

McKinsey Global Survey results

# The secrets of successful organizational redesigns

*While large-scale change efforts have become common, few organizations get them right. Executives suggest that alignment, inclusiveness, and good planning are the key factors for success.*

**Organizational redesigns** are an everyday fact of corporate life, yet three-quarters of redesign efforts fail both to meet objectives and to improve company performance. These are among the key findings from McKinsey's most recent survey on large-scale organizational change,<sup>1</sup> which asked executives how their companies develop, communicate, and implement large-scale changes to their organizational structure and reporting lines.

Overall, their responses suggest that redesign outcomes depend more on *how* organizations go about the effort than on why they pursued the effort in the first place or what specific changes they made. According to respondents with redesign experience, the companies where leaders aligned on objectives, identified necessary mind-set changes, used clear criteria for the new organizational design, and rigorously planned and communicated the changes were the most likely to end up with a successful effort.

Redesigns can be slow, and many companies encounter problems—among them, employee distraction and an outsize focus on lines and boxes. But compared with the global average, respondents who say their efforts succeeded report the most notable improvements in their companies' performance management, business processes, roles, and governance.

<sup>1</sup>The online survey was in the field from September 10 to September 20, 2013, and garnered responses from 2,063 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures. Of those, 1,534 say they have experienced a redesign at their current organizations. To adjust for differences in response rates, the survey data are weighted by the contribution of each respondent's nation to global GDP.



### Reorganizing is the new normal

Eighty-two percent of all respondents say they have experienced a redesign—significant changes in organizational structure at either the corporate, functional, or business-unit level—at their current companies. And of them, 70 percent report that their most recent reorganizations were implemented within the past two years. These findings suggest that redesigns are a regular part of corporate life across the globe, particularly for those working in Europe and India (Exhibit 1). Not only are redesigns frequent, but they are also time consuming. According to respondents, nearly 30 percent of fully implemented redesign efforts lasted more than 12 months.<sup>2</sup>

<sup>2</sup> Respondents were asked about the length of time from when leaders decided on strategic objectives for the redesign until all changes were fully implemented.

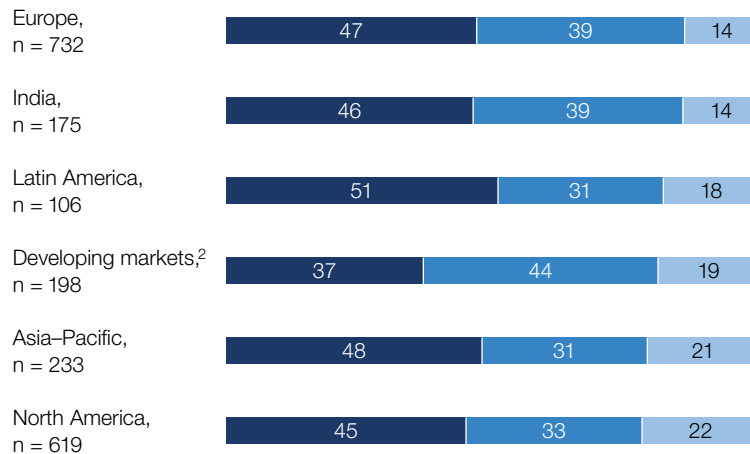
Exhibit 1

### Across regions, redesigns are most common in Europe and India.

% of respondents,<sup>1</sup> by office location

*Since you started working at your current organization, have you experienced a redesign (significant change in organizational structure)?*

■ Yes, and changes are fully implemented   ■ Yes, but changes are not fully implemented   ■ No



<sup>1</sup> Figures may not sum to 100%, because of rounding.

<sup>2</sup> Includes China.



Despite the time and effort, redesigns seem to be a common response to a variety of organizational issues. On average, a typical redesign effort targets 3.4 strategic objectives (out of 11 we asked about<sup>3</sup>), and executives most often cite goals related to simplification and bandwidth for growth. Nearly two-thirds say their most recent redesigns sought to facilitate the organizations’ focus on strategic priorities, and more than half say their redesigns aimed to improve the focus on growth.<sup>4</sup>

<sup>3</sup>One of the 11 choices was an “other” option, where respondents could write in the given objective(s) of their redesigns.

