

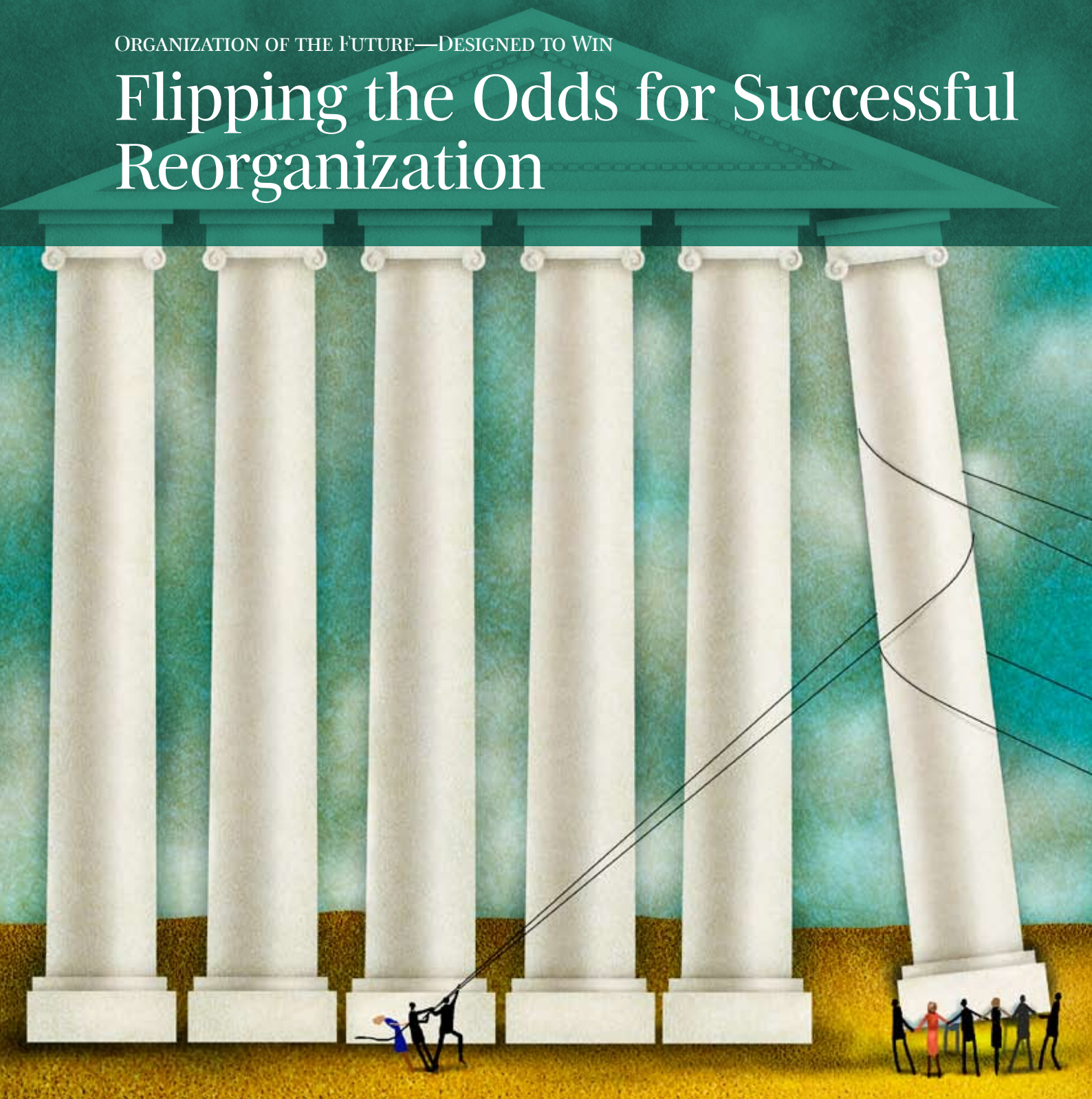
# BCG

THE BOSTON CONSULTING GROUP



ORGANIZATION OF THE FUTURE—DESIGNED TO WIN

# Flipping the Odds for Successful Reorganization



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# Flipping the Odds for Successful Reorganization

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## AT A GLANCE

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Rapid change requires companies to reorganize more frequently, more fundamentally, and faster than ever before. But the odds for failure are high. New research from BCG and 12 global partner organizations has uncovered six critical success factors that can dramatically flip any company's odds of reorganization success. This research is part of a broader study on the role of organizational capabilities in business success.

### THE SIX MOST CRITICAL FACTORS

The following six factors appear to be the most important elements in reorganization success: synchronizing design with strategy, clarifying roles and responsibilities, deploying the right leaders and the right capabilities, designing layer by layer (not just from the top down), minimizing execution risk, and reorganizing during a period of strength (rather than distress).

