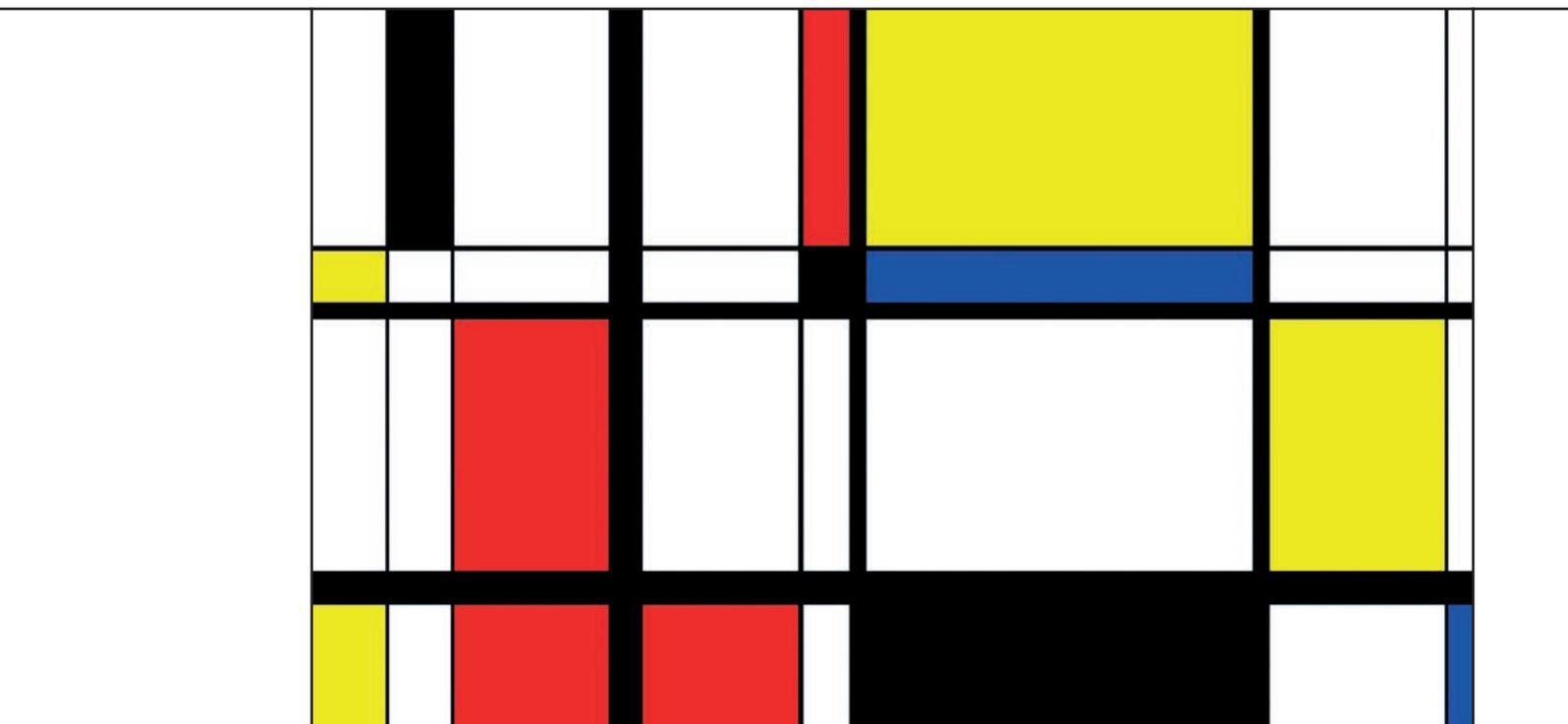


# BEYOND COLORFUL BOXES

*The ART of reorganization*







# THE ART OF REORGANIZATION

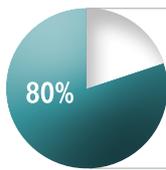
*Developing, adjusting or redesigning the organizational setup has relevance for every executive. Many stumble over difficult hurdles. In order to overcome them, executives should consider seven success factors. By incorporating them into a stringent process – Analysis, Redesign and Transformation – we propose an effective process to flip the odds for greater success.*

