McKinsey Quarterly

Reorganization without tears

A corporate reorganization doesn't have to create chaos. But many do when there is no clear plan for communicating with employees and other stakeholders early, often, and over an extended period.

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Most executives and their employees dread corporate reorganizations, as we can personally attest. During our combined 35 years of advising companies on organizational matters, we've had to duck a punch, watch as a manager snapped our computer screen during an argument, and seen individuals burst into tears.

There are many causes of the fear, paranoia, uncertainty, and distraction that seemingly accompany any major reorganization (or "reorg," a common shorthand for them in many companies). In our experience, though, one of the biggest and most fundamental mistakes companies make is failing to engage people, or at least forgetting to do so early enough in the process. In this article—based on the new book *ReOrg: How to Get It Right* (Harvard Business Review Press, November 2016), which outlines a step-by-step approach to reorganizations—we concentrate on the lessons we have learned about that evergreen but still frequently mishandled and misunderstood topic: communication.

EMPLOYEES COME FIRST

In our view, it makes sense to think simultaneously about engagement with employees and other stakeholders—unions, customers, suppliers, regulators,

and the board—but employees invariably require the most attention. Leaders of reorgs typically fall into one of two traps when communicating with their employees. We'll call the first one "wait and see" and the second "ivory-tower idealism."

In the first trap, the leader of the reorg thinks everything should be kept secret until the last moment, when he or she has all the answers. The leader makes the reorg team and senior leadership swear to secrecy and is then surprised when news leaks to the wider organization. (In our experience, it always does.) Rumors increase amid comments such as, "They were asking what my team does," "I had to fill in an activity-analysis form," and "I hear that 20 percent of jobs are going to go." Eventually, after the reorg team produces a high-level org chart, the leader announces the new structure and says that some job losses will be necessary, but insists that the changes will help deliver fantastic results.

Employees, hearing this, only hear that their boss's boss's boss is going to change and that some of them are going to lose their jobs. Nothing their leader has said counters the negative impressions they formed at the water cooler.

Ivory-tower idealism is little better. In this version, the leader can barely contain his or her excitement because of the chance to address all the frustrations of the past and achieve all objectives in a single stroke. He or she decides to start the process with a webcast to all staff, telling them about the exciting business opportunities ahead, followed by a series of walk-arounds in major plants and offices. The leader puts a personal blog on the company intranet. Human nature being what it is, however, no one believes what they hear: they still assume the reorg is about job losses and, to them, the leader's enthusiasm feels discordant, even uncaring. A charismatic boss can all too easily become shipwrecked on a shore of cynicism.

So, how to handle this challenge? Through communication that is frequent, clear, and engaging because it involves people in the org-design process itself.

Frequency

First, you need to communicate often, much more than you might think is natural. Iain Conn, the chief executive of Centrica and former chief executive of BP's downstream segment, who has led three major reorgs, told us how important constant communication is: "You need to treat people with real respect and dignity, telling them what is happening and when. The biggest mistake is to communicate once and think you are done. You should keep communicating, even things people have heard already, so they know that

you mean it. You should never forget that you should be communicating to both employees whose jobs may be at risk and the vast number of employees who will stay with your company and make it successful."

Clarity

Second, you need to be clear on what staff want to know. Why is this happening? What will happen when? What does it mean for me, my job, and my working environment? What do you expect me to do differently?

Research shows that employees anxious about their jobs have significantly worse physical and mental health than do those in secure work: one study, published in 2012, of unemployed workers in South Michigan reported almost half experiencing minor to major depression. Leaders can minimize that anxiety by stating in plain language what they know now, what will come later, and when it will come. They can also reassure people by reminding them of what will *not* change—for example, the company's core values, the organization's focus on customer centricity, or simply the existence of this or that department. The task will be infinitely simplified if it is possible to communicate why the company is reorganizing and what the overall plan is. In essence, communications should move from informing people at the beginning to exciting them when—and only when—they know what their new jobs are going to be. That understanding usually comes after the first big strategic announcement, which deals with the concept of the reorg (and as such tends to excite managers much more than the rest of the staff).

Broadcast communication through digital channels as well as two-way communication through town-hall meetings are important tools. Each communication is an opportunity to articulate the one big thought of the reorg (a move from print to digital, for example, or an effort to make local managers accountable for their profits and losses) and the three to five biggest organizational changes needed to make this happen.

Engagement

Staff need time to discuss what a reorg means for their own part of the business. So, in addition to the usual approach of developing question-and-answer briefings and cascading information down the organization through managers, direct communications are essential. Anyone with a question about the reorganization, at any stage—but especially when the new organization is being rolled out—should be clear whom to contact on the reorg team or in the individual's own part of the business. It can also be helpful to capture feedback or concerns that staff do not want to raise aloud: for example, by

setting up a confidential email address or through regular net-based surveys. It's important to track whether those digital tools are working, of course. During one reorg, three months into the process it was discovered that emails intended for the whole organization had only been sent to senior leaders' email boxes, where the messages remained. The digital dialogue leaders had hoped to stimulate was stopped in its tracks.