### THE MULTIPLIER EFFECT

The success rates of companies that incorporated all six success factors into their reorganization effort were multiples higher than those of companies that did not. And with each additional factor, the proportion of success increased. It's not just a matter of doing the right things either: when organizations did the opposite, failure rates increased. Armed with these insights, companies can improve their odds of reorganization success and of achieving its ultimate purpose: driving competitive advantage.

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**W**ITH ALL THE UNCERTAINTY that business leaders face today, the one thing they can count on is organizational change. Reorganization has become a fact of business life, an undertaking now as commonplace as launching a line extension was 20 years ago. Heightened volatility, shifting economic realities, and more rapidly evolving competition are forcing companies to adapt and restructure—and to do so more frequently, more fundamentally, and faster than ever before. In fact, in a recent BCG study of executives worldwide (leaders at organizations with more than 1,000 employees), almost 90 percent of those surveyed said they had recently carried out a reorganization. (See the sidebar “About the Study.”) Roughly half were large-scale enterprise-wide reorganizations—efforts designed to fuel global expansion, unleash innovation, capitalize on a market trend, slash costs, digest a merger or an acquisition, or respond to a major social or economic shift. Some reorganizations were implemented during a crisis (amid plummeting profits, for example), others during periods of strength and stability.

Yet as common as reorganizations have become, what’s even more common is their high failure rate. Less than half of all reorganizations in our survey were considered successes by survey respondents—that is, they achieved their objectives (this figure

## ABOUT THE STUDY

Our recent executive survey on reorganization was part of a broad-based study of the role of organizational capabilities in business success, including a company’s capacity for instituting change. In partnership with a dozen major research and business organizations around the world (see pages 17 to 20), we surveyed 1,600 executives from more than 35 countries. We sought to pinpoint the organizational capabilities that matter most in financial performance.<sup>1</sup> Our aim was to identify the gaps between best-practice capabilities and the capabilities

typical of organizations today, and to create a set of priorities that can guide companies in closing those gaps. The study involved cross-analyzing quantitative performance data with executives’ reports on their perceptions of performance. (See *Organization of the Future—Designed to Win: Organizational Capabilities Matter*, BCG Focus, January 2012.)

### NOTE

1. We identified six broad categories of capability: structural design; roles and collaboration mechanisms; processes and tools; leadership; people and engagement; and culture and change.

was high compared with objective measures in other studies). That's an alarming statistic, and one with perilous implications. Apart from the high costs and squandered opportunity, a failed reorganization can leave an enterprise even worse off than it was before, with lost productivity, a weakened market position, and a disengaged workforce, among other impacts. In today's unforgiving environment, there is less latitude for error; an ill-conceived or poorly executed reorganization carries markedly more risk than it did in the past.

The good news is that success in reorganization does not have to be either elusive or improbable. By dissecting scores of reorganizations from our consulting experience and from our survey and interviews—reorganizations that were successful as well as unsuccessful—we have learned a great deal about what it takes to achieve success.

## The Six Most Critical Factors

Among the successful reorganizations, salient patterns emerged—common capabilities, approaches, and practices—that distinguished their efforts from those of their failed counterparts. Drawing on this foundation, we have distilled six factors that appear to be the most critical elements in flipping the odds of

### A NOTE ABOUT REPORTING

**How We Defined Success.** For the purposes of the survey, which was anonymous, success was in the eyes of the beholder. Our 1,600 executive respondents replied to the question, “Overall, how successful was your company in its reorganization efforts?” We defined economic success by charting the combination of growth in revenue and growth in profit margins compared with a company's peers, on the basis of assessments reported by survey respondents. We grouped respondents into three segments—below average, average, and above average—on both those measures of economic performance. We then classified each respondent as a high performer, a medium performer, or a low performer.

**Our Use of Metrics.** Because of the complexity of the data relationships, we reported the data in two ways,

depending on which was the most useful in a given context:

- *Rate of Success Versus Failure* (or the proportion of successes to the proportion of failures). For example, as Exhibit 1 shows, there was a 6:1 success rate (six successful reorganizations for every failed reorganization) among organizations that used a systematic process for clarifying roles and responsibilities (compared with a 1:1 success rate among those that didn't).
- *Proportion or Percentage of Successful Reorganizations.* For example, of those companies that reported successful execution, 79 percent reported total reorganization success (compared with 11 percent of those companies that did not report successful execution).

success. (See the sidebar “A Note About Reporting” for details about our survey definitions and use of metrics.)

Companies that included many of these factors in their reorganization effort had higher success rates than those that did not. For organizations with only one success factor in place, the rate of success was 32 percent. But with each additional factor, the success rate jumped proportionately; 88 percent of organizations that had five or more elements in place reported complete success. The presence of some success factors doesn’t remove risk completely, but get all six factors right, and your organization can decidedly, and dramatically, improve its odds of reorganization success—and strengthen competitive advantage. (See Exhibit 1.)

