McKinsey Global Survey results:

Taking organizational redesign from plan to practice

When companies reorganize, few get all the benefits they want in the planned time. Executives at organizations that succeeded point to some key tactics for implementation.

Organizations often redesign themselves to unlock latent value. They typically pay a great deal of attention to the form of the new design, but in our experience, much less to actually making the plan happen—even though only a successfully implemented redesign generates value. A recent McKinsey survey examines the reasons executives cite for successful and unsuccessful implementations, and in doing so, offers one set of explanations for why organizational transformations so rarely succeed.[1] This survey asked why organizations redesigned, what challenges they faced, what tactics they used for implementation, and how the redesign and its delivery affected employee morale and shareholder value.

Though a majority of respondents at publicly traded companies say their redesigns increased shareholder value, only a very small group of respondents—8 percent of those who have been through a redesign—say their efforts added value, were completed on time, *and* fully met their business objectives. Executives at these organizations are much likelier than others to say that implementing their redesigns took six months or less and that their organizations accelerated the pace of implementation as much as possible—countering the often-cited wisdom that good change is evolutionary. They also say their redesign strategies focused on changing mind-sets and on how the new organizational model would work, not just how it would look, and they report implementation procedures including a clear communications

[1] The online survey was in the field from November 9 to November 19, 2010, and received responses from 2,525 executives, of whom 1,890 had been through an organizational redesign in the past five years. They represent the full range of regions, industries, functional specialties, tenures, and company sizes.

plan and efforts to ensure that support systems reflect the changes. Notably, these respondents are also much likelier than others to say the redesign improved morale, even in the short term, which indicates that these tactics helped their organizations overcome employee distraction and demoralization, two of the most frequently cited challenges to successful change.

Setting the stage for redesign

The most frequent reason executives cite for undertaking an organizational redesign is responding to their organizations' growth, as chosen by 18 percent. Other frequent reasons are cutting costs, moving to a best-practice model, and introducing change to a static organization.[2] Just over half of respondents say their redesigns involved their entire organization, a figure that is roughly the same at both large and small companies.

Overall, whether executives are in the most successful group or not, they cite the same reasons for redesigning their organizations. However, the two subsets of executives differ notably in terms of the scope of redesign: at the most successful organizations, respondents far more often say the redesign involved the entire organization, not just one or a few business units.

Respondents are much likelier to say their organizations set broad goals than detailed ones for their redesigns (Exhibit 1). Notably, this is true even of redesigns that could have had very specific numeric goals. For example, among respondents who say their redesigns were meant
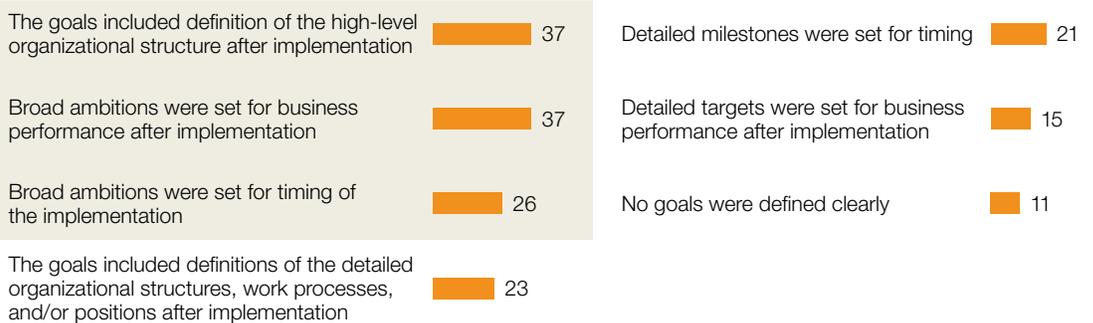
[2]The full list is responding to growth, 18 percent; cutting costs, 12 percent; moving to a best-practice model, 12 percent; introducing change, 10 percent; reducing complexity, 8 percent; increasing revenues, 8 percent; fulfilling a new leader's desire to make changes, 7 percent; responding to a crisis, 7 percent; integrating previous acquisitions, 6 percent; facilitating a merger, 6 percent; responding to regulatory pressure, 2 percent; improving risk management, 1 percent; preparing for a divestiture, 1 percent; and other, 3 percent. Figures sum to more than 100 percent, because of rounding.