<sup>4</sup>The other objectives the survey asked about include improving decision making (40 percent), cutting costs (39 percent), improving accountability (39 percent), accelerating other specific organizational changes (35 percent), creating new leadership opportunities (21 percent), responding to external pressure (20 percent), helping integrate a current or prior merger or acquisition (19 percent), and preparing for a divestiture (6 percent).

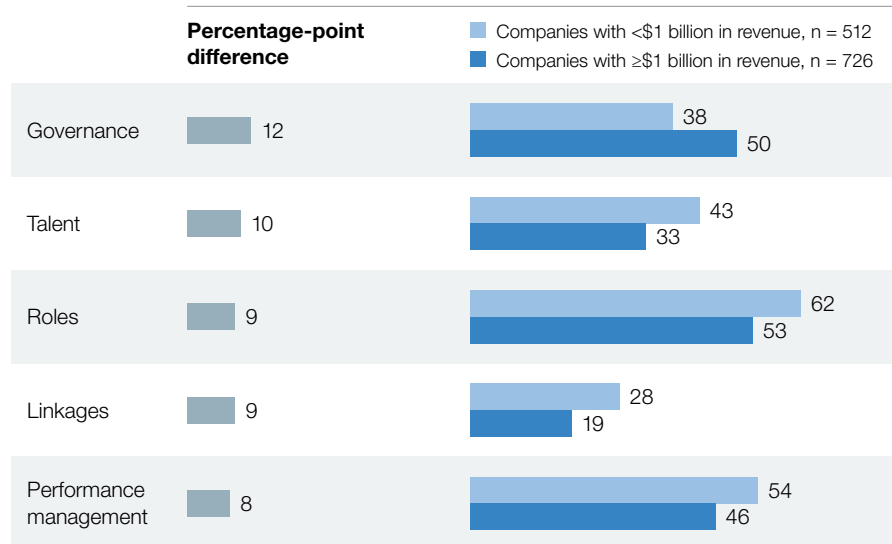
Likewise, executives report a broad range of organizational features that their redesigns tried to improve. An average redesign effort focuses on 5.5 elements, with the largest share of respondents citing improved role definition. Beyond the organizational chart’s lines and boxes, other elements rank highly: 55 percent of executives say their redesigns targeted business processes, and 49 percent say the same for both management processes and performance management. These elements also vary notably by the company’s geographic footprint, the redesign’s initial objectives, and company size; governance is a more common issue to address at larger companies than at smaller companies, for example (Exhibit 2).

Exhibit 2

**Smaller and larger companies differ on the issues their redesigns target for improvement.**

% of respondents

**Biggest differences in ranking of organizational elements that redesigns tried to improve<sup>1</sup>**



<sup>1</sup>Out of 13 elements that were presented as answer choices in the question.