## I. SYNCHRONIZE DESIGN WITH STRATEGY

Regardless of the precipitating factor—whether it’s a change in strategy, a merger, or a cost-cutting initiative—the reorganization itself must align firmly with the organization’s strategy and business priorities in the simplest way possible. (See *Demystifying Organizational Design: Understanding the Three Critical Elements*, BCG White Paper, June 2010.) The new structure should therefore be guided by two essential considerations: where to locate P&L accountability so that it drives competitive advantage and which functions should report directly to the CEO.

### EXHIBIT 1 | Six Factors Are Critical to Flipping the Odds of Success in a Reorganization

Less than half of reorganizations were reported successful by respondents...<sup>1</sup>



...but companies can employ six success factors...

- 1 Synchronize design with strategy
- 2 Clarify roles and responsibilities
- 3 Deploy the right leaders and capabilities
- 4 Design layer by layer
- 5 De-risk execution
- 6 Don't wait for a crisis
- Multiplier effect**  
Five or more success factors in place

...to flip the odds of a successful reorganization

- 5:1 success rate when this was the top design priority (versus 1:1 when it was the lowest)
- 6:1 success rate when a systematic process was used (versus 1:1 when it was not)
- 74% total reorganization success when leaders viewed as highly capable (versus 22% when they were not)
- 4:1 success rate (versus 1:1 with a CEO-only design approach)
- 79% total reorganization success when effort was well executed (versus 11% when it was not)
- 21:1 success rate when reorganization occurred in a period of strength (versus 1:1 when in distress)
- 88% overall success (versus 7% with five “antithesis factors” in place)

**Source:** BCG Organization of the Future—Designed to Win survey (data as of July 2011).

**Note:** 1,041 responses were analyzed; percentages in the graph do not add up to 100 owing to responses that indicated neither successful nor unsuccessful reorganizations.

<sup>1</sup>This figure was high compared with objective measures in other studies.

Of all the key reorganization steps probed in the survey, clarifying roles and responsibilities had the highest failure rate among respondents.

Because the business agenda of any organization changes over time, there is no such thing as a permanent design. Generally speaking, any organization design has a limited life span of between three and four years (the average longevity of an organizational agenda). Therefore, it's essential to approach design by first defining the key business priorities and aligning the organization with them through design targets and principles. Only then should the enterprise move to develop and assess organization design options.

When there's a change in strategy, organization design must be modified accordingly to support the new objectives, priorities, and sources of competitive advantage. In our study, we found that out of several success factors specifically associated with the design phase of a reorganization, determining P&L logic on the basis of the sources of competitive advantage had the highest correlation with reported overall reorganization success. Moreover, companies that made this criterion their top design priority enjoyed a far higher overall reorganization success-to-failure rate (5:1) than those that gave it the lowest priority (1:1).

In addition, lines of reporting for functions must reflect business priorities. Centralizing functions makes sense when consistency across business units is critical (as in risk management or branding), when centralizing creates scale advantages (in R&D or manufacturing), or when the CEO needs greater than usual visibility into the organization's activities. The recent restructuring of a private holding company's corporate center illustrates this important design precept. As the holding company's portfolio grew and diversified, the corporate center also expanded, involving itself in many operational decisions of its companies. The company reorganized the center to focus on its fundamental role as strategic steward. As a result, the CEO and his team regained the visibility they needed to guide their companies strategically, while the company heads regained the operational latitude they needed to run their organizations more effectively.

As a rule, in organization design, simpler is better. Regardless of company or industry, having fewer reporting layers is better because it maximizes productivity, streamlines decision making, and clarifies accountabilities. The CEO should have a direct line of sight only to core functions that are critical for overall business management; the rest can remain in the purview of the business units (in the case of functions that must be unit specific), or they can be shared or outsourced. This approach will reduce bureaucracy and eliminate waste. Finally, the organization should be designed in such a way as to create new capabilities at the individual, team, and organization levels. Clarifying roles and responsibilities, our next key success factor, helps advance this process.

## 2. CLARIFY ROLES AND RESPONSIBILITIES

Of all the organizational capabilities most required for a successful reorganization, this set—clarifying roles and responsibilities, assigning accountabilities, and determining decision rights—is one of the most difficult to get right. And of all the key reorganization steps we probed in our survey, clarifying roles and responsibilities had the highest failure rate among respondents. It is difficult because of the complexity, sensitivity, and sheer effort its component tasks entail. It is also one of the most critical capabilities to have.



Adhering to a clear, systematic process to carry out these steps resulted in an overall reorganization success-to-failure rate of 6:1, whereas those companies that lacked any such process reported succeeding just as often as they failed. Even more powerful, of the companies that used a role clarification process, about half experienced superior economic performance, compared with about one-third of companies that did not use such a process.