Exhibit 1

Broad goals predominate

% of respondents,[1] n = 1,890

How clearly were the goals of your reorganization defined at the outset of implementation?

The goals included definition of the high-level organizational structure after implementation	37
Broad ambitions were set for business performance after implementation	37
Broad ambitions were set for timing of the implementation	26
The goals included definitions of the detailed organizational structures, work processes, and/or positions after implementation	23

Detailed milestones were set for timing	21
Detailed targets were set for business performance after implementation	15
No goals were defined clearly	11

[1]Respondents who answered "don't know" are not shown.

to cut costs, only 15 percent say their organizations set detailed targets for business performance. However, regardless of the reasons for the redesigns, respondents at the most successful organizations are far likelier to say they set detailed goals: 32 percent of successful organization versus 20 percent overall on timing, for example, and 30 percent versus 22 percent on structures and processes.

Getting results

A third of all respondents say they expected their redesigns to take six months or less to implement, another third say six months to a year, and the final third say more than a year. Thirty-seven percent of companies met their time lines; 43 percent underestimated and 22 percent overestimated,[3] and the best success rates were reported by respondents whose companies set time frames either under 3 months or over 18 months (Exhibit 2).

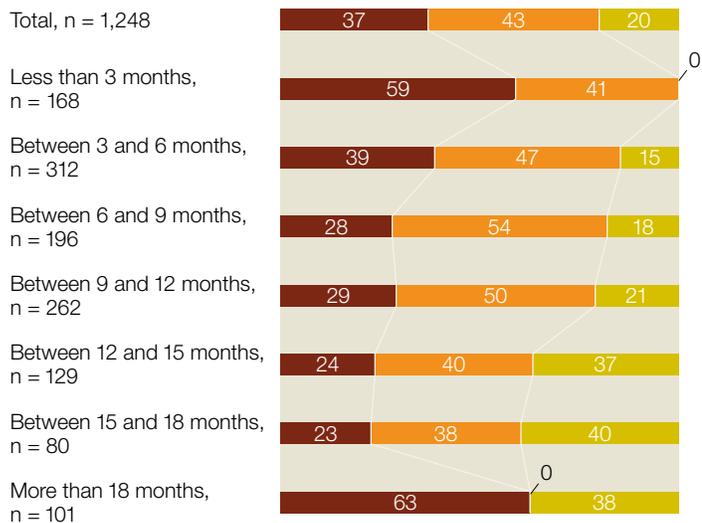[3] Figures sum to more than 100 percent, because of rounding.

Exhibit 2

Missing the time mark

% of respondents[1]

Actual time frames for organizational redesign, from the time the plan was finalized until all changes were fully realized, by initial expectations for timing[2]

■ Redesign was completed on time, given our initial time frame   ■ Redesign took longer than expected   ■ Redesign took shorter than expected

	On time	Longer	Shorter
Total, n = 1,248	37	43	20
Less than 3 months, n = 168	59	41	0
Between 3 and 6 months, n = 312	39	47	15
Between 6 and 9 months, n = 196	28	54	18
Between 9 and 12 months, n = 262	29	50	21
Between 12 and 15 months, n = 129	24	40	37
Between 15 and 18 months, n = 80	23	38	40
More than 18 months, n = 101	63	0	38

[1] Respondents who answered "don't know" or "changes are not yet fully implemented" are excluded.
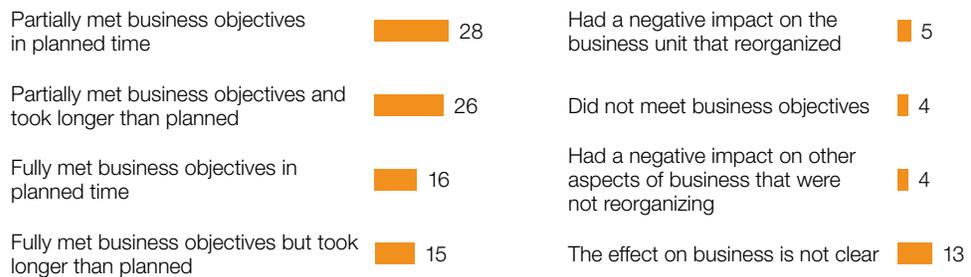[2] Figures may not sum to 100%, because of rounding.

