Getting Organizational Redesign Right

By Steven Aronowitz, Aaron De Smet, and Deirdre McGinty; June 2015

Companies will better integrate their people, processes, and structures by following nine golden rules.

"If at first you don't succeed, try, try, try again." If W. E. Hickson, the British author known for popularizing that familiar proverb in the mid-19th century, were alive today, he might easily be applying it (disparagingly) to the efforts of modern corporations to redesign their organizations.

Recent McKinsey research surveying a large set of global executives suggests that many companies, these days, are in a nearly permanent state of organizational flux. Almost 60 percent of the respondents, for example, told us they had experienced a redesign within the past two years, and an additional 25 percent said they experienced a redesign three or more years ago. A generation or two back, most executives might have experienced some sort of organizational upheaval just a few times over the course of their careers.

One plausible explanation for this new flurry of activity is the accelerating pace of strategic change driven by the disruption of industries. As a result, every time a company switches direction, it alters the organization to deliver the hoped-for results. Rather than small, incremental tweaks of the kind that might have been appropriate in the past, today's organizations often need regular shake-ups of the Big Bang variety.

Frustratingly, it also appears that the frequency of organizational redesign reflects a high level of disappointment with the outcome. According to McKinsey's research, less than a quarter of organizational-redesign efforts succeed. Forty-four percent run out of steam after getting under way, while a third fail to meet objectives or improve performance after implementation.

The good news is that companies can do better—much better. In this article, we'll describe what we learned when we compared successful and unsuccessful organizational redesigns and explain some rules of the road for executives seeking to improve the odds. Success doesn't just mean avoiding the expense, wasted time, and morale-sapping skepticism that invariably accompany botched attempts; in our experience, a well-executed redesign pays off quickly in the form of better-motivated employees, greater decisiveness, and a stronger bottom line.

Why redesign the organization?

Organizational redesign involves the integration of structure, processes, and people to support the implementation of strategy and therefore goes beyond the traditional tinkering with "lines and boxes." Today, it comprises the processes that people follow, the management of individual performance, the recruitment of talent, and the development of employees' skills. When the organizational redesign of a company matches its strategic intentions, everyone will be primed to execute and deliver them. The company's structure, processes, and people will all support the most important outcomes and channel the organization's efforts into achieving them.

When do executives know that an organization isn't working well and that they need to consider a redesign? Sometimes the answer is obvious: say, after the announcement of a big new regional-growth initiative or following a merger. Other signs may be less visible—for example, a sense that ideas agreed upon at or near the top of the organization aren't being translated quickly into actions or that executives spend too much time in meetings. These signs suggest that employees might be unclear about their day-to-day work priorities or that decisions are not being implemented. A successful organizational redesign should better focus the resources of a company on its strategic priorities and other growth areas, reduce costs, and improve decision making and accountability.

The case of a consumer-packaged-goods (CPG) company that chose to expand outside its US home base illustrates one typical motivation for a redesign. Under the group's previous organizational structure, the ostensibly global brand team responsible for marketing was not only located in the United States but had also been rewarded largely on the performance of US operations; it had no systems for monitoring the performance of products elsewhere. To support a new global strategy and to develop truly international brands and products, the company separated US marketing from its global counterpart and put in place a new structure (including changes to the top team), new processes, new systems, and a new approach to performance management. This intensive redesign helped promote international growth, especially in key emerging markets such as Russia (where sales tripled) and China (where they have nearly doubled).

Avoiding the pitfalls

That CPG company got it right—but many others don't, and the consequences can be profoundly damaging. Leaders who fail to deliver the benefits they promise not only waste precious time but also encourage employees to dismiss or even undermine the redesign effort, because those employees sense that it will run out of steam and be replaced by a new one, with different aims, two to three years down the line.

We believe that companies can learn from the way successful redesigners overcome challenges. By combining the results of our research and the insights we've gained from working with multiple companies on these issues, we've identified nine golden rules. They cover everything from early alignment, redesign choices, and reporting structures to performance metrics, the nature of effective leadership, and the management of risks.

Individually, each of the rules is helpful. Our research shows, though, that 73 percent of the executives whose companies followed more than six of them felt that the organizational redesign had succeeded. Executives at these companies were six times more likely to "declare victory" than those at companies that adopted just one or two.

Following all nine rules in a structured approach yielded an even higher success rate: 86 percent

The rules, it's important to make clear, are not self-evident. We tested more than 20 common approaches and found that upward of half of them weren't correlated with success. We expected, for example, that benchmarking other companies and trying to adopt some of their structural choices might be an important ingredient of successful redesigns—but there is no evidence from the research that it is. Our rules, incidentally, are broadly relevant for different industries, regions, and company sizes. They also hold true for redesigns prompted by different types of organizational change, including end-to-end restructurings, postmerger integration, or more focused efforts (such as cost cutting or improvements in governance).