Despite the inherent difficulties of role-clarifying activities (such as addressing contentious matters of authority), companies needn't struggle with them. A role-chartering process lends discipline and clarity to these efforts. Role charters describe roles as they should be and the collaboration required among them—unlike traditional job descriptions, which describe jobs only as they currently exist, without linking them to the organization's vision, goals, or metrics. A role charter typically captures individual and shared accountabilities, key performance indicators, decision rights, and desired leadership behaviors for the role. (See Exhibit 2.) But its most potent feature is the very process by which it is created. Unlike a top-down approach, the role charter approach calls for individuals to create their own charters, with feedback provided by managers as well as by peers, and with revisions produced collaboratively. Thus, role charters not only foster buy-in and

## EXHIBIT 2 | Role Charters Clarify Decision Rights and Boost Collaboration

**Purpose of the role** General description of the role. For example: "This employee is responsible for defining and driving best-practice behaviors globally" or "This employee will drive project coordination, segmentation, and cross-business projects."

Individual accountabilities		Parameters for success	
Each individual's critical responsibilities, such as delivering quality products		Key metrics	Organizational parameters
		Critical performance indicators, such as market share, aligned with the organization's vision and goals	Organizational, governance, and legal structures, such as direct or dotted-line reporting relationships or decision ownership
		Financial targets	
Key collaboration network/ collaboration		Critical financial indicators, such as revenues or direct cost management	
Key shared accountabilities	Mission-critical collaborators		
Critical accountabilities shared with another member of the management team	Employees with whom this individual must collaborate in order to execute shared accountabilities	Decision rights	
		Owns	Influences
		Decisions for which the individual is directly responsible, such as the product launch schedule and product budget	Decisions in which the individual's opinion counts, such as sales strategy and pricing decisions
Key leadership behaviors		Veto	
Behaviors the leadership team seeks to embrace, such as improved collaboration		Decisions that the individual does not control but has authority to approve or veto	

Source: BCG analysis.

commitment but also promote mutual understanding among executives and across management teams, helping avert ambiguities and potential jurisdictional conflicts and ensuring that no decisions or action items go unresolved. The real power of role chartering is thus the vertical and horizontal alignment that can be achieved. (See *Role Charters: Faster Decisions; Stronger Accountability*, BCG Focus, April 2011.)

### 3. DEPLOY THE RIGHT LEADERS AND THE RIGHT CAPABILITIES

To achieve a successful reorganization, companies must ensure that the right people with the right skills are in the right roles. Otherwise the most perfect organization design will most assuredly fail. Of foremost importance is leadership performance, which all respondents, regardless of whether or not their reorganization was successful, ranked highest of all the behavioral and human-capital-related success factors tested (including culture, employee motivation, and change management capabilities). Among respondents who characterized their organization's leaders as highly capable, 74 percent achieved overall reorganization success, versus 22 percent of those whose leaders were not regarded as such. Interestingly, leadership performance earned this high ranking from those who had led successful reorganizations (two-thirds considered it critical) more than from those who had led unsuccessful ones (less than half considered it critical).

In reorganizations, companies often experience one of two pitfalls with respect to individual capabilities. Some try to tailor the redesign around the individual capabilities of a few key executives. If an up-and-coming executive is being groomed, the grooming should take place within an organization design that is conducive to achieving the company's strategy. But tailoring a redesign around individual capabilities—either to capitalize on the particular skills of an established team or to work around its limitations—may prove risky and not in the company's long-term best interests.

Without the right people with the right skills in the right roles, the most perfect organization design will most assuredly fail.

The other common pitfall is overlooking the capabilities required for the new design to succeed. Companies need to zero in on the skills needed at the particular moment—those related to change management, execution, expertise, and people management. (See the sidebar “Sharpening Leadership Skills to Spur Transformation.” at National Bank Financial Group.) It's also important to look beyond job descriptions and compensation. A company might, for example, need a head of sales who excels at “closing” and can excite the field sales force. On the other hand, it might be better off with a manager who knows how to improve the sales process and optimize a sales team's effectiveness. Obvious, perhaps, but this kind of pragmatic consideration is frequently absent from decision making. Beyond the capabilities particular to the organization's circumstances are a set of adaptive-leadership skills that companies should cultivate—skills we've identified as essential to leading in today's volatile, dynamic business environment. (See “The Five Traits of Highly Adaptive Leadership Teams,” BCG article, December 2011.)

Finally, when choosing leaders, companies should look ahead. Organizations are dynamic, and the skills needed today may be entirely different in a year. A startup business unit may require a leader who is adept at change management, but two years down the road, once the unit is established, a manager with strong people-management skills may be a better fit for the top spot.

