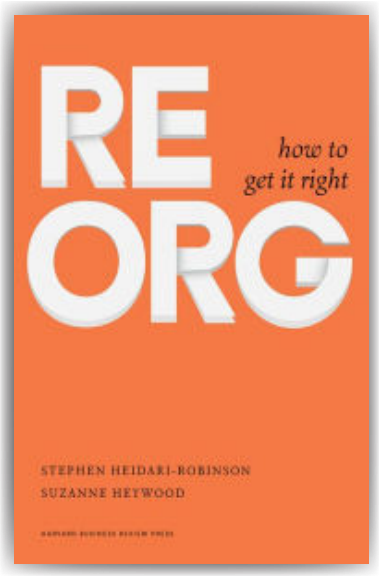
BUSINESS BOOK Summaries®

ReOrg

How to Get It Right

Stephen Heidari-Robinson and Suzanne Heywood



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Key Concepts

Reorganization efforts are often difficult, complex, and time-consuming processes, but organizational leaders who follow a proven, step-by-step approach to reorganization can speed up and simplify their efforts. Effective reorganization consists of five steps:

1. *Construct the reorg's profit and loss*. A leader should capture the objective of the reorganization and its associated benefits, costs, risks, time line, scope, decision makers, and stakeholders. This information is useful in determining whether the reorganization effort is worth undertaking.
2. *Understand current weaknesses and strengths*. The reorganization team should speak with people in all levels of the organization to uncover existing strengths and capabilities that should be preserved and identify weaknesses that should be overcome.
3. *Choose from multiple options*. The reorganization team should create and evaluate several new organizational models and choose one or a combination of several that best meets the needs of the organization.
4. *Get the plumbing and wiring right*. After selecting a new organization model, the reorganization team must focus on the details of the plan's design and implementation to maximize its effectiveness.
5. *Launch, learn, and course-correct*. As the reorganization team launches their plan, they should evaluate whether the reorganization effort is delivering the desired results and make the necessary corrections.

Introduction

Reorganizations are inevitable in any realm of business, but they are notoriously difficult, frustrating, and time-consuming processes. In **ReOrg**, Stephen Heidari-Robinson and Suzanne Heywood provide a practical, five-step guide for effectively planning and implementing reorganization efforts to maximize organizational success. They share their experiences of supporting and advising hundreds of reorganizing companies, using these

examples to highlight common pitfalls in the reorganization process, show winning ways to overcome them, and propose a communication plan to keep other leaders and staff on board throughout the entire process. Leaders who follow this guide will have the right tools to simplify and accelerate the reorganization process, boost its effectiveness, and create buy-in throughout their organizations.

Part One: Why Reorgs Are So Difficult

The Data: What Works and What Doesn't

There are many reasons for leaders to reorganize their companies. During economic down cycles, they may want to reorganize their businesses to cut costs. In economic up cycles, they may want to drive growth. A leader may wish to emulate a competitor's best practice, or may feel that things simply need to be "shaken up."

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Reorganizations are most likely to be successful when there is a clear business rationale behind the effort. The rationale not only establishes well-defined goals for the reorganization but also helps leaders to determine which parts of their organizations need to be changed. However, few business leaders understand the importance of establishing this rationale. Many fail to set and measure specific business outcomes when they initiate a reorganization effort. According to surveys of 3,000 executives whose organizations had undergone recent reorganization efforts, only 15 percent had established detailed business targets for their reorganizations, and only 37 percent had set broad business objectives. Approximately 50 percent of the leaders surveyed had merely set qualitative targets around the future of their organizations and how long a reorganization effort might take to complete.

Because so many leaders fail to set a solid business rationale for reorganizing their companies, most reorganization efforts fail. In fact, over 80 percent of reorganizations fail to deliver their full objectives either by not delivering results in the desired time frame or by not delivering their full value. Leaders can improve their chances for success by:

- Ensuring that they have a solid rationale in place.
- Matching their reorganizations to their companies' overall strategies, cultures, and capabilities.
- Focusing equally on the design of the new organizational model and its delivery.
- Learning from the mistakes of others.

Communicating to Stakeholders: The Rules of Engagement

Reorganizations often incite fear and uneasiness in employees who focus on the possibility of job loss. It is critical for leaders to maintain a flow of communication with their employees that provides them with appropriately timed information about the process and what can be expected. Over time, leaders can share additional information about the plans to generate excitement among their employees.

While it is imperative for company leaders to provide regular communications to employees, they should also communicate the reorganization plan with four additional stakeholders:

1. *Unions and workforce councils*. Union representatives and workforce council members can provide insightful views on areas or processes that should be improved. In some countries, communicating with unions may be a legal requirement.
2. *Customers and suppliers*. Leaders should communicate with key customers and suppliers to ensure that the newly designed organization will continue to meet their needs and serve them better than before.

3. *Regulators and government agencies*. Regulators and government agencies will seek reassurance that any reorganization will not affect any important outputs, including health, quality, and safety.
4. *Board of directors*. A leader should inform the board of directors why the reorganization is taking place, the risks and benefits that it may bring, and the expected time frame for its completion. This step is particularly critical if the change will impact company performance.

After developing a solid business rationale for the reorganization and assessing employee and stakeholder needs, company leaders should establish a reorganization team to execute the reorganization process. Typically, this team comprises a project manager, a human resources representative, a finance representative, a communications specialist, representatives from the parts of the business that will be affected, and a union official. Team members will work together to stay on course, navigate through difficult situations, and break through roadblocks that may occur.

When the benefits, costs, and timelines are understood, leaders can determine the potential profit or loss of the reorganization effort and evaluate whether the reorganization is a worthwhile venture.