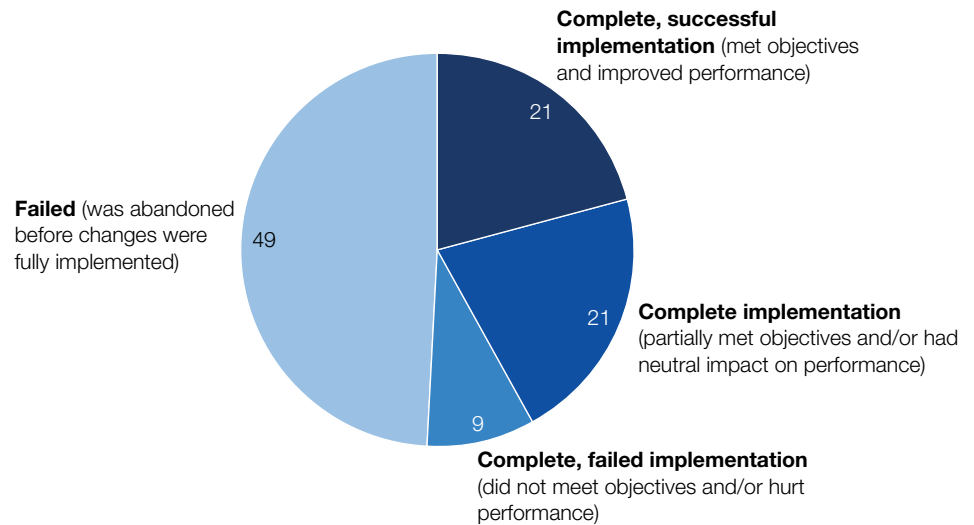


Exhibit 3

### According to executives, less than one-quarter of large-scale change efforts succeed fully.

% of respondents, n = 1,311

#### Outcomes of redesign efforts at respondents' organizations



#### Struggling to succeed

Though redesigns are ubiquitous, successful outcomes—cases of new organizational structures that were fully implemented, met their objectives, and improved performance—are not (Exhibit 3). Of respondents who were personally involved in a redesign, just 21 percent say those efforts were a success.<sup>5</sup> Nearly half of these executives say their redesigns were abandoned before changes were implemented.

We asked executives about the five phases of a redesign: aligning on objectives, developing a blueprint for the new structure, formulating a detailed organizational design, communicating and planning for changes, and implementing those changes. Less than 30 percent rate any phase as very successful for their companies, and the shares reporting success decline as the

<sup>5</sup> Respondents in our “success” group report that their companies’ new organizational structures, post-redesign, had met the initial objectives extremely or very well and that the new structures resulted in significant or moderate improvement in overall company performance.

effort moves further along. Not surprisingly, respondents who report successful overall outcomes are much likelier than average to say each of their redesigns' phases went well (Exhibit 4).

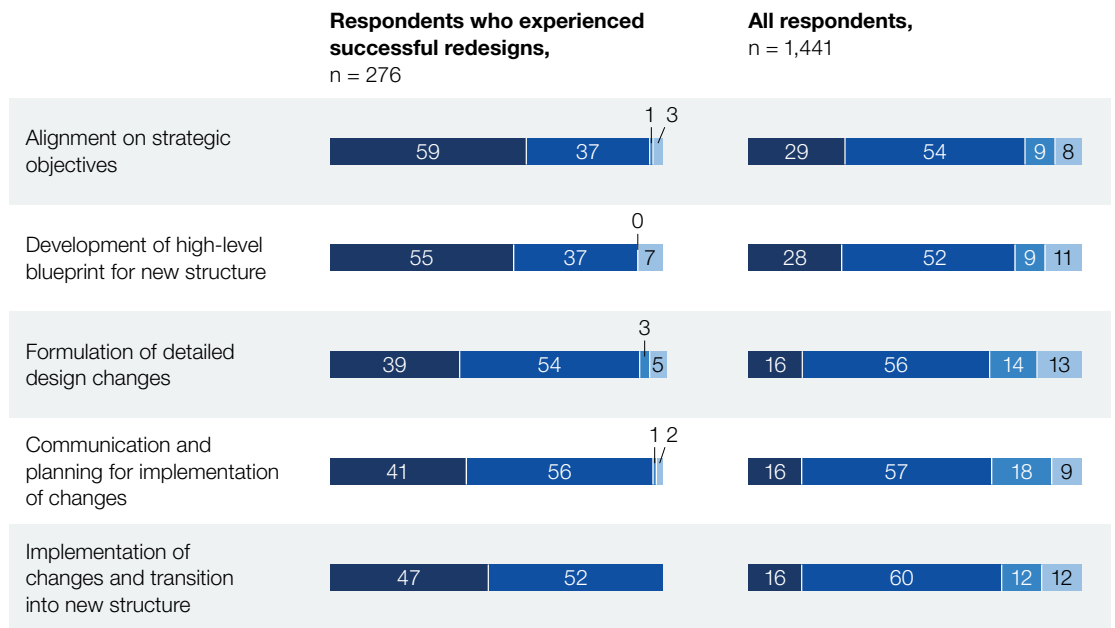
Exhibit 4

**Successful redesigns see better results every step of the way.**

% of respondents<sup>1</sup>

**Outcomes of organizational redesigns' 5 phases**

■ Very successful ■ Somewhat successful ■ Not at all successful ■ Don't know/not applicable



<sup>1</sup>Figures may not sum to 100%, because of rounding.