## SHARPENING LEADERSHIP SKILLS TO SPUR TRANSFORMATION AT NATIONAL BANK FINANCIAL GROUP

In 2007, Canada's National Bank Financial Group, the leading bank in Quebec and a storied regional bank, had begun to lose traction. Revenue growth trailed GDP, and once-loyal clients were leaving for competitors, making the bank's ambitious five-year earnings-per-share growth target difficult to achieve.

A holistic diagnostic led by BCG revealed numerous organizational and people issues at the root of NBFG's financial woes. Among them: insufficient collaboration, ambiguous accountability, and a low level of employee engagement. Through careful analysis and engagement with employees from the frontline to senior management, CEO Louis Vachon concluded that addressing these organizational and people issues was essential to putting the bank back on a path to sustainable competitive advantage.

Vachon communicated this finding to the organization, outlining a clear road map for change. The process began at the top: the senior-leadership team was sequestered for a two-day off-site, where members defined their vision for the enterprise, their cultural and behavioral expectations, and the required leadership characteristics. They also agreed on an ambitious plan of action that included reorganizing the bank to align structure with enterprise strategy, culling the management ranks, and clarifying accountabilities. NBFG put leaders and managers through training and skill

development programs as the new structure took shape and was solidified layer by layer. Recruiting profiles were adjusted to match the bank's revised personnel requirements. BCG's Rigorous Program Management methodology was used to track and manage key initiatives and ensure accountability.<sup>1</sup>

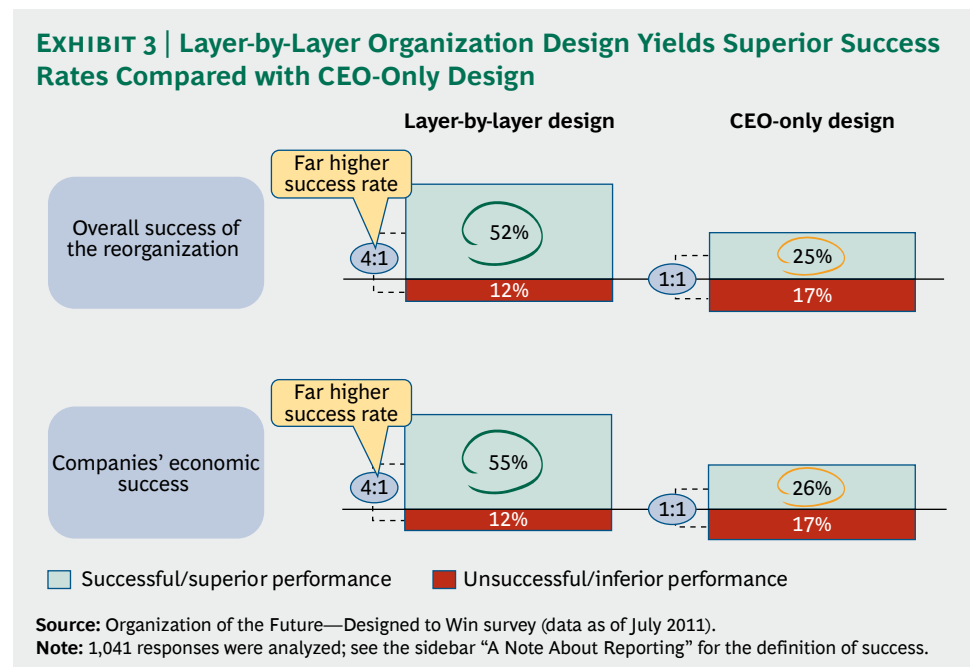
Vachon's plan worked. Not only did it restore the bank to firm financial ground, but NBFG was the first Canadian bank to increase its dividend payout in the aftermath of the global financial crisis. And since the successful turnaround, Vachon's attention to organizational behavior and people has not waned. National Bank continues to monitor performance across these dimensions and to intervene as performance or the competitive environment changes. The bank's sustained focus on leadership capabilities has indeed translated into sustainable competitive advantage: in 2011, *Bloomberg Markets* ranked it the strongest bank in North America and third on its list of the world's strongest banks.

### NOTE

1. Rigorous Program Management is BCG's proprietary approach to program management that filters out the most essential, strategically relevant information for senior executives to ensure that major initiatives stay on track.

#### 4. DESIGN LAYER BY LAYER, NOT JUST TOP DOWN

A cascading approach to design—layer by layer, according to consistent design principles, rather than a CEO-only design approach—better positions companies for success. Interestingly, 64 percent of the companies we surveyed followed a layer-by-layer approach. To be sure, major structural-design decisions—for example, where to locate P&L, whether to create shared services, what the major cost targets should be—need to issue from the CEO. But a cascading design based on top-level design choices and key design principles makes sense: organizational knowledge and intelligence are incorporated at each level, and leaders are better equipped to define staffing and clarify roles within their areas. Among companies that allow leaders at all levels to design their own organization structure, a higher proportion experience reorganization success—a rate of 4:1, twice the proportion of successful reorganizations experienced by companies using a CEO-only design approach. The layer-by-layer approach also yields an economic success rate of 4:1 (again, twice the proportion of success experienced by those with CEO-only-designed reorganizations). (See Exhibit 3.)



