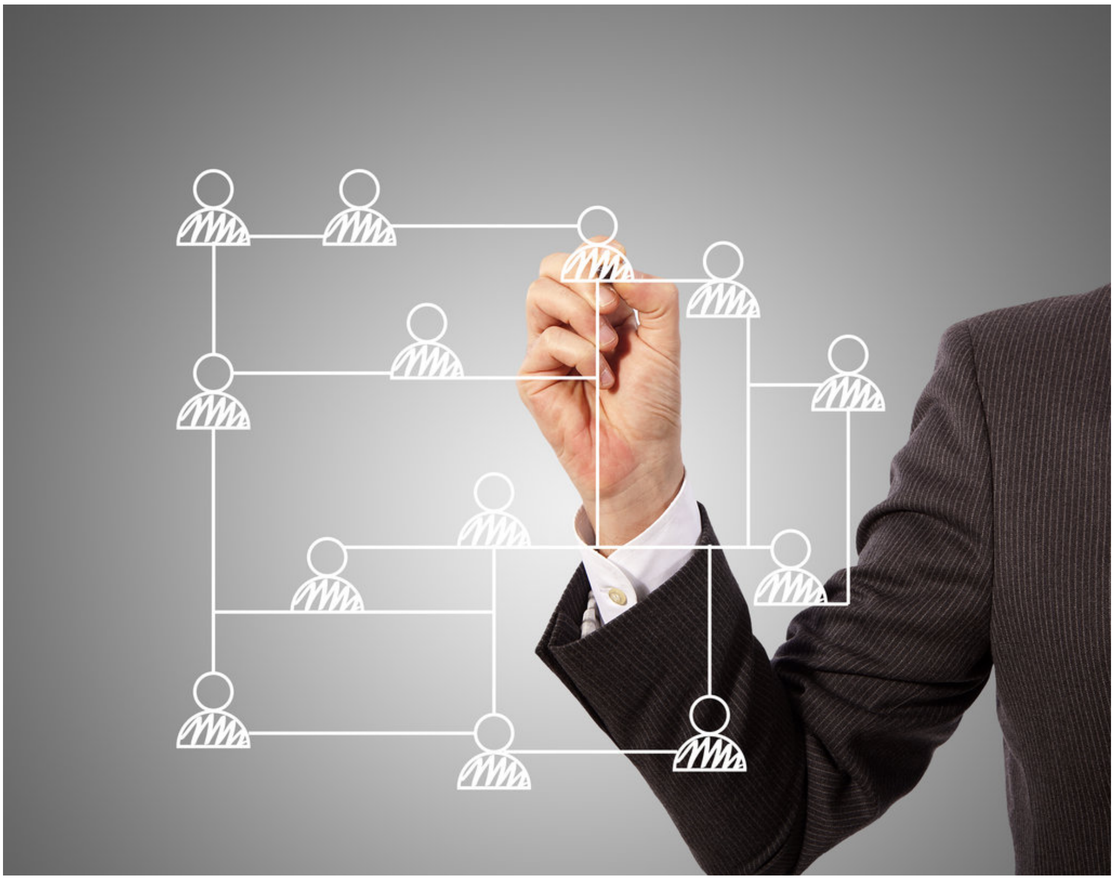

Five factors in getting organizational redesign right

CEOs increasingly see the need to transform through adopting new market or product strategies or to adopt new business models. These changes in direction often require radical changes in organizational design and structure. For many companies the days of tweaking the organizational structure chart are over.

To keep up with changes in direction, CEOs are making more dramatic changes and adapting the design of their company more frequently. Designing an organizational structure that will deliver a new strategy is tricky.

Other CEOs will want to restructure to focus key resources on top priorities, improve decision-making or accountability. Whatever the reason, organizational change requires tough tradeoffs, between focus and flexibility, control and delegation, coordination and autonomy.

Many CEOs of growing companies struggle when it comes to changing organizational structure. It's not something that they will have completed many times before. Also there are many competing considerations to be made. Power games, politics and mindset rooted in the current structure all make structure redesign harder.

Whilst CEOs know intuitively that the structure, which delivered so far, may not be good enough for the next phase. Loyalty to colleagues, and co-founders may make the tough job of reorganization even more challenging.

The facts show that results of organisational redesign are mixed. Poor efforts can sap morale, demotivate and confuse executives and employees. There is no magic bullet. Each company's situation is unique. Structural change driven by a new business, new acquisition or market entry all need to be addressed on their own merits.

