Opportunities for Action in Organization

A Survivor’s Guide
to Organization Redesign

THE BOSTON CONSULTING GROUP
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Few people associate redesigning organizations with survival. But the fate of companies and their employees can hinge on how a redesign is approached. All too often, major organization redesigns create little, if any, value. In many cases, they actually subtract value, frustrate managers, and lower employee morale.

For example, a major global company announced some time ago that a planned reorganization would lead to double-digit growth. The redesign was ambitious. Creating global business units would make it possible to roll out products rapidly on a worldwide stage. Market development units would increase market responsiveness, and integrating back-office functions would lower costs. All laudable goals, but the results were quite different: single-digit growth, a 30 percent reduction in share price, confused decision making, and high levels of frustration among the best-performing employees.

How could a highly regarded and successful company achieve such poor results?

• It assumed that the organization redesign alone would spur growth. In fact, the problems the company confronted were as much strategic as they were organizational: category growth was slow, competition was increasing, and new products proved to have limited differentiation.

• The redesign did not match the realities of the company’s business. Although the company did have major global brands, 50 percent of its busi-
ness came from regional and local brands, making global business units complex and awkward.

- The company assumed that structure would solve problems with process. Because the same decisions continued to be made in essentially the same way, however, the structural changes did little to speed the rollout of products.

- The redesign went too far too fast. Within a year, the company went from being a set of country-based units leveraging global brands to a set of global brands trying to leverage country units. Undergoing such a drastic change that fast made it nearly impossible to redesign interactions and processes. The company did not have time to address such critical issues as how its global brand leaders would interact with country brand managers and who would set country priorities.

- The company didn’t get buy-in. The new design was created in one month by a senior team from the corporate center. It was passed on to the rest of the organization for implementation without consulting managers and employees. Talented key executives, such as country heads, found themselves with dramatically reduced roles. Because they had not been involved in the redesign process and their expectations had not been managed appropriately, some of those executives quit.

So how does a company avoid such pitfalls and not just survive an organization redesign but flourish in the process?

Four building blocks will ensure successful results: identifying the right business issues, pinpointing the
right underlying obstacles, adopting the right design characteristics, and implementing change the right way. (See Exhibit 1.)

**Identify the Right Business Issues**

Too often, executives despair midway through a redesign. What are we really trying to achieve with this redesign, they ask, and why did we choose to do it this way? These executives have skipped the crucial first step in any redesign process: identifying the business issues and translating them into goals for the redesign.

Good design is based on good strategy—the questions you should be asking as you attempt to identify the
issues critical to your business are fundamentally strategic. You need to understand how you want to compete, where you make money, and what organizational levers will enhance performance. You might ask, for example, How important is leveraging global opportunities? How critical is cost to shareholder value? Where are the synergies across the business portfolio? The questions raised by a functional redesign are equally strategic. When it comes to redesigning a sales force, for instance, you need to understand where customers get value from your company, how they buy, and what opportunities are not being fully exploited.

Consider what a leading industrial company uncovered when it went through a strategy review that was designed to produce recommendations for organizational change. The company was already one of the world’s leading shareholder-value creators. The existing business-unit organization was working well, and management was reluctant to change it. However, opportunities to improve performance within the units seemed to have hit a plateau. The strategy review identified three opportunities to improve profits that cut across business unit boundaries: cross-selling to existing customers, increasing asset utilization by sharing production facilities, and lowering costs by more effectively transferring best practices. How could the opportunities be exploited while leaving as much as possible of the existing, highly effective business-unit structure in place?

The company concluded that so-called network overlays, which wouldn’t require changes in the existing structure, could address both cross-selling and best-practice transfers. Moreover, these overlays would be of mutual benefit to all business units. Sharing production facilities, by contrast, would be painful for
those units that would lose control over their own production. Fortunately, the lion’s share of the benefits could be achieved with just a few clearly identified, critical interventions in the existing production system. So rather than attempt a wholesale reform of the production organization to achieve these few changes, the company decided to mandate them from the center. It also resolved to give the center a more activist role in identifying and implementing new critical synergy opportunities in the future.

**Pinpoint the Right Underlying Obstacles**

Once you have identified the right business issues, how do you know what it will take to address them? Rarely are these issues not already the objectives or responsibilities of an individual or group. Commonly, however, there are obstacles to achieving solutions, and those obstacles must be pinpointed accurately to ensure a redesign’s success. Sometimes the problem is a misalignment of goals and performance measures—in effect, people do what is inspected, not what is expected. It may be that there are insufficient resources or that the company’s values and culture are getting in the way. Removing such barriers to performance requires a deep understanding of the organizational system as a whole. Unless you look at the combined impact of incentives, culture, resource allocation, and information flows, recommendations will often address symptoms instead of causes.