In a successful cascade, senior executives disseminate their vision and energize the organization, imparting power and responsibility to middle managers, who have an intimate knowledge of their own organizations and people. The middle managers, in turn, feed important information upward. A cascading approach to organization design is important to reorganization success, in part because it fosters leadership alignment and employee engagement. In addition, it enables the organization to more effectively compare and assess multiple design options because middle managers have at hand the most relevant information.

Consider the example of a heavily regulated and unionized transport business that was preparing for yet another reorganization. Senior managers first launched an

outreach program that called for 5,000 one-on-one meetings between supervisors and employees. Leaders actively sought feedback, in the process reviving an essential message that had disappeared from employees' radar. Their intensive efforts paid off: 85 percent of employees said they felt better about the restructuring than they had about any previous ones, and the realignment helped the company meet its financial targets—the primary goal.

Cascading design is important for another reason: when leaders redesign only the top three layers, leaving the rest of the organization with minimal or no adjustments, they risk undermining the entire reorganization effort. Redesigning just the top layers might change the way senior management operates, but it rarely affects how work actually gets done—how innovation happens, how products are delivered, how customers are served. Since most organizational challenges lie deeper down in the organization, any redesign that's limited to the top layers may have limited impact.

The message is clear: middle management needs to be involved in reorganization. Their insights, frontline knowledge, and proximity to the workforce inform the effort, boost employee engagement, and foster greater alignment. The more empowered managers are, the greater their accountability—and the more they and those who report to them are invested in the organization's goals.

## 5. DE-RISK EXECUTION

By far the most important capability for achieving a successful reorganization is execution—applying a step-by-step, disciplined approach to implementation. Nearly 80 percent of the companies we surveyed that enjoyed successful reorganizations reported success in execution—the highest correlation with overall reorganization success. Disciplined execution involves a combination of rigorous processes, governance structures appropriate for such a large-scale strategic undertaking, and an array of support tools. Most important, it requires a transparent system of early warnings with clear accountability—a system that allows leaders to course correct as well as persuade people to embrace change, rather than merely endure it.

**Combine value-oriented governance...** Managing an effort as high risk and mission critical as a reorganization requires more than a process-oriented project-management infrastructure. It calls for a governance structure suitable for overseeing a complex set of interdependent, cross-enterprise initiatives in a way that gives senior executives the right information at the right time. Beyond orchestrating processes, successful execution requires focusing first and foremost on delivering value and minimizing the risk of failure. That means quantifying the overall objectives (financial and operational) and disaggregating them, first into initiatives and then into specific milestones, so that at every level and at any given point in the implementation, leaders can see whether the key drivers of value are on track. In addition, this level of transparency serves as an early-warning system that enables executives to preempt problems. A rigorous, strategic, value-oriented management system should also monitor talent retention and employee motivation (especially the willingness to change)—areas that are often overlooked in a reorganization but that can cause an otherwise rigorous execution program to falter.

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The most important capability for achieving a successful reorganization is execution—applying a step-by-step, disciplined approach to implementation.



**...with support tools.** According to our survey, companies that sought support during the implementation phase achieved higher reorganization success rates. For example, those that used customized tools, external experts, or external benchmarks had roughly twice the proportion of overall reorganization success (between 56 and 66 percent) of those that had no support (33 percent). The importance of support is underscored when we look at the outcome among those that made no use of tools, experts, or benchmarks: nearly half (49 percent) suffered failed reorganizations.

Technology tools can be invaluable for ensuring discipline at every step of a reorganization. Predictive tools can add rigor to plans, and robust performance-tracking tools ensure not only that targets (such as FTE numbers) are hit, but that the intended value is being delivered. In addition, a tool such as OrgBuilder can support diagnostic and planning activities (such as inputting data from multiple platforms and teasing out causal relationships) as well as implementation activities (such as monitoring and reporting progress). (See the sidebar “Ensuring Systematic, Disciplined Execution.”) It not only facilitates disciplined end-to-end management but also provides other important benefits, including ensuring a single source of

## ENSURING SYSTEMATIC, DISCIPLINED EXECUTION

In 2011, White Swan Reinsurance (not the company’s real name) faced a tough business environment of rising costs and constrained revenue growth. The CEO aimed to reshape the organization to deliver greater, sustainable growth by focusing on clients, service, and solutions.