1. Focus first on the longer-term strategic aspirations

Leaders often spend too much time on the current deficiencies of an organization. It's easy, of course, to get fixated on what's wrong today and to be swayed by the vocal (and seemingly urgent) complaints of frustrated teams and their leaders. However, redesigns that merely address the immediate pain points often end up creating a new set of problems. Companies should therefore be clear, at the outset, about what the redesign is intended to achieve and ensure that this aspiration is inextricably linked to strategy. One retail company we know, strongly committed to creating a simple customer experience, stated that its chosen redesign option should provide "market segment–focused managerial roles with clear accountability" for driving growth. The specificity of that strategic test proved much more helpful than simply declaring a wish to "become customer-centric."

2. Take time to survey the scene

Sixty percent of the executives in our survey told us they didn't spend sufficient time assessing the state of the organization ahead of the redesign. Managers can too easily assume that the current state of affairs is clear and that they know how all employees fit into the organizational chart. The truth is that the data managers use are often inaccurate or out of date. A high-profile international bank, for example, publicly announced it was aiming to eliminate thousands of staff positions through an extensive organizational redesign. However, after starting the process, it discovered to its embarrassment that its earlier information was inaccurate. Tens of thousands of positions, already referenced in the press release, had been inaccurately catalogued, and in many cases employees had already left. This new organizational reality radically changed the scope and numbers targeted in the redesign effort.

Knowing the numbers is just part of the story. Leaders must also take time to understand where the lines and boxes are currently drawn, as well as the precise nature of talent and other processes. That helps unearth the root causes of current pain points, thereby mitigating the risk of having to revisit them through a second redesign a couple of years down the road. By comparing this baseline, or starting point, with the company's strategic aspirations, executives will quickly develop a nuanced understanding of the current organization's weaknesses and of the strengths they should build on.

3. Be structured about selecting the right blueprint

Many companies base their preference for a new structure on untested hypotheses or intuitions. Intuitive decision making can be fine in some situations but involves little pattern recognition, and there is too much at stake to rely on intuition in organizational redesign. Almost four out of five survey respondents who owned up to basing decisions on "gut feel" acknowledged that their chosen blueprint was unsuccessful. In our experience, companies make better choices when they carefully weigh the redesign criteria, challenge biases, and minimize the influence of political agendas.

Interestingly, Fortune magazine found that its Most Admired Companies had little in common when it came to aspects of their organizational design, beyond a flexible operating model.1 This finding is consistent with our experience that off-the-shelf solutions aren't likely to work. The unique mix of strategy, people, and other assets within a company generally requires an individual answer to things like role definition, decision-making governance, and incentives, albeit one based on a primary dimension of function, geography, or customer segment. The key is to get the right set of leaders reviewing options with an open mind in the light of redesign criteria established by the strategic aspiration.

Take a large public pension system we know. Its leaders convinced themselves that a new organization must be set up along product lines. Challenged to reconsider their approach, they ultimately arrived at a functional model—built around health, pensions, and investment—that has served the system well over the past five years and underpinned significant cost savings and the launch of innovative new products.

4. Go beyond lines and boxes

A company's reporting structure is one of the most obvious and controllable aspects of its organization. Many leaders tend to ignore the other structure, process, and people elements that are part of a complete redesign, thereby rearranging the deck chairs but failing to see that the good ship Titanic may still be sinking.

Companies such as Apple and Pixar are well known for going far beyond lines and boxes, taking into account questions such as where employees gather in communal spaces and how the organizational context shapes behavior. One small but fast-growing enterprise-software player we know made some minor changes to senior roles and reporting as part of a recent organizational redesign. But the biggest impact came from changing the performance-management system so that the CEO could see which parts of the company were embracing change and which were doing business as usual.

Surveyed companies that used a more complete set of levers to design their organizations were three times more likely to be successful in their efforts than those that only used a few. The strongest correlation was between successful redesigners and companies that targeted at least two structural-, two process-, and two people-related redesign elements.

5. Be rigorous about drafting in talent

One of the most common—and commonly ignored—rules of organizational redesign is to focus on roles first, then on people. This is easier said than done. The temptation is to work the other way around, selecting the seemingly obvious candidates for key positions before those positions are fully defined.

Competition for talent ratchets up anxiety and risk, creating a domino effect, with groups poaching from one another to fill newly created gaps. This is disruptive and distracting. A talent draft that gives all units access to the same people enables companies to fill each level of the new organizational structure in an orderly and transparent way, so that the most capable talent ends up in the most pivotal roles. This approach promotes both the perception and the reality of fairness.

Powerful technology-enabled solutions allow companies to engage hundreds of employees in the redesign effort in real time, while identifying the cost and other implications of possible changes. One web-based tool we've seen in action—full disclosure: it's a McKinsey application called OrgLab—helps leaders to create and populate new organizational structures while tracking the results by cost, spans, and layers. Such tools expand the number of people involved in placing talent, accelerate the pace, and increase the level of rigor and discipline.