Part Two: A Better Way: The Five-Step Process

Step 1: Construct the Reorg's Profit and Loss

As a reorganization team begins to develop its reorganization plans, the team must clearly define the benefits that the organization will experience, the costs and risks of the effort, and the desired time frame for completing the reorganization. When the benefits, costs, and timelines are understood, leaders can determine the potential profit or loss of the reorganization effort and evaluate whether the reorganization is a worthwhile venture.

At this stage, communication efforts to staff members should be simple and procedural. Organizational leaders should focus on the broad business reasons for the reorganization, which areas of the business will be impacted, and when more information about the reorganization effort will be revealed.

Step 2: Understand Current Weaknesses and Strengths

After working through the reorganization's profit and loss and determining that reorganization is the best step forward, the reorganization team should evaluate the strengths and weaknesses of the organization. When undergoing a reorganization, some leaders focus solely on ways to overcome the company's weaknesses, but by evaluating the strengths and capabilities of the organization and its people, leaders can determine the company's ability to manage change and ensure that strengths and successes are maintained after the new organization is launched.

The reorganization team can gather information about strengths, capabilities, and weaknesses by speaking with leaders, middle managers, front-line employees, and people outside of the organization. These conversations may reveal problems, previously unconsidered solutions, and best practices that can be transferred from one area of the business to another.

Communication efforts at this stage become more interactive. Interviews and analyses will be conducted during this step, and the employees who are most extensively involved in the discussions may feel that their jobs are in danger. Leaders who are not involved in the process may attempt to undermine the reorganization. To overcome these issues, the reorganization team should explain why people are being interviewed and why their business functions are an area of focus for the reorganization.

Step 3: Choose from Multiple Options

After constructing the reorganization's profit and loss and understanding the organization's strengths and weaknesses, the reorganization team must work with leaders to select a new organizational model that fulfills the needs of the organization. Selecting an organizational design that suits the needs of a company is one of the most difficult aspects of a reorganization effort. The team must consider the organization's workforce, processes, and structure in order to develop a model that will incentivize its people to operate in a new way that will deliver greater value.

The team needs to consider a range of possibilities instead of narrowly focusing on one new design. Team members should evaluate the risks and benefits of each option, weigh each option against the others, and choose the model that best meets the organization's unique set of needs.

Communication during this stage is critical. Leaders should talk to their employees about the work that is occurring, the timeline for its completion, and the people who are leading the effort.

Step 4: Get the Plumbing and Wiring Right

The next step involves detailing the design and implementation of the plan. This step can be the most challenging because it requires people to become engaged in difficult discussions and make critical changes.

A reorganization team often encounters problems when the planning and implementation phases are not completed expeditiously. Drawn-out planning allows new issues to surface, and the demands of the reorganization can become overwhelming for the team. Prolonging the implementation creates uncertainty among the workforce and delays the value that the company would realize from full implementation.

A reorganization team can overcome these issues by defining which activities are required for initiating and executing the planning and implementation phases, as well as determining which activities are essential to complete right away and which can be delivered later. Activities should be reverse engineered from the implementation date and planned in parallel instead of sequentially to meet deadlines. The team should build several fixed deadlines into the plan and seek help from the project sponsor or a member of the senior leadership team if the deadlines start to slip.

Communications with staff members are essential in this stage. During this time, staff members learn about their new roles and whether they will need to find alternative employment. Leaders should share how these decisions were made, address questions that arise, and begin exciting and engaging the staff members that will be retained.

Step 5: Launch, Learn, and Course-Correct

In the final step of the reorganization process, leaders should confirm that the reorganization effort is delivering the results that were anticipated and make corrections as needed. They should measure success by evaluating whether the new elements of the organization were implemented appropriately, value was added as a result of the changes, and the business targets that were set at the beginning of the reorganization process were met.

Leaders should proactively look for emerging problems and ensure that new problems are addressed quickly and adequately.

Leaders should proactively look for emerging problems and ensure that new problems are addressed quickly and adequately. They can proactively detect problems by regularly evaluating the new model and reflecting on how well the new design addresses the debates, questions, concerns, and difficult decisions that were made throughout the process.

Communication with staff must continue in order to uncover problems and make continuous improvements. Some parts of the implementation may not work as planned, and leaders and staff may be the first to detect these issues. Regular communication with employees at all levels of the organization will ensure that problems are remedied quickly and further improvements are continuously evaluated.

Bringing It All Together

Company leaders must understand the benefits, costs, and risks that a reorganization effort may bring, as well as the time and effort that the reorganization will require. They must recognize that reorganizations can affect people's careers, job satisfaction, and well-being, so the approach that they choose must be as painless as possible for employees. Finally, leaders must remember that communication is critical throughout all stages of the reorganization process. Reorganization is not a simple operation, but by following the five-step reorganization process, leaders will be able to minimize the costs and risks, manage the human needs of their employees, and realize new organizational value as quickly as possible.

About the Authors

Stephen Heidari-Robinson led McKinsey & Company's Organization Practice for energy clients in addition to developing the firm's thinking on implementing reorganizations. He served as UK Prime Minister David Cameron's advisor on energy and environment. Heidari-Robinson has also worked as a vice president at Schlumberger, as head of the corporate program of a charity (Asia House), and in the UK Ministry of Defense.

Suzanne Heywood is Managing Director, Exor Group; sits on the boards of a number of companies, including The Economist Group and CNH Industrial; and is Deputy Chair of the Royal Opera House. She started her career in the UK Treasury and then worked at McKinsey & Company, where for several years she led the global Organizational Design service line in the firm's Organizational Practice.

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