A reorganization expert once phrased what executives often feel: “The best organization is the one you haven’t got yet”. The message is clear: there is no such thing as a perfect organizational set-up; the various solutions all have their strengths and limitations as business dynamics change constantly. Nevertheless, it makes sense to question, rethink and adjust where appropriate. In fact, one survey revealed that 4 out

of 5 companies rearranged their organizational structure within a single year. The reasons for reorganizations vary from wanting to reduce costs due to increasing competition and stagnant demand to reaping the full potential of technological innovation and post-merger integrations. Usually, it is a combination of several factors. Sometimes, however, just one factor is the driving force – the appointment of a new CEO. Reorganization initiatives will remain frequent as the causes are ubiquitous. It is therefore not a question of how to avoid them, but how to exploit their full potential.

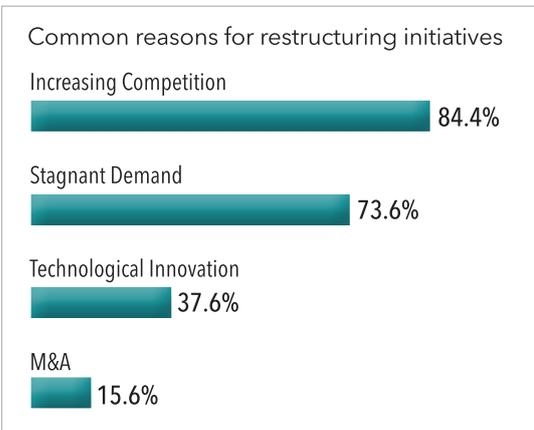
Our experience shows that the traps and hurdles companies encounter are quite similar regardless of the industry, function or scope of the reorganization. We propose seven factors of success that will increase the impact of the reorganization effort. Our core belief is that in addition to the “what” it is the “how” and the “why” behind reorganizations that are crucial. The core of our technique was the development of a stringent reorganization approach – the *ART process*. It incorporates the success factors in the three phases *Analysis, Redesign* and *Transformation* to lead through the difficult task of reorganization.

First examine the hurdles, then the success factors to guide your way to the *ART process*. We conclude with five questions to ask yourself when considering your next reorganization initiative.



4 out of 5 interviewed companies had organizational redesign initiatives within a single year

**Almost half of all CEOs reorganize the company within their first two years in office**



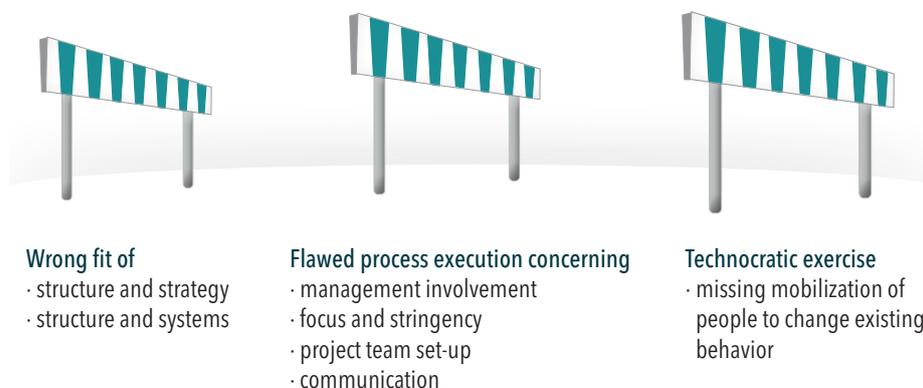
Sources: *Reorganizations that last* Bloomberg Business Week · 2010; *Survey Concerning Corporate Restructuring and Employment* The Japan Institute of Labour · 2002; *BDU* cited in brand eins · 05/2014; *Das Entscheider-Prinzip* Harvard Business Manager

## HURDLES TO OVERCOME

Most research finds that the failure rate of organizational redesign efforts is 50-70%. And yet successful reorganization can significantly increase a company's economic performance. In order to reap the full potential without stumbling over the hurdles, we need to understand them first. In our experience companies encounter three typical hurdles (Exhibit 1).