Exhibit 3

Partial success

% of respondents

Which statement best describes the business results of your reorganization once it was fully implemented?[1]

n = 1,441

Partially met business objectives in planned time	28
Partially met business objectives and took longer than planned	26
Fully met business objectives in planned time	16
Fully met business objectives but took longer than planned	15
Had a negative impact on the business unit that reorganized	5
Did not meet business objectives	4
Had a negative impact on other aspects of business that were not reorganizing	4
The effect on business is not clear	13

[1] Figures do not sum to 100%, because of rounding. Respondents could select more than one statement.

Considering both the objectives and the timing of the redesigns, relatively few respondents—only 16 percent—say their companies met all objectives in the planned time frame (Exhibit 3). This level of success is likeliest at organizations responding to a crisis, where time is usually crucial, but even in that case, only 21 percent report fully meeting objectives on time. This result is tied with the share of respondents at organizations seeking to increase revenue.

Notably, the highest share saying the redesign had a negative business impact on the area being reorganized—14 percent—are respondents who also say their redesigns were driven by a new leader's desire to make changes, suggesting that redesigns do better when driven by a clear business rationale. Less surprisingly, those who were seeking to cut costs came in at a close second, at 12 percent, reinforcing how difficult it can be to balance immediate cost savings with long-term sustainability and competitiveness.

Looking at shareholder value for the whole company emphasizes that executives see redesign as a powerful tool: among respondents at companies that trade publicly and who could answer the question, 69 percent say their redesigns increased shareholder value (22 percent say the redesigns had no effect, and 9 percent say that it destroyed value). Executives with redesigns aimed at increasing revenue are likeliest to say they boosted value, and those who aimed at cost cutting and facilitating a merger are the likeliest to say value had been destroyed.

In general, respondents indicate that redesigns undertaken because of a leader's desire for change yielded the least successful results.

Morale is often a casualty when redesigns are implemented poorly, and the results of this survey reinforce that view. However, the results also show that the most widespread damage is relatively short-lived (Exhibit 4): 47 percent of respondents say morale was hurt in the short term, but that falls to 28 percent six months or more after the redesign was implemented.
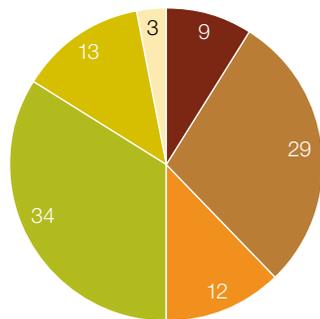
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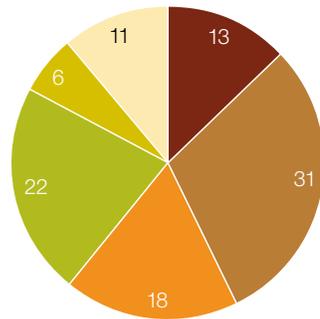
Better morale over time

% of respondents, n = 1,441

Overall, how did your reorganization affect morale after implementation?

● It improved morale significantly   ● It improved morale somewhat   ● It had no effect on morale   ● It hurt morale somewhat   ● It hurt morale significantly   ● Don't know

In the short term

9 | 29 | 12 | 34 | 13 | 3

In the long term[1]

13 | 31 | 18 | 22 | 6 | 11

[1] Figures do not sum to 100%, because of rounding.

