

McKinsey On Organization

Agility and Organization Design



Agility – it rhymes with stability



Why agility pays



Getting organizational
redesign right



Organizing for the future

Organization Practice May 2016



McKinsey On

Organization

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Introduction

“Coming together is a beginning; keeping together is progress; working together is success.”

– Henry Ford



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What makes an organization successful?

A successful organization is like a colony of bees – a well-structured entity with clear processes and talented contributors who work effectively together.

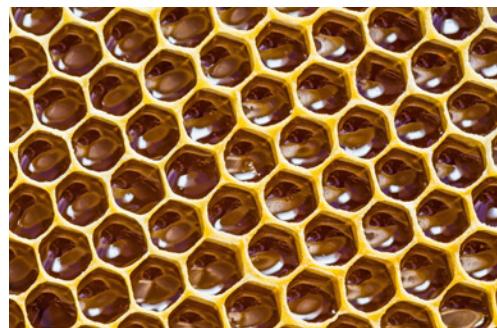
We are delighted to share with you our latest thinking on how organizations can release their full potential. In this McKinsey On Organization series, we will focus on four critical topics:



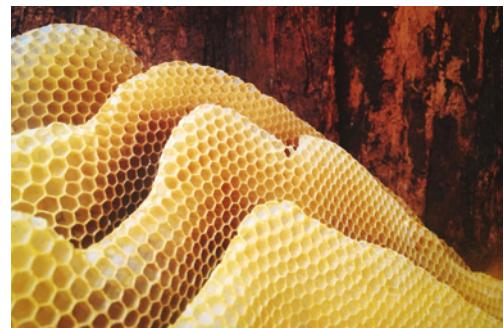
Agility and Organizational Design



Talent Management



Transformational Change



Merger Management

The first book focuses on Agility and Organizational Design. It covers cutting-edge research on how to design effective, nimble organizations capable of addressing the intense pace and complexity of business challenges in the 21st century.

Agility: It rhymes with stability

Wouter Aghina, Aaron De Smet, and Kirsten Weerda

Companies can become more agile by designing their organizations both to drive speed and create stability.



Why do established companies struggle to become more agile? No small part of the difficulty comes from a false trade-off: the assumption by executives that they must choose between much-needed speed and flexibility on the one hand, and the stability and scale inherent in fixed organizational structures and processes on the other.

Start-ups, for example, are notoriously well known for acting quickly, but once they grow beyond a certain point, they struggle to maintain that early momentum. Equally, large and established companies often become bureaucratic because the rules, policies, and management layers developed to capture economies of scale ultimately hamper their ability to move fast.

In our experience, truly agile organizations, paradoxically, learn to be both stable (resilient, reliable, and efficient) and dynamic (fast, nimble, and adaptive). To master this paradox, companies must design structures, governance arrangements, and processes with a relatively unchanging set of core elements – a fixed backbone. At the same time, they must also create looser, more dynamic elements that can be adapted quickly to new challenges and opportunities. This article offers early insights from our work with large global institutions that have successfully become more agile by redesigning themselves for both stability and speed.

The power of ‘and’

Many companies have long been striving for greater agility – and many academics, consultants, and other advisers have been searching for successful ways to help them. Much of the management literature, however, has emphasized only one part of the equation: how to achieve speed and flexibility.

Companies have indeed been able to move quickly by creating a flexible ring that’s fenced off from the rest of the organization or, more recently, self-directed team structures embodied by “holacracy.”¹ But our research and experience show that these ideas, on their own, are not enough. (To test your company’s current agility level, see Exhibit 1.)

A 2015 analysis of McKinsey’s Organizational Health Index showed that companies with both speed and stability have a 70 percent chance of being ranked in the top quartile by organizational health. That’s a far higher proportion than McKinsey found among companies focused only on one or the other.² We’ve long established that organizational health is itself a predictor of strong financial performance.

These results are also consistent with an analysis by Columbia Business School professor Rita Gunther McGrath.³ From a pool of more than 2,300 large US companies, she identified ten that increased their net income by at least 5 percent annually in the ten years up to 2009.

¹ Holacracy, exemplified recently by the online footwear company Zappos, seeks to encourage employees to behave like self-directed entrepreneurs and to instill their own sense of meaning and purpose in the workplace.

² For the full research findings, see Michael Bazigos, Aaron De Smet, and Chris Gagnon, “Why agility pays,” *McKinsey Quarterly*, forthcoming on mckinsey.com.

³ Rita Gunther McGrath, “How the growth outliers do it,” *Harvard Business Review*, January–February 2012, hbr.org.

Her conclusion? These high-performing companies were both extremely stable, with certain organizational features that remained the same for long stretches, and rapid innovators that could adjust and readjust their resources quickly.

The ability to be both stable and dynamic, the essence of true organizational agility, is most easily grasped through a simple product analogy. Smartphones have become ubiquitous in part because of their design and functionality. The hardware and operating system form a stable foundation. But a dynamic application layer builds in “white space” for new apps to be added, updated, modified, and deleted over time as requirements change and new capabilities develop.

In the same way, agile companies design their organizations with a backbone of stable elements. These foundations, like a smartphone’s hardware and operating system, are likely to endure over a reasonable period. They might last a couple of years in the smartphone’s case, and more like five to ten years in a company’s. These agile companies also have more dynamic capabilities: organizational “apps” to plug and play as new opportunities arise or unexpected challenges threaten to destabilize formerly protected profit streams. (For examples of these capabilities see Exhibit 2.)

Balancing the tension

Our work has highlighted three core organizational areas where balancing this tension between stability and flexibility is critical: organizational structure, which defines how resources are distributed; governance, which dictates how decisions are made; and processes, which determine how things get done, including the management of performance.