Engagement gets more demanding when the context of the reorg is an expanding business. Elon Musk, CEO of Tesla and SpaceX, told us, "As companies grow, one of the biggest challenges is how to maintain cohesion. At the beginning, as companies get bigger, they get more effective through specialization of labor. But when they reach around 1,000 employees and above, you start to see reductions in productivity per person as communication breaks down. If you have a junior person in one department who needs to speak to another department to get something done, he or she should be able to contact the relevant person directly, rather than go through his manager, director, then vice president, then down again, until six bounces later they get to the right person. I am an advocate of 'least path' communication, not 'chain of command' communication."

Design

Some companies extend engagement to involve a cross-section of staff at an early stage of the reorg design. For example, Lawrence Gosden, the wastewater director of Thames Water, the United Kingdom's largest water utility, covering London and much of the southeast of England, engaged 60 members of staff from a cross-section of the company, including the front line, in shaping the organizational design: "We put them in a room with a lot of diagnostic material on the external challenges and some great facilitation, with the idea of stretching thinking on how we should solve the challenges of the future. We then asked this group to come up with a vision for what the new organization needed to do—including savings. The team came up with a simple vision focused on customer service. We then took the material that had been developed and shared it with all 4,000 members of staff in a way that they could explore what it meant to them as well. This generated an extraordinary level of ownership in the vision and the plan we needed to deliver. Despite the fact that a large number of people were losing their jobs, most people in the organization got to understand why the change was happening and got behind it."

Such openness from the beginning is a risk and won't work in every reorg. However, relying on a small team of smart folks to design the details is

even more hazardous. When the new organization launches, it will be the employees who determine whether it will deliver value by working (or not working) in new ways and with a different boss (or a different boss's boss's boss).

DON'T IGNORE OTHER STAKEHOLDERS

Given the costs of not having a communications plan for employees, most executives eventually create one, albeit often too late in the day. Fewer leaders, however, devote significant time to other stakeholders. While staff typically demand the most attention, depending on the business context, as many as four other groups will likely need attention:

- *Unions and workforce councils.* In the European Union, legislation requires companies to communicate with representatives of the workforce at an early stage. Ironically, this may make life harder for workers outside the European Union who could end up bearing the brunt of higher savings. In addition, unions in Asia are often important and can be linked to governments, parties, and other power blocs. In general, unions often have clear views of what needs to be changed and can be even tougher than senior management on hollowing out middle layers (though their focus is often on employees who are not their members). In some cases we know, union representatives have become formal members of a reorg team.

- *Customers and suppliers.* One danger of a reorg is too much navel-gazing. If the business is customer driven or relies heavily on the supply chain, the new organization must work better for these stakeholders than the old one. So, when you think through how the organization will work in the future, make sure you also consider how it will affect customers and suppliers. Don't add additional steps or expect them to navigate the complexity of your new organization by having to speak to several people. When salespeople are friendly with their B2B customers— something most companies would encourage—it's hard to keep the reorg a secret.

- *Regulators and other arms of government.* The concern of this group will be typically around health, quality, and safety, though potential job losses and their impact on local economies will also weigh heavily with politicians and civil servants. They will want reassurance at a senior level about what to expect. An example from the Asian arm of an international business shows what not to do. In a meeting with a senior government official, just after the company's reorg, the country

manager of the company was asked for an update on the company's performance in the official's country, a discussion that the pair had had many times before. "Oh, no," the country manager responded, "that isn't my responsibility anymore. You need to speak to our new operations excellence team in the United States." Regulators and government officials—like customers—don't want to have to negotiate the complexities of a company's internal organization, so it is best to make life easy for them by communicating early in the process.

- *Board of directors.* If the reorg is company-wide or likely to have a major impact on company performance, it will be of interest to the board. And reorgs always lead to some short-term penalties. The board should therefore understand what is happening and why, and be aware of the time frame, the benefits, and the risks along the way. At the very least, the CEO or other leader in charge should brief board members individually and collectively on the progress of each step, though some will go further.

Lord John Browne, executive chairman of L1 Energy and former CEO of BP, who has also served on the boards of Goldman Sachs and the UK civil service, has this advice for executives: "The board have to be involved in the design. You should advise them that the path may be rough but that they should ignore the bumps in the road. The board needs to understand the design and what you are forecasting the outcome will be. You need to set out simple milestones and report back on them on whether you are delivering against these."

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Under nearly any circumstance, reorganizations consume a great deal of time and energy, including emotional energy. When proper communication plans are in place, though, leaders can at least reduce unnecessary anxiety and unproductive wheel-spinning. Planning should start long before employees get word of the changes, include constituents well outside the boundaries of the company, and extend far beyond the announcement of the concept design to boost the odds that the reorg will stick. Ⓠ

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