How the best organizations do it

Two of the top three challenges executives cite in implementing their redesigns successfully are employee distraction and demoralization (Exhibit 5).[4] Furthermore, a third of respondents say that employee demoralization and resisting change had the most negative impact on their ability to reach their goals—more than those who say that a problem as basic as insufficient resources was an implementation challenge.

[4] Though the data show some differences in the most frequent challenge depending on the reasons for a redesign, these two challenges are always near the top.

Seven percent of all respondents say distraction reduced productivity for six months or more.

Exhibit 5
Employee pushback

% of respondents

Which of the following challenges did your organization face while reorganizing?

	Total, n = 1,890	**Respondents at 'successful' organizations,**[1] n = 212
Reorganization distracted employees from day-to-day activities	38	26
Effort focused on what organization would look like, but the way people worked didn't change	35	18
Employees actively resisted change or became demoralized	34	23
Employees left as a result of reorganization	32	29
Insufficient resources were devoted to implementation	30	13
Unexpected bottlenecks during implementation	30	18
Leaders resisted, undermined, or changed the plans for reorganization	24	14
During implementation, changes in context made restructuring more difficult or irrelevant	19	8
Plan didn't define which goals were nonnegotiable and which could be changed	15	3
Plans needed to be significantly changed because they did not work in practice	15	4
None of the above	7	27

[1] For the purposes of this survey, we define successful organizations at those where respondents say their companies' reorganizations fully met the business objectives in the planned time.

However, among respondents at the most successful organizations, the challenge most frequently cited as the most harmful is company leadership undermining the change. In our experience, this tends to happen when leaders wait too long to make difficult talent-management changes. In addition, a redesign that fundamentally changes the way the organization works frequently upsets those who rose to the top in the old system.

Given the potential for leadership resistance, it is thus particularly notable that far fewer respondents at successful organizations cite either employee distraction or demoralization as a challenge—and perhaps most interestingly, a full quarter say they faced none of the challenges we asked about.