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Exhibit 1: Typical hurdles for reorganization



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### WRONG FIT OF STRUCTURE TO STRATEGY AND SYSTEMS

Organizations are complex, thus every organizational set-up has its strengths and benefits. We have seen various efforts where the full potential of a new organization has not been realized due to the fact that basic parameters have not been understood, considered or properly adjusted to the new set-up.

#### Missing the strategic priorities

Often the organizational set-up hinders companies from focusing on their strategic objectives. Besides being a strong motivation for reorganization, this statement serves as a strategic imperative. In one case, senior management wondered why their organization did not follow the strategy – which was to drive growth in emerging markets. They soon realized that as long as these countries were not represented in the top level structure, it would be impossible to achieve the strategic objectives.

#### Forgetting systems – an engine without fuel

Often reorganizations focus on box-design and underestimate the collaboration levers that drive high-performing organizations. Unadjusted performance management systems prevent people from working properly in new organizational structures. Employees might be intrinsically motivated to work towards a common objective but the wrong incentives make it hard to really “live” the new organization.



## **FLAWED PROCESS EXECUTION**

*"I spend 80% of my time on this useless reorganization"* – this type of comment is often made. Clearly, no reorganization is accomplished without friction, but inappropriate executive involvement in a lengthy process managed by an understaffed project team will fuel dissatisfaction and frustration.

### **Inappropriate management involvement**

It is obvious that managers have to be part of the reorganization process – the difficult questions are *how, when* and *with what level of intensity*? If the task is delegated entirely to middle management, they are likely to produce a fairly harmonious solution. Although this approach seems tempting, it may be far from ideal as (only) the interests of those present at the table are maximized, which limits true innovative organizational design. On the contrary, if there is too little involvement of managers, their market expertise and insights will be missing from the design process (especially when regarding the processes) and there is a strong likelihood that a top-down solution will be rejected.

### **Insufficient focus and stringency**

Finding the right level of intensity also holds as a paradigm for pre-design analyses. While too little analysis endangers the credibility of the process, too much analysis slows down the momentum that is crucial for the whole process to succeed.

### **Inappropriate project team set-up**

Since there is no natural task owner, reorganizations are often carried out by a project team of HR reps, members of the strategy function or assistants, with a large share of the tasks being left in the hands of the line managers. Not only do they have to focus on day-to-day business, they are now faced with a new challenge. It is often difficult to provide the capacity needed, taking the many interdependencies and various stakeholders into account.

### **Wrong communication**

There are hardly any reorganization initiatives in which wrong communication does not trigger frustrations and frictions – even if no structural mistakes are made. It is hard to find generic rules for adequate communication, since mistakes can range from content communicated too early or too late, too detailed or not detailed enough. Typical mistakes include ignoring stakeholder interests; underestimating the impact on people indirectly involved; creating rumors by communicating boxes without names; or questioning equality through intransparent application processes. When communication goes wrong it is not usually a problem of manpower or skills, but effort and focus. Those in charge of communication must prioritize this task, be experienced in it, possess the necessary sensitivity, know the context and tailor messages to the target audience.

## NEGLECT CULTURE

The last and probably highest hurdle is to adjust the organizational culture, defined as the collective behavior of humans within an organization. “Behavioral bridges” have to be built from the old organization to the new one in order to enable employees to learn to live the change. Otherwise the reorganization will remain a technocratic exercise that falls far from achieving the desired impact. Our industry example shows that if the organizational culture is not adjusted, this can lead to a “shadow organization” – an unofficial organization with its own hierarchy that has the power to undermine the benefit of the new structure. Typical pitfalls leading to shadow organizations are lack of mobilization of employees and unclear leadership role definitions.