For example, we recently helped redesign the interface between sales and marketing teams at a major pharmaceutical company. One symptom of the problem confronted by the teams was that the marketing units did not work well together, with the result that the sales forces they shared were being pulled in dif-
ferent directions. The initial thinking was that the marketing teams simply lacked an adequate common mechanism for coordination. In fact, the underlying problem was worse: the teams had objectives and incentives that encouraged them to compete with one another rather than cooperate. Until the company changed those objectives and incentives, no coordination mechanism would work. (See Exhibit 2.)

**Adopt the Right Design Characteristics**

There is no such thing as a “perfect” organization design. But one thing is sure: some designs clearly don’t work. The ones that do work manage the trade-offs inherent in any choice as well as the people affected by that choice. Successful designs also respond to three powerful forces driving today’s economy. First, the basic nature of business is evolving: indus-
tries are becoming increasingly global, companies are depending more and more on information gathering and exchange, and value chains are deconstructing at an accelerated pace. Second, the work force is evolving—a development marked by more highly qualified staff, increasing career mobility, and greater career expectations. Third, the route to competitive advantage has changed, hinging now on achieving greater speed, leveraging capabilities, and capturing scale both in corporate knowledge and in costs. (See Exhibit 3.)

These forces have produced a common set of characteristics that can guide any organization redesign.

**An Orientation for Interactions.** Structure is necessary in any organization, but a redesign should focus even more on other aspects of how people work together—their objectives, their capabilities, their roles and responsibilities in key processes, and the information

![Exhibit 3. Organization Design Characteristics](image-url)
flows and incentives that support them. Managers need to work together not only within their own function or business unit but also across organizational boundaries with managers in other parts of the company. Making this happen is more difficult and time-consuming—and provides less instant gratification—than redrawing lines and boxes on whiteboards. But you’re probably doing your organization considerable damage if you’re simply changing structure while neglecting other forces that drive employee behavior.

**Hybrid Structures and Overlays.** Forget about rigid, symmetrical structures. Companies require a variety of forms to reflect different business economics and organizational realities. (See Exhibit 4.)

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**Exhibit 4. Economics and Organizational Realities Often Support a Supply Chain’s Hybrid Structure**

- **Key economic values**
  - Local knowledge, therefore local reporting
  - Regional and global production scale, therefore regional reporting
  - Fast delivery, therefore local reporting

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**SOURCE:** BCG analysis.
Consider the global redesign of a supply chain. The business economics vary depending on the stage of the value chain—and so does the corresponding form. For example, in the supply chain represented in Exhibit 4, sales forecasting is best done with deep local knowledge as well as a strong commitment from the local organization, and thus should be relatively decentralized. By contrast, production planning and manufacturing, given their scale and reach, should be organized more globally. And since speed to market is important, distribution should be organized locally. Business economics here require a hybrid structure: sales forecasting and local distribution should report to country managers, whereas production should report directly to heads of European, U.S., and Asian production.

Hybrid structures also help companies cope with organizational realities that go beyond business economics. For instance, in the case of global companies that derive most of their sales from the United States, one organizational reality is that the heads of some business units may need to have more control and power than others. Some companies allow the heads of U.S. business units to report directly to the CEO, whereas the heads of European units report to the CEO through a regional manager. Such companies don’t appoint a regional manager for the United States out of concern that the role might become too powerful. Conversely, allowing business unit heads outside the United States to report directly to the CEO would result in an unmanageable span of control.

In general, organizational structure tends to channel and constrain value creation. Structures exist to provide formal authority for decisions and to arbitrate when consensus cannot be reached. Those functions are both necessary and valuable. But increasingly,
value creation is occurring across structural boundaries through network overlays of one sort or another: functions work with other functions to improve the management of common processes; locations work with other locations to share best practices; business units work with corporate centers to leverage knowledge and costs.

Companies are using a range of hybrid structures and network overlays to achieve their goals. Some examples include shared-service centers for otherwise independent businesses, cross-customer sales teams, and best-practice-sharing groups. Whatever form such hybrids take, their success depends on aligned goals and incentives, a culture of cooperation, an effective infrastructure for knowledge sharing, and clarity about decision making.