Quite possibly, there are two reasons why respondents at these organizations are much less likely to cite any challenges—and less likely to cite problems with distraction and demoralization. The first reason is that they say their implementation was faster: half say it took six months or less, compared with only 22 percent of others. The second is that executives at successful companies are much likelier than others to say they used certain tactics: their organizations' strategies focused on changing mind-sets along with processes, roles, and behaviors, and their reorganization procedures included having a clear communications plan and ensuring that support systems supported the changes (Exhibit 6). Because of these tactics, employee pain was briefer and minimized by the system changes, and, in addition, employees clearly understood why they were being asked to change.
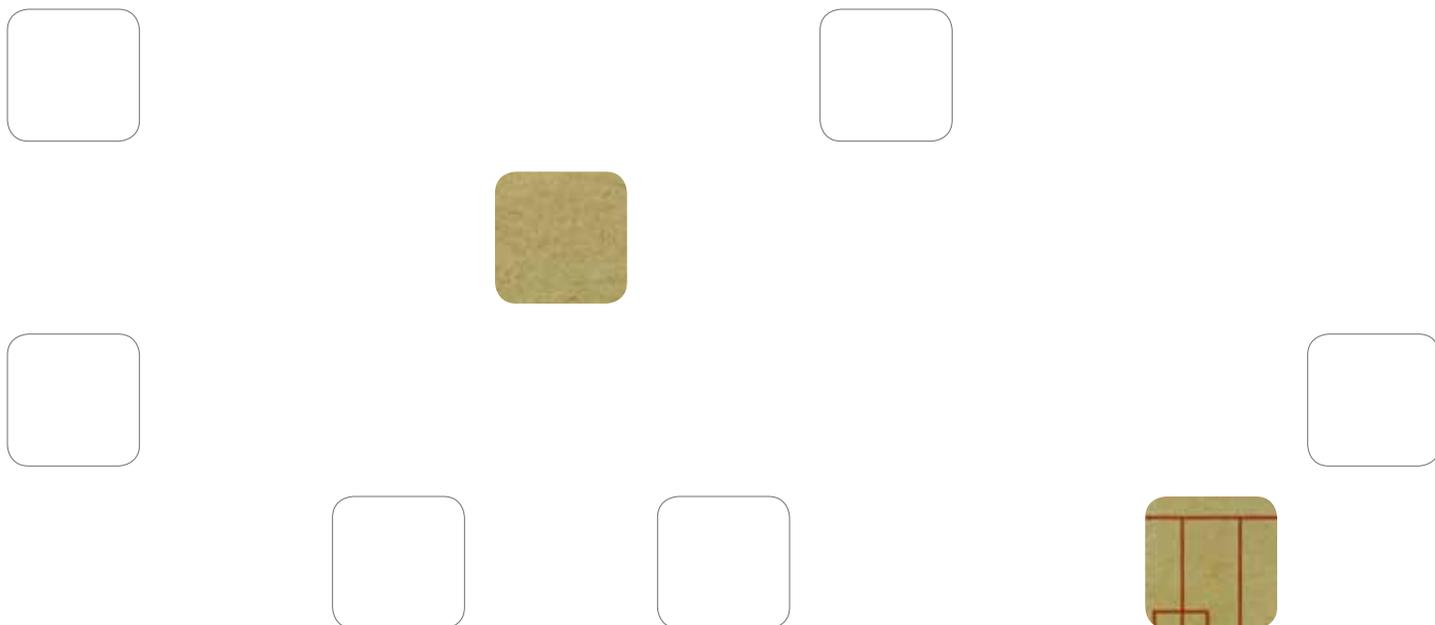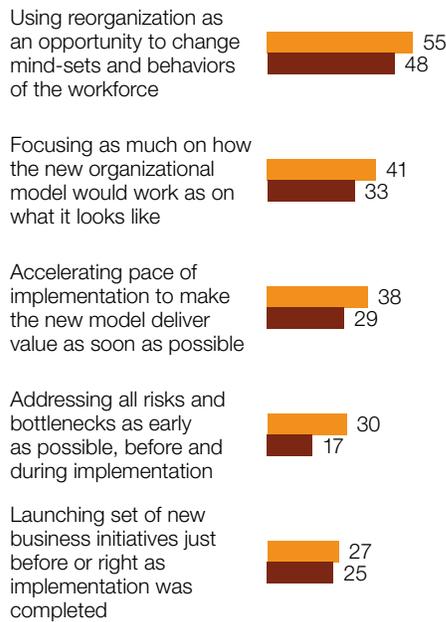
Exhibit 6

The right tools

% of respondents

■ Respondents at 'successful' organizations,[1] n = 212
■ Total respondents, n = 1,890

Top 5 strategies used by 'successful' organizations to reorganize, compared with average of total respondents

Using reorganization as an opportunity to change mind-sets and behaviors of the workforce
55
48

Focusing as much on how the new organizational model would work as on what it looks like
41
33

Accelerating pace of implementation to make the new model deliver value as soon as possible
38
29

Addressing all risks and bottlenecks as early as possible, before and during implementation
30
17

Launching set of new business initiatives just before or right as implementation was completed
27
25

Top 5 procedures used by 'successful' organizations to reorganize, compared with average of total respondents

Developing a clear communication plan for all internal and external stakeholders
66
44

Ensuring that IT, financial, human resources, and other systems were updated to support new organizational model
38
30

Defining detailed metrics for reorganization's effect on short- and long-term performance and assessing progress against them
36
21

Using detailed plan, split into work streams with milestones for delivery and someone accountable for reaching each
35
26

Creating a formal process for staffing roles in the new organization (eg, an open job market or managed moves)
25
24

[1] For the purposes of this survey, we define successful organizations at those where respondents say their companies' reorganizations fully met the business objectives in the planned time.

Looking ahead

• The tactics used most by the most successful organizations suggest that all organizations implementing a redesign would benefit from explaining to employees how the new design works, ensuring that systems and processes support it, and winning hearts and minds.

• The results also undercut the common perception that a staged, evolutionary process leads to more successful change. Indeed, a much better approach seems to consist of taking quick decisive action and then aligning people behind the change. ◻

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