### **CASE STUDY: INDUSTRY**

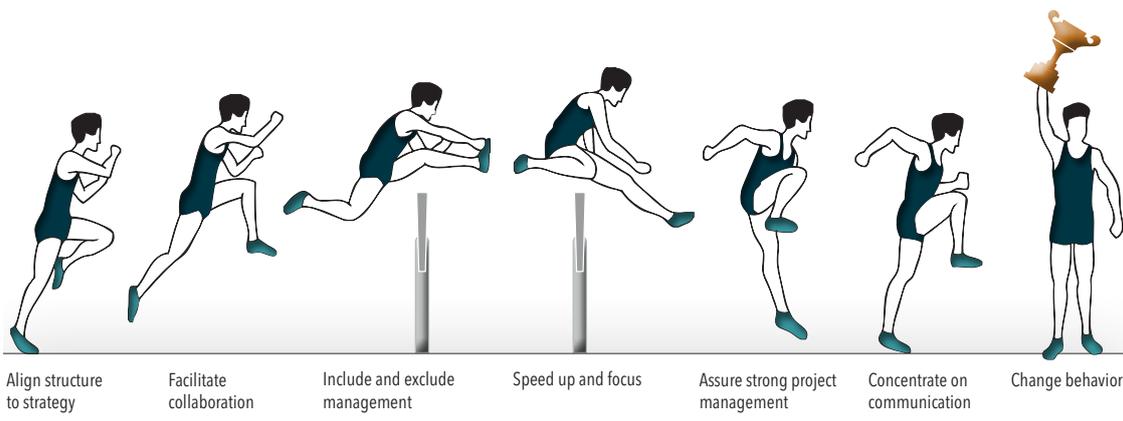
*A large steel production company decided to change its organizational structure from a functional to a team-approach, bundling all relevant functions in teams along the process steps of the value chain. Soon the executives wondered why the expected positive effects, i.e. improved workflow, less friction and increased ownership, were not realized. It turned out that the people in the new teams simply behaved like they had before – a formal “shadow organization” had been established that did not influence the actual behavior of the employees. In a painful process, everyone was made aware of this problem and soon convinced of the benefits of the new set up. Only then could the new roles be defined and implemented that would bring the new structure to life. Addressing these levers right from the beginning would have helped to increase the impact and to reduce friction in the organization.*



## 7 FACTORS OF SUCCESS

In order to address these hurdles, we have developed seven factors of success to guide practitioners in setting up and managing the reorganization (Exhibit 2). While the first two factors concern solution design, we believe at least the same level of attention should be given to the following four factors concerning the reorganization process. Ultimately, the corporate culture has to be addressed if real behavioral changes are to be achieved and the full impact of reorganization is to be exploited.

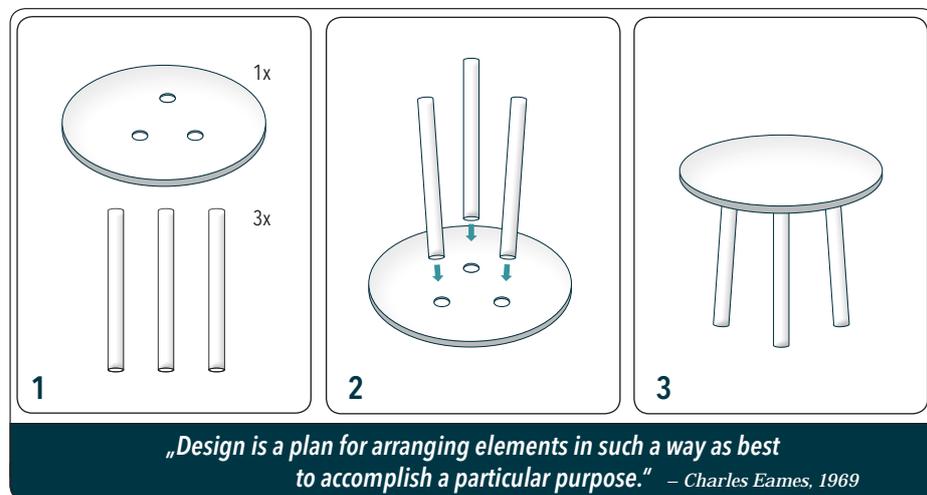
Exhibit 2: Success factors to overcome hurdles



### 1 | ALIGN STRUCTURE TO STRATEGY

Like it or not, the boxes still make the difference. Be aware that the top-level structure will always give the direction for energy flow and resource allocation. Make sure it matches the strategic priorities. Hence, if your goal is to compensate declining revenues of the B2C segment with a rising B2B segment, place a dedicated business owner on the board to promote this target. But be aware of the consequences of power allocation. For example, the idea of a large technology company setting up industry clusters worked perfectly with regard to developing specific solutions for each cluster, but the negative effect was that each cluster demanded attention, drawing on resources and eventually doubling overhead costs.

