Pile Up

The first cause is how large companies are built. Many still run on a design that is about a hundred years old. In the early 1920s, DuPont and General Motors had grown too big and too varied to manage the old way. Both companies answered by splitting into divisions. Each division ran its own business. A small central office at the top controlled the money through budgets and financial targets. The design worked, and over the following decades many large companies copied it.

Each new era then added something on top. In the 1960s and 1970s, many companies built formal planning departments. In the 1980s and 1990s, pressure from shareholders brought a sharper focus on shareholder returns. After several large accounting scandals, the Sarbanes-Oxley Act of 2002 required U.S. public companies to document and test their controls over financial reporting. Company-wide software, spreading since the 1990s, built many of these steps into the systems people use every day.

Most of these layers had a good reason behind them. They solved real problems at the time. But few of them came with an end date. Rules and approval steps were added one at a time, and they stayed. Adding a rule is usually someone's job. Removing one is usually no one's.

In 1988, an article in the Harvard Business Review predicted that within twenty years, large businesses would have fewer than half the layers of management and a third as many managers. From 1983 to 2014, the number of managers, supervisors, and support staff in the U.S. economy grew more than twice as fast as all other jobs. Britain shows the same trend.

A new layer means one more person who must review or approve a decision. Most of those people are doing a reasonable job. Together, they add time, and they add more places where a new idea can be stopped. The layers do not slow every decision equally. A cut is usually decided at the top and sent down. A new idea usually starts lower in the company and has to pass through several layers of review to get money.

3.

Leaders Who Leave Sooner

The second cause is time. The people at the top are staying in their jobs for shorter periods. The executive search firm Russell Reynolds Associates tracks CEO departures at large public companies in major stock indexes around the world. In 2025, those departures hit a record for the second year in a row. The average CEO who left had held the job for about seven years, down from more than eight in 2021.

More leaders are also leaving early. The firm reports a sharp rise in CEOs leaving after only two and a half to three years. It links this to pressure on new CEOs to show progress within two to three years.

That timing matters. In the study, companies that moved more money earned higher long-term returns but lower returns over periods shorter than three years. A leader who will be judged within two or three years may hesitate to start something that could pay off only after they are gone. The moves that show up fast are cuts and financial moves. In the survey of finance executives, four out of five said they would cut maintenance and research spending to hit an earnings target.

Short tenures add layers too. A new leader often arrives with a new program. The last leader's program is not always shut down in a clear way. It loses money and attention, but its teams and meetings can stay on. After a few leaders, a company can end up carrying several strategies at once, each with its own staff.

4.

Who Gains When Nothing Moves

The third cause is the people inside the company who gain when things stay as they are. When the researchers looked at why budgets move so little, they pointed to habits of thinking, such as starting from last year's number, and to internal politics.

The politics are easy to follow. Every business inside a company has leaders and teams who depend on its budget. If money moves away from that business, the loss is immediate, and it falls on people who sit in the budget meeting. The gain goes to some other part of the company, and it may take years to show up. Sometimes the business that would gain does not exist yet. Then there is no one in the meeting to speak for it.

None of this requires bad people. Most leaders are doing what their jobs reward: protecting the team and hitting the target. But a company where everyone defends their own part can end up with no one defending the whole.

While all this goes on, the market keeps moving. Customers change what they want, and new competitors arrive. The company keeps getting better at the business it already has, even as that business becomes less important. Researchers who study strategy call this strategic drift. From inside, it seldom looks like a crisis. It looks like a series of reasonable decisions, each one easy to defend. My earlier paper, "Nothing Stays Tuned," looks at why drift happens and how to tell which kinds need attention.

5.

Why a Company Can Fix This

A company does have two advantages that are easy to forget. The first is that the market can replace it. A company that stops adapting can fail, or it can be bought by owners who will change it. That pressure is supposed to force change.

That pressure has weakened. The Bank for International Settlements, which is owned by central banks from around the world, studied listed companies in rich countries. It counted firms that were unprofitable and had a low stock market valuation. Economists call them zombie firms. Their share rose from about 4 percent in the late 1980s to about 15 percent in 2017. The share jumped after each downturn and did not fully come back down. The researchers linked the rise partly to low interest rates, which eased the pressure on weak firms to change or close. They also found that zombie firms hold back investment and hiring at healthier companies.