However, we can learn from other companies. Too often structural discussions are driven by the urgency and crisis of the moment. Piecemeal change and tinkering happens.

There is a better way. Good management teams think carefully about the building blocks they need to create the new organization to deliver. They balance structure, process and people considerations. Our experience of both successful and unsuccessful restructures has led us to come up with some guidelines that can help:

1. **Ensure proposed new structure improves strategy execution**
   A new structure should enable better strategy execution. It should deliver on the company value proposition and key priorities. The new structure should align people, processes and decision rights that make execution easier. It should help your company win more often through building capability for activities crucial to the value proposition.

   Your company has unique talent and circumstances, be careful about copying another company's blueprint. For example, if your strategy is to dominate with new products – then a structure along product lines might be advocated, where products will get more resource and attention.

   Whist a more customer centric strategy might have advocates of a structure built around customers, where they would get more resource and attention.

   Keep in mind how long you intend the structure to be in place for. Be clear how the new organizational structure will benefit execution over the short term and the chosen strategic direction over the medium term. Sometimes it is helpful to paint a picture of what the organization might look like in 3 years time and use this as a guiding hand.

2. **Rigorously assess existing talent and be clear on the gaps**
   Most companies grow their structure and talent organically. The senior executive who could multitask and manage a variety of departments, when the company has €10m revenue may not have the right capability to run a key large department when the company is at €100m revenue.

   Focus on roles rather than on people – it is too easy play musical chairs with the senior team. Be clear as the exact responsibility and accountability that goes with each position. Some companies define the key senior roles required and invite their existing senior executives to apply and be interviewed.

Benchmark your company against competitor companies bigger than you – how does your head of sales or production measure up? Understand which team members are capable of stepping up with further mentoring, training or education. Also consider those who will not. Be fair and compassionate.

If you cannot fill talent internally, seek external candidates to fill the gaps. The best talent takes time and recruitment effort, so build this into your planning and budgeting cycles.

3. **Check that the new design strengthens accountability**
   Different structures focus management attention on different issues. When considering key problem areas that the new organisational structure might address, ensure that you get to root causes. Make sure you have the facts. Consider how the existing structure makes is harder or easier to get key jobs done.

   Also focus on what is good about your current organisational structure. Consider processes that are working and strengthen them. Reflect on how the social and informal networks help make things happen.

   Your strategy should have a set of key performance indicators that measure performance. They tell you how good performance is against expected performance. Make sure that the new design helps simplify accountability so that those in new roles are clearly accountable for key KPIs.

4. **Consider balance and costs**
   Structure should follow strategy. It should reflect resource allocation decisions. Not all work is created equally. Some tasks are more important and require more resources. Look for efficiencies and role redundancy. Balance specialization versus the effort required to co-ordinate.

   Watch costs and budget. Consider staffing levels, pyramids and spans of control. Seek ways to delegate decision making to the right layer with the right expertise. Challenge the number of layers – too many layers can make your company risk averse and cautious. Too few can result in more mistakes. Seek maximum commitment to key goals with minimum required control.

   Discuss how to reduce difficult links. Consider what jobs can be more sensibly grouped and located together to improve alignment and information flows. Assess how better technology could automate some existing tasks.

   Reflect on how to balance regulatory and compliance requirement versus innovation. Use culture and geographic spread as practical tests. Keep in mind the relative strength of functional areas like sales, production, finance and HR.

5. **Carefully plan people and communication aspects**

   Organizational change can be stressful. Think through the clear rationale and case for change. Don't jump to the first new blueprint structure. Consider multiple options and engage in a time-bound dialogue and process with your management team.

   Carefully plan the transition from the existing structure to the new one. Not everybody will be happy with the change. Identify the key risks. Be clear on the compelling reason for change. Prepare a detailed two-way communication change reinforcing the rationale.

   Be sensitive to symbols like titles, space and sizes of teams. Explain the change in the context of a clear strategic rationale. Think through how the new design will affect peoples' motivations and commitment.

Insight in Brief

Organisational design can be stressful for all involved. What appears to be a sensible restructure based on a new strategy can turn into a morale sapping and demotivating exercise. Some principles if followed can help avoid some of the risks.

Insight In Action

When considering or planning an organization restructure – ask your team the following five questions to help keep you on track:

1. Does the proposed structure help us execute the key components of our strategy?
2. Have we rigorously assessed existing talent and documented the gaps?
3. Have we ensured that the proposed structure improves accountability?
4. Does the new structure create more balance and contain costs?
5. Have we carefully planned all the risk, people and communication aspects?