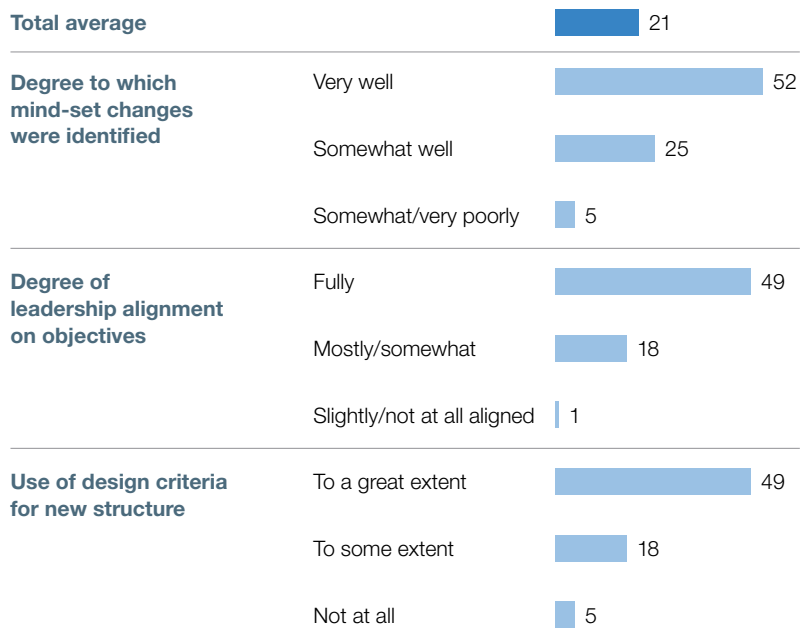


Exhibit 5

**Mind-set changes, alignment, and clear criteria give redesign success rates the biggest boost.**

% of respondents, n = 1,311

**Rate of successful redesigns,<sup>1</sup> by organizational characteristic**



<sup>1</sup>In this survey, we define a “successful” redesign as a new organizational structure that respondents say was fully implemented, met its initial objectives very or extremely well, and improved the organization’s overall performance.

The likelihood for success increases when certain organizational traits are present and meaningfully decreases when they are not (Exhibit 5). Among the key characteristics that link to outcomes is alignment on objectives, regardless of what they are, which suggests that a redesign’s success begins long before day one. Of the efforts where respondents say their leaders were slightly or not at all aligned on the redesign’s strategic objectives, just 1 percent report successful outcomes, compared with 49 percent who say their leaders were fully aligned.



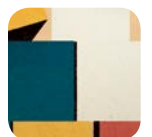
Few executives overall say their organizations properly identified the mind-set changes needed to make their new structures successful. But among those who report success, more than half say their redesign teams identified those mind-set shifts very well. A more rigorous approach to the new design is also more common among successful efforts. Where leaders used clear criteria to assess the outcome of their redesigns, executives are more than twice as likely as the average to report success.

Other characteristics that successful redesigns share are rigorous processes to decide on a blueprint for the new structure and a more holistic approach to improving organizational elements. Only 13 percent of redesigns that targeted three or fewer elements for improvement were successful; the likelihood of success nearly triples for organizations that targeted at least seven. The successes also go beyond “lines and boxes” to address how work gets done. Executives reporting a successful redesign are much likelier than average to say their efforts focused on performance management, decision rights, culture, and talent.

### **Overcoming key challenges**

Still, even the successful redesigns face significant obstacles. Roughly 40 percent of all executives say their employees were distracted during the effort or that there was too much focus on the organizational chart instead of how work would change. The respondents reporting success are much less likely than others, however, to report resistance from employees and leadership: 52 percent of those with completed but failed redesigns cite active employee resistance to the change as a challenge, compared with 19 percent of those with successful redesigns.

One reason that the successful efforts are better at employee buy-in—and generally—may be that these companies pay greater attention to communication and behavior. Success is four times more likely at companies where senior leaders developed their own narratives to support the change story than at companies with no formal communication.