The second advantage matters more. Inside a company, a small group at the top has the formal power to change how things work. Many budget rules, pay plans, and approval steps were set by the company's own leaders. So its leaders can change them. The causes in this paper are real, but most of them are inside the company.

There is one caution. Some resistance to change is healthy. Markets tend to reward companies that are reliable, and reliability comes from doing things the same way each time. Some research has also found that a major reorganization can raise a company's risk of failure, at least for a while. So the goal is not constant change. The goal is to make change safer and cheaper, so it can happen when it is needed.

6. Five Practices

So what can a company do? The answer is not a new program, and it is not a reorganization. Both of those can add to the problem. The causes in this paper are part of everyday routines, so the fixes belong there too. Here are five practices that address those causes directly.

The first practice is to reopen part of the budget every year. The company picks a fixed share, for example a tenth. Every business has to compete for that share again, starting from zero. The question is how much each business should get now to support the strategy, not how much it got last year. The rest of the budget can follow last year's plan. The point is not to move everything. The point is that some money is reconsidered every year, by rule.

A rule matters because of the politics. It is usually easier to agree ahead of time that part of the budget will be reopened every year than to agree, in a tense budget meeting, that money should move away from your team. The rule settles the question before anyone knows whose budget is at stake.

The second practice is to give every new rule and committee an end date. When the date comes, the rule or committee ends unless someone makes the case to keep it. In most companies, removing a rule takes effort and keeping it takes almost none. An end date reverses that. For the layers that already exist, a company can start with the oldest and ask a plain question: if we did not already have this, would we create it today?

This does not mean dropping rules that protect against real risks, such as safety and fraud. Those should be renewed on purpose, with someone accountable for them. The goal is that every rule is kept on purpose, not that every control is removed.

> **"Adding a rule is usually someone's job. Removing one is usually no one's."**

The third practice is to pay the leaders of each business partly on the results of the whole company, not only on their own part. This will not remove the politics. But it changes what each leader stands to gain or lose. When part of your pay depends on the whole company doing well, giving money to a better use elsewhere is no longer a pure loss to you. Economists have long argued that groups with a stake in the whole are less likely to block changes that help it.

The fourth practice is to judge new investments, and the leaders who make them, over a longer period. In the study, the gains from moving money showed up over the long run, not over periods shorter than three years. Boards decide how long a leader has to show results. A board that judges its CEO mostly on the next few quarters will tend to get moves that look good in the next few quarters. A board that sets some targets five or more years out gives its leaders a reason to build.

The fifth practice is to watch a few simple signs of whether the company can still change. How much of the budget moved between businesses this year? How long does it take for an approved decision to turn into something delivered? How many rules and committees were added, and how many were retired? These numbers are not hard to collect. Seen together, they show whether a company is getting faster or slower at change. Another of my papers, “The Unmeasured Layer,” looks at why signs like these rarely appear together in the reports leaders read.

7. The Business Case

What if a company does none of this? In the short run, it may look like nothing is wrong. The budget gets made. The quarter comes in on target. That is why the problem is so easy to ignore.

But the case for acting is a business case. In the research on budgets, the companies that moved money most freely earned higher returns for their shareholders and were less likely to go bankrupt or be bought. A company that can move money when the market moves can reach new customers and new products sooner. A company that cannot can be left defending a business that is getting smaller, and paying for layers that slow it down.

Most of these practices are cheap to try, and each can start small. Reopening part of the budget and adding end dates cost some meeting time and some hard conversations. Changing part of a leader’s pay costs the work of redesigning the plan. If this paper is wrong, a company that started small has lost little. If it is right, the company gets back something many large companies have lost: the ability to build, and not only to cut.

Next year, the budget process will start again. Leaders will pull up last year’s numbers and begin to plan. In a company using these practices, the process looks almost the same. The differences are small, and they matter. Part of the money is open again. An old committee has reached its end date. The idea that waited last year has a real chance to get funded. The new budget does not have to look like the old one. That is a choice, and it belongs to the people who run the company.

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Monderman is an institutional performance research company building Deterministic AI Infrastructure for organizational diagnostics. Its diagnostic platform produces structured operational reads for enterprises across sectors, including defense, healthcare, government, financial services, technology, manufacturing, and higher education.

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