Exhibit 3: The form follows function for reorganizations: structure follows strategy



## 2 | FACILITATE COLLABORATION

Designing an appropriate structure is a mandatory prerequisite but no guarantee for success. There are many collaboration levers that motivate and enable individuals and organizations to achieve the overarching corporate goal. Collaboration eventually makes the difference between “silos” and integrated organizations. Examples are motivational levers (performance management, incentives), connecting levers (virtual / physical communication, exchange and networking capabilities) as well as skill building levers (individual skills, industry skills, process standardization). We have encountered many companies where collaboration was the key to success. One company perfectly structured its customer experience unit, however incentivized first-level technical support to reduce their ticket numbers as quickly as possible. In its attempts to achieve its own targets, the second level unit struggled with many tickets that had simply been forwarded on to them by the first-level support team. Whether it is new incentives, new IT systems or social media technology, new process standards, trainings or simply enabling people to meet - there are various levers to pull that will make organizations function more effectively.

## 3 | INCLUDE AND EXCLUDE MANAGEMENT

Finding the right timing and intensity to involve employees and managers is essential for the entire reorganization. Nevertheless, especially in the design process we believe in explicit inclusion and exclusion: middle management has to voice its needs and objectives, but the decision making and a large part of the design process should be top-down. Executives and project team should design the top-level-organization after gathering feedback from within the organization. Frequent probing with middle management ensures optimal organizational design while securing manager “buy-in”. When detailing and implementing the lower levels, it is important to agree on common guiding principles (e.g. new operating model, spans & layers, headcount target) and forward responsibility gradually in order to allow for a cascaded design process. Intelligent inclusion and explicit exclusion are key to achieving the best and fastest solution for the company.

## 4 | SPEED UP AND FOCUS

Reorganizations cause uncertainty and thus distract energy away from the market towards the interior. CEOs tend to downplay this, but most reorganization efforts will have a negative impact on short-term performance. To reduce this distraction from the business, acting swiftly is critical and should be prioritized over tiny details. A strong concept of strategic direction, followed by a holistic but pragmatic diagnosis can quickly lead to design principles and hypotheses for the new structure. For the design and implementation process, a cascaded, parallelized approach as well as a focus on core processes will greatly increase speed. To ensure that nothing is missed, define mandatory rules that guarantee a handover of tasks and check regularly (e.g. “everybody keeps his / her task, till a new owner confirms takeover”). Don’t finalize definition of all processes right at the start - this wastes time as the level of insecurity is usually too high. Simple concepts such as “lifting and shifting” non-critical departments that might be adapted later help to speed up and remain focused.

### CASE STUDY: TELCO

*Two telecommunication service providers were merged. The newly created company, however, was not able to focus on its strategic priorities of developing innovative products as customer satisfaction dropped and demanded most attention of the management. This was not surprising as the Engineering department was then part of the Operations organization - a flawed combination of operative and strategic goals. Management decided to lift Engineering out of the Operations organisation to enable a more strategic orientation and established a strategic product planning unit to fill this gap. Consequently, the new structure enabled Engineering to focus on its core task: strategic product innovation.*

## 5 | ASSURE STRONG PROJECT MANAGEMENT

A strong project management office and project team is needed to enable acceleration, assure quality and deliver on time. It is not so much an intellectual challenge, but the diversity of tasks, the high complexity, the large number of interdependencies and the sensitivity required for the task that are often underestimated and that call for dedicated resources to successfully manage a reorganization. *Strong* does not so much refer to the number of people, but to the right ones in terms of experience, skills

and standing within the organization. Besides process handling, the project team should be able to design options, challenge contributions, orchestrate the work streams, support line managers and act as a sparring partner for executives. This also implies the demonstration of good business judgment to be positioned and respected in the organization and to act as driver in the process. In addition, it is crucial to ensure that all core functions are incorporated or linked to the project team – i.e. Strategy, HR, Finance, Communication – to assure a holistic perspective.