To pursue the strategy in a way that ensured systematic, disciplined execution, White Swan used OrgBuilder, a BCG system of organization redesign. First, the company established a baseline for measuring change. This baseline aggregated and cleansed HR data to obtain a single source of truth, while highlighting data inconsistencies and gaps. OrgBuilder’s diagnostic components allowed White Swan to test and identify opportunities using best practices, templates, and metrics.

For the implementation phase in early 2012, White Swan rigorously

evaluated alternative design options and tested organization charts and personnel assignments. Through its scenario modeling and reporting features, OrgBuilder enabled the company to determine the optimal choices and provided transparency on the implementation of the new operating model.

Finally, OrgBuilder helped White Swan promote accountability by tracking performance, ensuring rigorous data collection, and enhancing role clarity. These capabilities enabled the company to communicate the strategy and actions of the reorganization clearly and routinely, thus minimizing the ambiguities and anxieties that can undermine success. The outcome for White Swan was a fast transition to a better organization for clients and staff, while delivering ever-improved financial results.

truth and embedding best practices across PMOs. The organization can thus rapidly track, model, and course correct during the implementation.

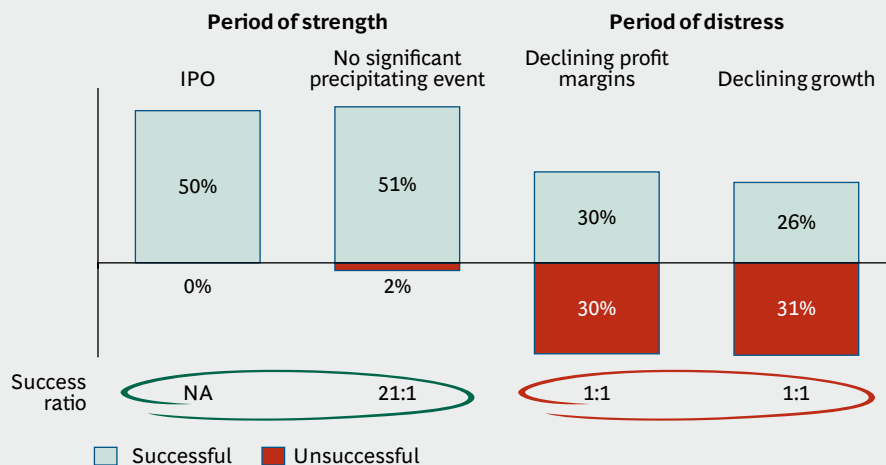
In short, customized tools are instrumental in reinforcing discipline, consistency, and adherence to goals. (See “Technology-Enabled Reorganization: Unlocking the Full Potential of Organizational Transformation,” BCG article, June 2011.) Above all, adequate resources—people and tools—must be in place to make a reorganization succeed. Those involved in reorganization activities need resource support to help them balance their day-to-day obligations with their reorganization responsibilities. Otherwise, assignments will inevitably slip through the cracks and individuals will burn out. A robust reporting system is an essential complement to traditional project-management tools; it provides the checks and balances needed to track progress against goals, pinpoint emerging problems, adjust timelines, and redeploy assets wherever necessary.

## 6. DON'T WAIT FOR A CRISIS TO REORGANIZE

A time of distress, such as when profits decline or growth slows, is a difficult time to execute a reorganization. The odds of success in either scenario are only fifty-fifty. In our survey, however, reorganizations carried out with no precipitating event had success-to-failure ratios of 21:1—compelling evidence in favor of undertaking a reorganization during a period of strength. (See Exhibit 4.) In good times, resources (people and time) will likely be more available. There's little distraction and fewer external pressures to cloud decision making. And because the endeavor is deliberate and proactive, leaders are more likely to ensure that the reorganization incorporates the first success factor: aligning with strategy and business priorities.

Although reorganizations are best carried out from a position of strength, few actually take place during such fair-weather periods. Only 10 percent of our respon-

**EXHIBIT 4 | Reorganizations Carried Out During Periods of Strength Have Far Higher Success Rates Than Those Carried Out During Periods of Distress**



**Source:** Organization of the Future—Designed to Win survey (data as of July 2011).

**Note:** 1,041 responses were analyzed; see the sidebar “A Note About Reporting” for the definition of success.

Fully 88 percent of respondents whose organizations had any five or all six of our success factors in place reported overall success with their reorganization.

dents reported carrying out their reorganizations at such times, versus 60 percent who reported doing so during a period of distress. Yet prolonging the inevitable only risks putting the company in an even weaker position to undertake a reorganization, upping the odds of failure. Not only will resources be more scarce, but top talent may be heading for the exits. Competitors may well be encroaching opportunistically, and the public scrutiny of shareholders and analysts can be a distraction, if not an obstacle to well-founded, decisive action. A defensive reorganization is a missed opportunity from an internal perspective as well: you can't engage and mobilize employees around positive change in an environment of job loss and sinking morale.