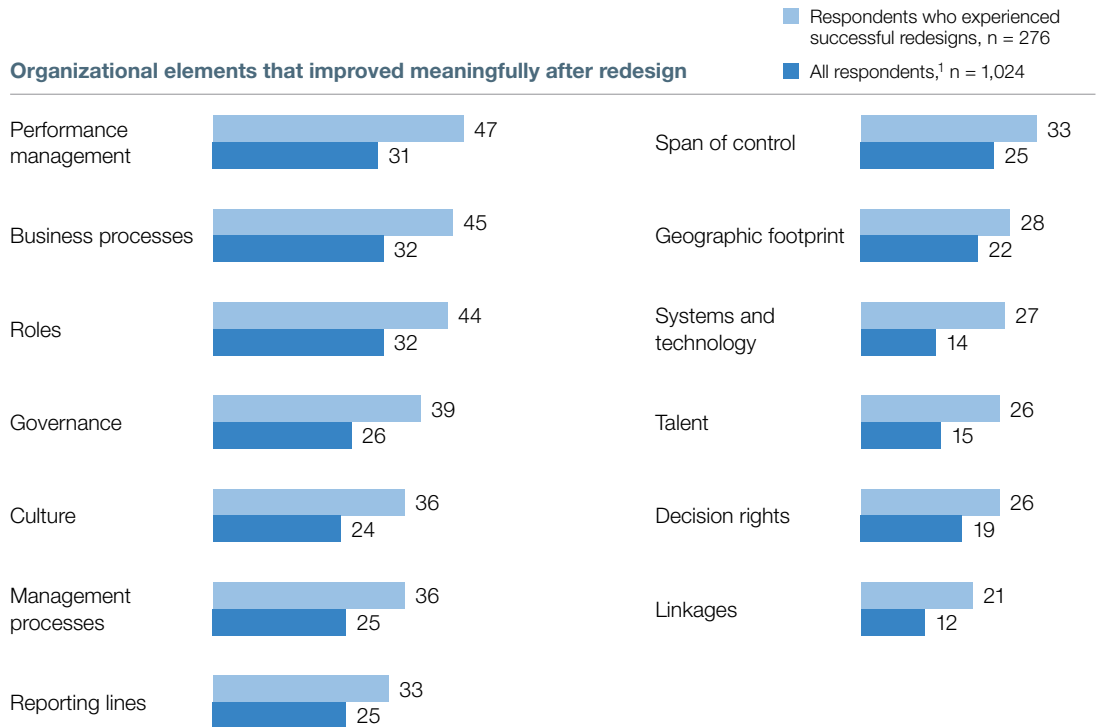


Executives also note some best practices for implementing change, many of which have to do with extensive planning and management. For example, more than half of successful redesigns explicitly defined the key risks of implementation and developed mitigation plans, compared with 18 percent of failed redesigns. Similarly, 45 percent of respondents with successful efforts say their companies identified and monitored key performance indicators for the redesign; only 8 percent of respondents with failed efforts say the same.

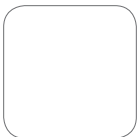
In the end, successful redesigns also result in greater, meaningful benefits. For all of the organizational elements we asked about, the executives reporting success cite higher-than-average rates of improvements (Exhibit 6).

Exhibit 6

**When redesigns are done, the successful efforts see greater improvements overall.**



<sup>1</sup>This question was only asked of respondents who identified at least 1 organizational element (out of 13) that their redesigns targeted for improvement.





### Looking ahead

- *Align on what matters.* From the survey results, it's clear that the companies that met their redesign goals and saw a positive impact on performance were aligned on those goals from the very beginning of the process. Before a change effort even begins, company leaders must align not only on the strategic objectives but also on the criteria they use to assess the redesign's progress.
- *Mind behaviors and mind-sets.* Employee distraction and resistance to change are common challenges during redesign. It's important to remember that a large-scale redesign is no different from any other organizational transformation: for the new design to work, significant changes in attitudes are required, and companies should take time to identify and address these changes as early as possible.
- *Invest in rigorous processes.* The results show that, in every phase of a redesign, a rigorous process for decision making is more reliable—and a better way to head off resistance from leaders or employees—than if decisions are made ad hoc or based on the views of select individuals. Using clear processes is a greater predictor of success, too, so companies should try to include rigor and clear criteria as much as possible in their redesigns. □

The contributors to the development and analysis of this survey include **Aaron De Smet**, a principal in McKinsey's Houston office, and **Deirdre McGinty**, a consultant in the Philadelphia office.

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