### CASE STUDY: BPO

*A large provider of business process outsourcing services with a global footprint of independent business units (BU) was confronted with a period of diminishing growth. A new strategy was developed, focusing on the development of innovative integrated solutions as well as exploitation of up-/cross-selling potential. The strategy execution failed because executives of the BUs were not cooperating and the service levels for individual clients varied between countries depending on local BU priorities. Only a combination of a new structure embedded in a collaborative environment helped to overcome these hurdles. Hence, a new top-level set-up with a vertical cut and a strong key account management with a solid line to the CEO helped to bring the board closer together and to focus on the strategic priorities. The second important step was to foster and enable collaboration by adjusting incentives, improving platforms for information flow and best practice exchange and establishing global standards for core processes and skill building.*

## 6 | CONCENTRATE ON COMMUNICATION

Be aware that time spent on a detailed communication strategy is well invested. A good guiding theme is to treat the reorganization like a marketing campaign. Hence, know your target group, know their needs, convey a clear reason-why and transport the benefits and USP of your new organization. Likewise, start to explain the vision, strategy and the idea of a new set-up and then deliver the new organization as a consequence. Doing it the other way around is practiced more frequently but less promising. Involving the organization in a pain point analysis is a good method to take the employees on the transformative journey. Showing quick wins and implementing pilots as lighthouses is essential in order to generate and keep momentum. Carefully balance both responsibility and channels – town

hall meetings and road shows are required to convey coherent messages and reduce rumors, but equally important are clearly structured communication cascades owned by line managers as well as 1:1s to translate and operationalize your messages. Treating all stakeholders as customers, understanding and serving their individual needs and specific communication requirements explicitly applies to the workers council as their buy-in might be crucial along the process.

## 7 | CHANGE BEHAVIOR

Our experience shows that reorganizations usually focus strongly on structural and process elements but frequently miss the cultural “re-design” and transformation. This challenge might be obvious for post-merger integrations but it often also holds true when units within the same organization and even within the same function are re-shaped or re-allocated. Be it the merger of two sales segments (see case study: insurance) or the merger of an IT infrastructure unit and application development unit

### CASE STUDY: INSURANCE

*Being aware of potential friction when merging two field sales units into one, the sales director of an insurance company started a dedicated change effort half a year before the new organization went live. The board designed and followed a coherent master plan – a mix of leadership conferences, board workshops, cascaded line transfer workshops as well as capability building trainings for all managers. A new set of joint values, clear targets and a set of strong initiatives owned by the board directors was developed and implemented. While the initial conference with the new leadership team started with lots of bias, resentments and finger-pointing, the final conference (six months after the kickoff) showed a strong management team ready to exploit the full power of the new organization.*

in a health care company – the cultural difference, self-concept and working mode of the respective people can vary tremendously and significantly challenge the success of a new organizational set-up. Seize the task as an integrated part of the reorganization process from the beginning. Promote cultural coherence and establish a positive attitude early on. Convey the reason-why for change before the start; consider and map the existing culture, scoping the solution space; continuously involve people in the redesign and transformation process and help them to establish a performance culture over time within the new teams and among the new units.