**Rewards for Performance.** Individuals and business units need to be rewarded for performance, and market mechanisms are the ultimate measure of performance. Accordingly, many companies have successfully adopted highly variable incentives for individuals through performance-based programs that extend far down the corporate ladder. These programs are not confined to such special cases as investment banking and biotech start-ups. They also play an important role in the success of leaders in basic industries such as steel minimills and fashion retailing, where shop floor workers and sales personnel, respectively, receive incentives.

To introduce performance incentives, you first have to be able to measure performance. Companies with large business units that traditionally have been unable to measure performance at a disaggregated level—such as utilities, telecoms, and pharmaceutical companies—are now creating smaller business units
and introducing transfer-pricing systems. Linked to prices in the outside market, such systems permit these new business units to measure performance when supplying goods and services to one another. This is not a quick fix, however: great care is needed to make transfer-pricing systems work.

Open-Source Approaches. As corporate walls fall, companies are exploring novel, “open” approaches to organization. Consider the example of customers and suppliers becoming more integrated—a key to adding business value. Such integration can take the form of more traditional supply-chain linkages between, say, inventory data and production. Conversely, once a company is internally divided into many small business units, it is easy to redefine boundaries and outsource certain activities by spinning off some of the business units and then buying back their services. Some companies are combining the benefits of both closer supplier links and outsourcing by building a common industry supply-chain platform with competitors to lower costs. The joint purchasing and design exchange of the major automobile manufacturers is one such successful effort.

In another type of open initiative, a major pharmaceutical company has launched an innovative R&D program on the Web. The effort is intended to speed up the solution of scientific problems by soliciting the input of researchers from around the world. Several dozen problems are posted on the program’s Web site, with prizes of up to $100,000 for those who produce solutions. A number of solutions have already been announced.

A Small but Active Corporate Center. In many companies, the corporate center is drowning in “admin-
“Strivia,” overseeing everything from tax, legal, and finance functions to the synthesizing of business activities. Many of these tasks would be better performed either at the business unit level or in a shared-service operation. The most effective centers are those with the resources and capabilities to manage senior talent, disseminate best practices, drive major change efforts, and define and drive strategy.

An Organization Built to Change. Given all the evolutionary forces at play, change is now a constant—and a company has to institutionalize the capacity to remake itself. Although much of the change effort is managed through existing business units, there often is a need for mechanisms that are linked to, but not part of, the nuts-and-bolts structure that operates in the here and now. This is especially true of the need to foster ideas that are critically important for future growth but potentially disruptive to the existing business. Examples of change mechanisms include temporarily establishing incubators for hatching such ideas and making the task of directing long-term change part of the core responsibilities of certain top executives.

Building for change doesn’t happen overnight or without costs. Typically, there is a period of trial and error, of testing concepts and seeing how the new parts work together. A company may not have all the capabilities at first to do the job, but as it builds those capabilities, the changes can be refined. It must be prepared to make a large up-front investment in people, pilot programs, capability development, and training. And it must institute checks and balances, setting up structures and processes so that authority and the status quo can be legitimately questioned. More radical approaches include insisting on the sep-
aration of the roles of chairman and CEO, deliberately duplicating R&D activities to create internal competition, and empowering internal-audit and business-development functions to ensure a second opinion on key quality and strategy issues.

**Implement Change the Right Way**

Successful organization redesigns—particularly those with the goal of dramatic, long-term change—tend to be implemented more organically than mechanically. As noted, a test-and-learn mentality often prevails. For example, a global automotive company has pioneered shared services in finance, human resources, and other support functions by first piloting the new organization on a project basis. In stark contrast to the troubled redesign of the global company described at the outset of this article, the automotive company fostered broad buy-in. Indeed, it did not change its formal reporting lines until employees were confident that the new processes could deliver.

For a redesign effort to succeed, a company must have a clear vision for action, committed leadership, and exacting project management. That is just for openers. It also must rigorously manage its change program to guarantee that key stakeholders are involved in and support the process, and it must monitor the emotional response of its employees. The change process must be addressed at the very outset of the redesign—when the critical business issues are starting to be identified. Waiting until the redesign is over is an enormous mistake: employees will already have made up their minds about the change, and their opinions will almost certainly be negative. In that case, the redesign effort may not survive. The
price of such a failure will be high, not only in financial terms but, more important, in terms of the redesign’s impact on people.

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