6. Identify the necessary mind-set shifts—and change those mind-sets

Leaders of organizational-redesign efforts too often see themselves as engineers and see people as cogs to be moved around the organizational machine. Organizations, however, are collections of human beings, with beliefs, emotions, hopes, and fears. Ignoring predictable, and sometimes irrational, reactions is certain to undermine an initiative in the long run. The first step is to identify negative mind-sets and seek to change the way people think about how the organization works. Actions at this stage will likely include communicating a compelling reason for change, role modeling the new mind-sets, putting in place mechanisms that reinforce the case for change and maintain momentum, and building new employee skills and capabilities.

One company in the payments industry—beset by changing consumer habits, technology-led business models, and regulatory pressure—understood the importance of shifting mind-sets as part of its recent redesign. The group's sales team traditionally worked well with large retailers and banks. But looking ahead, the company knew it would be important to establish a new set of relationships with high-tech hardware and software players. Simply appointing a new boss, changing role descriptions, and drawing up a revised process map wasn't enough. The company therefore embarked on a program that consciously sought to shift the thinking of its sales experts from "we create value for our customers" to "we create value with our partners."

7. Establish metrics that measure short- and long-term success

Nobody would drive a car without a functioning speedometer, yet a surprising number of companies roll out an organizational redesign without any new (or at least specially tailored) performance metrics. Some older ones might be relevant, but usually not the whole set. New metrics, typically focusing on how a changed organization is contributing to performance over the short and long term, are best framed at the aspiration-setting stage. Simple, clear key performance indicators (KPIs) are the way forward.

During the redesign effort of one high-tech manufacturer, it set up a war room where it displayed leading indicators such as orders received, orders shipped, supply-chain performance, and customer complaints. This approach helped the company both to measure the short-term impact of the changes and to spot early warning signs of disruption.

One utility business decided that the key metric for its efficiency-driven redesign was the cost of management labor as a proportion of total expenditures on labor. Early on, the company realized that the root cause of its slow decision-making culture and high cost structure had been the combination of excessive management layers and small spans of control. Reviewing the measurement across business units and at the enterprise level became a key agenda item at monthly leadership meetings.

A leading materials manufacturer introduced a new design built around functional groups, such as R&D, manufacturing, and sales, but was rightly anxious to retain a strong focus on products and product P&Ls. To track performance and avoid siloed thinking, the company's KPIs focused on pricing, incremental innovation, and resource allocation.

8. Make sure business leaders communicate

Any organizational redesign will have a deep and personal impact on employees—it's likely, after all, to change whom they report to, whom they work with, how work gets done, and even where they work. Impersonal, mass communication about these issues from the corporate center or a program-management office will be far less reassuring than direct and personal messages from the leaders of the business, cascaded through the organization. An interactive cascade (one that allows two-way communication) gives people an opportunity to ask questions and forces top leaders to explain the rationale for change and to spell out the impact of the new design in their own words, highlighting the things that really matter. This can take time and requires planning at an early stage, as well as effort and preparation to make the messages compelling and convincing. When a top team has been talking about a change for weeks or months, it's all too easy to forget that lower-ranking employees remain in the dark.

One financial-services company encouraged employee buy-in for an organizational redesign by staging a town-hall meeting that was broadcast in real time to all regional offices and featured all its new leaders on a single stage. The virtual gathering gave them an opportunity to demonstrate the extent of their commitment and allowed the CEO to tell her personal story. She shared the moment when she realized that the organization needed a new design and the changes she herself was making to ensure that it was successful. All employees affected by the changes could simultaneously talk to their former managers, their new managers, and the relevant HR representatives.

9. Manage the transitional risks

In the rush to implement a new organizational design, many leaders fall into the trap of going live without a plan to manage the risks. Every organizational redesign carries risks such as interruptions to business continuity, employee defections, a lack of personal engagement, and poor implementation. Companies can mitigate the damage by identifying important risks early on and monitoring them well after the redesign goes live. The CPG company mentioned earlier, for example, realized that rolling out its reorganization of sales and marketing ahead of the holiday season might unsettle some of those involved. By waiting, it made the transition with no impact on revenues.

Tracking operational, financial, and commercial metrics during a design transition is helpful, as are "pulse checks" on employee reactions in critical parts of the company. Clear leadership account-ability for developing and executing risk-mitigation plans is so important that this should be built into regular appraisals of managers.

In our experience the most successful organizations combine stable design elements with dynamic elements that change in response to evolving markets and new strategic directions. Corporate redesigns give organizations a rare opportunity to identify the stable backbone and set up those elements ripe for dynamic change. Successful leaders and successful companies take advantage of such changes to "rebuild the future"—but a landscape littered with failed efforts is a sobering reminder of what's at stake. Following the nine simple rules described in this article will increase the odds of a happy outcome.

http://www.mckinsey.com/business-functions/organization/our-insights/getting-organizational-redesign-right