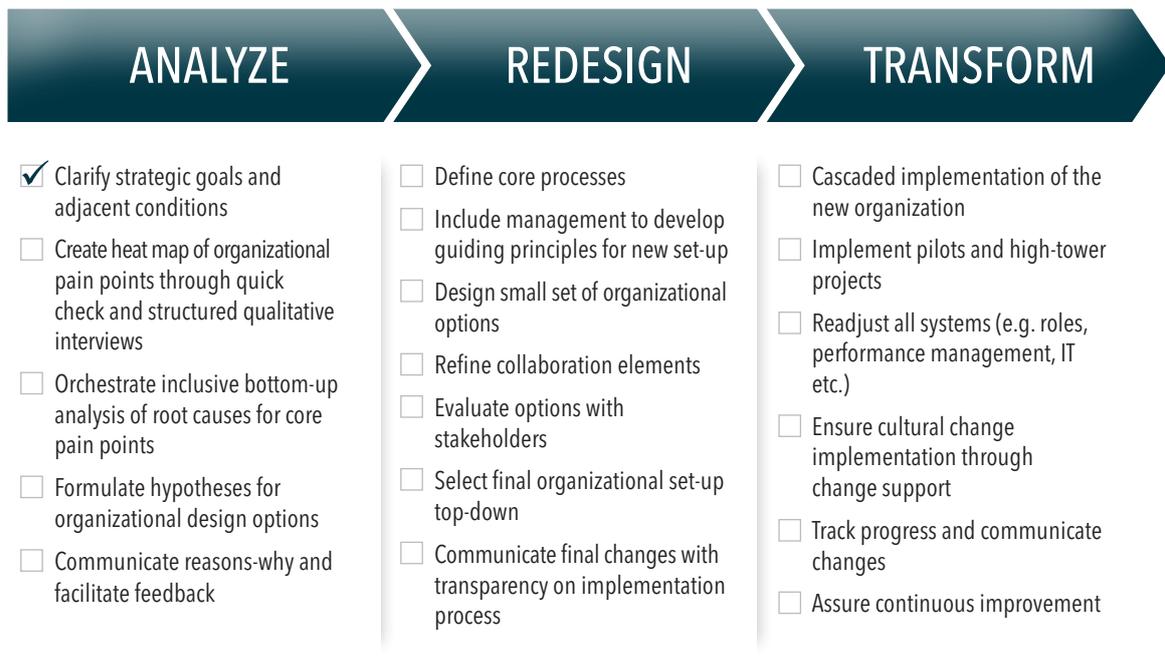
## SUMMARY: THE 7 FACTORS OF SUCCESS

- 1 ALIGN STRUCTURE TO STRATEGY**  
Top-level structure is the most important driver of energy, make sure it is in line with your business priorities
- 2 FACILITATE COLLABORATION**  
Reduce hurdles and adapt systems to motivate people to exploit the full potential of the new structure
- 3 INCLUDE AND EXCLUDE MANAGEMENT**  
Input from managers is needed. Reorganization, however, is no democratic process – make this explicit
- 4 SPEED UP AND FOCUS**  
Focus on core processes and fix the most important issues first to limit uncertainty for employees and reduce distraction from business
- 5 ASSURE STRONG PROJECT MANAGEMENT**  
Assure necessary skills, business judgment, decision power and resource allocation of your project team
- 6 CONCENTRATE ON COMMUNICATION**  
Treat the reorganization as a marketing job – know your target group and provide convincing messages through customized channels
- 7 CHANGE BEHAVIOR**  
Build bridges from the old to the new organization to assure that your employees live it



## THE ART PROCESS

Our three-step approach, the ART process, is a systematic guide for reorganization efforts. It integrates the seven success factors in a number of core activities, which we believe to be essential for the undertaking to succeed. The intensity, timing and complexity of each phase might vary significantly according to scope and business context, but each of the three phases should be completed.



### ANALYZE

Sponsors and top managers usually have a good understanding of why they need to reorganize and what their needs and goals are, but this understanding has to be shared with employees for the process ultimately to succeed. Clarify the strategic goals of the reorganization explicitly. Since the option space for new organizations is almost boundless make sure you know exactly what your priorities are - becoming leaner, delivering higher process quality and growing your business all at the same time is a non-realistic goal. Be it cost cutting or strategy alignment, the underlying conditions that set the stage for further analysis, redesign and transformation can be very different and scoping is essential to clarify boundaries to adjacent units.

Clear focus is required in the analysis phase to keep the process efficient and fast. A set of semi-structured top management interviews in combination with strong guidance by the CEO or project sponsor can help to guide the direction of this first phase. Eventually, the analysis phase produces structured pain point lists and first hypotheses for organizational design options, which is a necessary input for the following phase.

## **R**EDSIGN

Describe your core processes consequently vanquishing the pain points and incorporate your strategic priorities. Set up guiding principles for the redesign phase to support consistent decision-making and focus along the way. Bundling end-to-end responsibility for processes in single positions is an important principle to divide areas of accountability in the future organization.

Define the first level structure to reflect top-level strategies. Since it is always a trade-off decision, consider all required collaboration elements to take care of the second level priorities. Coordinated inclusion and exclusion of managers is essential in the redesign phase. Keeping the stakeholders limited in this first stage enables truly creative design without too many interfering interests. Speed up the process to reduce distraction, clearly focus on relevant areas to change, e.g. consider “lift and shift”, keep units together where possible as long they are in line with your future needs.