To succeed, companies should, as the saying goes, fix the roof when the sun is shining. During such times it's easier to be disciplined, to invest the necessary resources and time, to think clearly—and to ensure that the reorganization is linked to the company's business strategy and priorities.

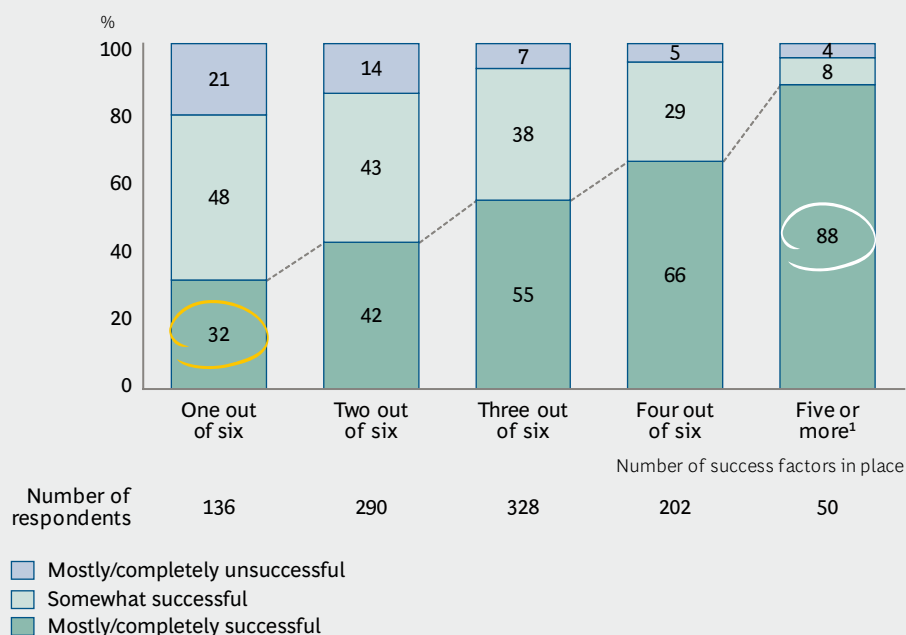
## The Multiplier Effect

Our broader study of the role of organizational capabilities in business success revealed that behavioral capabilities (strong leadership, engaged employees, an adaptive and collaborative culture) are increasingly important to performance. But this is true only when strong organization design and rigorous business processes are also in place.

The six success factors for reorganization that we've identified—some tried and true, others perhaps less well known—represent a mix of behavioral, design, and process capabilities. In effect, they amount to tenets from a playbook of sound organization-design management: align the reorganization with the business's strategy and priorities; leverage a clear process for articulating roles, responsibilities, and decision rights; put the right people with the right skills in the right roles; give managers throughout the enterprise the freedom to design their own organization structure in line with design principles; execute with discipline; and reorganize during good times, not under duress.

Yet until now, the impact of these factors on reorganization success has not been well understood. More important, their combined effect has never been calculated. Beyond identifying which factors matter most in a reorganization's success, we have also been able to quantify their aggregate impact. Fully 88 percent of respondents whose organizations had any five or all six of these elements in place reported overall success with their reorganization. And it's not only doing it right that matters; having in place the antithesis of any of these capabilities increases failure rates. Thus, respondents whose reorganizations were characterized by any five "antithesis factors" (for example, CEO-only design or lack of a role-clarifying process) achieved only a 7 percent rate of reorganization success. Even more telling, we found that the proportion of overall success increases as the number of success factors increases. The proportion of respondents whose companies had only one of these elements in place reported overall reorganization success of only 32 percent, but that proportion steadily increased with the addition of each factor. (See Exhibit 5.)

### EXHIBIT 5 | With Each Added Success Factor, the Percentage of Successful Reorganizations Rises



Source: Organization of the Future—Designed to Win survey (data as of July 2011).

<sup>1</sup>Because only three companies reported implementing all six success factors (these companies also reported reorganization success), the “all six” response is included in the “five or more” category.

This finding has economic implications as well. Sixty-eight percent of companies that adhered to any five of our success factors in their reorganization effort achieved superior economic performance—three times the proportion reported in the antithesis group, 27 percent of which reported high economic success.

Reorganization should not be viewed as an ad hoc endeavor, but rather as part of the continuous process of transformation—of constant improvement, innovation, and adaptation—that every enterprise must engage in. At a time when unceasing volatility and accelerating competitive forces have become the new normal, reorganization will, by necessity, become more frequent, more fundamental, and faster. Organizations that have these six success factors in place can dramatically flip the odds that their reorganization will succeed—and ensure that they realize its fundamental purpose: driving competitive advantage.

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Schweizerische  
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