## **T**RANSFORM

Balance the need for speed and necessary focus required to get the new system running. Change the behavior of people and culture, not just the boxes. Hence, quickly and consequently forward implementation responsibility to the newly appointed managers along the cascade. Implement pilots and high-tower projects where feasible to show the positive effects of the new organization.

Strongly focus on core processes at the beginning, but make sure all others will be covered and adapted later. To ensure full process coverage, define transformation rules such as “People move with their tasks”. This prevents employees from neglecting current tasks until takeover has happened. Also, make sure that all systems are readjusted to breathe life into the new organization. This includes evaluation and alignment of performance management systems, incentives, decision rights and leadership roles but also IT systems. They all should reflect and support the effectiveness of the new set-up.

Finally, explicitly address cultural change. Provide support and tools to enable managers to handle the task. Consequently control the implementation progress and milestones reached. Identify success cases and communicate the reorganization progress. Implement suitable mechanisms to track the impact of the new organization, collect feedback on adaption needs and ensure the continuous improvement of the new set-up.



## GETTING STARTED

How do you get the ball rolling? To set a good base for a successful reorganization effort, answer the following five questions:

### What is the reason for the reorganization?

Is the motive for the reorganization strong enough to start the effort and robust enough to share it both inside and outside the company? Even with the best performing process, people will be distracted from the business and tough decisions will also have to be made, so be very sure of your motives before you trigger such an initiative. Frankly assess whether reorganization is really needed or whether other, less intensive options would also enable you to achieve your objectives.

### What is the expected benefit?

Be aware and explicit about the core levers you hope to influence through the reorganization. Develop a robust business case considering restructuring costs with quantifiable positive effects. Feel comfortable to communicate strong benefits to convince the organization and the community.

### Who are the relevant stakeholders and what are their concerns and expectations?

Start with your leadership team and check their alignment. A good test is to question yourself whether they would share your reason for change. Try to understand all stakeholders' interests: the supervisory board, works council, shareholders, analysts and also the customers. Finally, don't forget to listen to your employees.

### What are the scope and framework requirements of the reorganization?

Be as clear as possible about the scope of the reorganization, i.e. the number of employees and the units under consideration; degree of potential change to the operating model (e.g. new holding position, new shared services, changing operations) and possible business and strategy impacts (e.g. new markets, different regional coverage, new customer segments). Also, understand other framework requirements that might influence the impact of reorganization, i.e. key customer movements, market dynamics or even seasonal business effects since they might give an indication for scope or timing.

### Who is going to manage the project?

Beside that fact that line managers will be impacted and in charge of most of the tasks, be mindful that you will need the right skills, capacity and flexibility in the team that is responsible to drive and support the reorganization effort. This includes not only man power, but also positioning in the organization. The credibility and seniority to challenge business-relevant decisions are called for on the one hand, but also the neutrality to come up with the best solutions on the other hand. Review the need for a dedicated project lead, allocate clear accountability and make this transparent to the organization.

## **OUR EXPERIENCE IN REORGANIZATION**

The success factors described are derived from our several years of reorganization project experience within various industries, of different sizes, context and scope. Selected examples are:

- supporting a large-scale reorganization of more than 1000 employees in the core function of a leading telecommunications provider in all three stages of the ART process
- leading the integration and reorganization process of two brands and sales functions of a leading insurance company with respect to their cultural change process and leadership development
- analyzing core processes to develop and implement a new structure for the HR function of a global steel and industry corporation
- developing and implementing a global shared service center of an international media and service company
- establishing collaboration elements and guiding the reorganization process for a business process outsourcing company
- developing new processes and redesigning the organization of the communications department of a global industry conglomerate

Our expertise in the relevant adjacent domains of strategy development and dialogue, HR strategy and management as well as mobilization and transformation gives us a holistic perspective to serve the individual needs of our clients.

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## **OUR CONSULTING APPROACH**

We work with and for our clients, helping them achieve change in a way that brings content, people and behaviors together in a harmonious whole. We support them through their entire journey - from developing concepts to implementing them successfully. We can draw on extensive experience in strategy consulting, we strive for excellence and we offer flexible ways of working.



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