Structure

Traditional hierarchies – boxes and lines on the org chart – typically specify where work gets done and performance is measured, and who’s responsible for awarding bonuses. All this generally involves a boss (or two in matrix organizations), who oversees work and manages direct reports (see box “Moving away from the mechanistic”).

Agile organizations, by contrast, deliberately choose which dimension of their organizational structure will be what we call their “primary” one. This choice will dictate where individual employees work – in other words, where they are likely to receive coaching and training and where the infrastructure around their jobs is located. Day-to-day work, performance measurement, and the determination of rewards, however, are more likely to happen in teams that cut across formal structures. The primary home of employees remains an anchor along their career paths, while the crosscutting teams form, dissolve, and re-form as resources shift in response to market demands. Sometimes these dynamic teams show up in the org chart, typically in the form of business lines, market segments, or product units. At other times, they don’t, notably in a holacracy or other start-up organizational forms.

Moving away from the mechanistic

To take the first step in joining the agile high-performing class, a company must challenge some of the most deeply held principles of organizational theory. Influenced by Frederick Taylor's and Max Weber's powerful ideas, first propounded roughly a century ago, many large businesses still think their organizations should operate like integrated machines comprising working parts that fit together seamlessly, like a smoothly running automobile.

In this machine view, organizations should be designed to run like clockwork. Organizational structures should follow rules that determine where resources, power, and authority lie, with clear boundaries for each role and an established hierarchy for oversight. When decisions require collaboration, governance committees should bring together business leaders to share information and to review proposals coming up from the business units. All processes should be designed in a very precise, deliberate way to ensure that the organization runs as it should and that employees can rely on rules, handbooks, and priorities coming from the hierarchy to execute tasks. Structure, governance, and processes should fit together in a clear, predictable way.

Today's problem is that by the time companies have designed this kind of structure, the world has already moved on and it's time to change again. In a McKinsey survey conducted in 2015, the executives responding told us that at least half of their companies are making significant structural changes, at either the unit or the enterprise level, as frequently as every two or three years. The redesigns often take one or two years to complete.⁴ Why do these companies redesign themselves so frequently? A mechanistic approach logically leads executives to go back to the drawing board and redesign how the organization will work when things change. But in today's fast-changing world, this approach results in almost constant disruption and change fatigue. Even worse, only 23 percent of the redesigns in our sample were deemed successful by our respondents. They thought that most of the others had destroyed value.

The issue is that traditional mechanistic approaches to setting up and running organizations have tended to slow and restrain the creativity, innovation, and self-organization that social and technological developments could unleash. Internet companies like Wikipedia have harnessed enormous collective power with new models of collaboration. But executives in long-established and even blue-chip companies often feel trapped. Instead of developing the organization, many have yet to abandon the mechanistic model, which favors control and a precise engineering mind-set.

⁴ For additional research findings, see Steven Aronowitz, Aaron De Smet, and Deirdre McGinty, "Getting organizational redesign right," *McKinsey Quarterly*, June 2015, on mckinsey.com.

A global chemical manufacturer we know illustrates the benefits of this approach. Struggling to get traction on a new, increasingly international strategy, it changed its long-standing business-unit structure. Functions – that is, technical, sales, supply-chain, and customer-service resources – became the primary home for employees. At the same time, the company established a small product-line organization with P&L accountability, considerable decision-making authority, and a head who reports directly to the CEO. This “secondary” (product-line) organization holds the enterprise view for overall profitability and thus autonomously synthesizes product strategy, decides where and how the company should invest its resources, and drives collaboration across functions and geographies.

Thanks to these changes, the company now has a better position to move quickly and without major disruptions, as new and varied opportunities in emerging markets, notably China, present themselves. An application engineer in China, for example, might work in an office with the local sales team and report to a primary technical-support function in the org chart. That engineer could one moment be serving on a team developing a chemical product for the medical market and then be redeployed to a new team when an opportunity arises to supply that product to the Chinese construction industry. The roles, capabilities, and accountabilities of this engineer will be the responsibility of the more stable functional unit. But to use the smartphone analogy, the engineer’s work teams are a dynamic, perhaps temporary application layer on top of the long-term organizational backbone.

A fast-growing online company we know applies the same logic. Its primary dimension revolves around functions. Dynamism comes from a series of performance units for customers with the same needs and product requirements. These market segments are not hardwired into the formal structure; they are temporary performance cells, populated by employees from across the organization (IT, marketing, finance) and reviewed every 90 days through clearly defined key performance indicators (KPIs). Senior executives then decide whether to keep these cells going, switch them off, or give them more or fewer resources. The reallocation process tends to be much more dynamic in this environment than in traditional structures. Why? The new market segments don’t own the resources; the functions do. Customer units that have the greatest potential and perform well get the most resources. Those that have limited potential or perform poorly eventually die.

Another structural lesson from agile companies is that once they have chosen their primary dimension, that choice remains consistent over time. Coca-Cola, which has delivered top-quartile shareholder returns for years, has long implicitly understood this stable-dynamic paradox. Over many years, its organizational structure has integrated dominant geographic units (regions and countries) as the primary axis, and a second dimension around a few strong central functions (marketing, finance, HR, and the like) in a well-understood, and largely unchanging, basic operating model. Adjustments are often made to the specifics as new issues and opportunities arise, but the essence of the matrix structure – i.e., geographic units as the primary axis, intersecting with strong key functions – has remained virtually unchanged for many years.

Contrast this approach with that of an international consumer-goods company we know which developed and implemented a painful redesign of its regional operations more than a year ago. It found that by the time the changes were finally taking hold, a further shift in the market had made the new organization redundant. In the smartphone analogy, this company had hardwired the anticipated needs into its structure but had not built a dynamic capability that would allow the new arrangements to endure over time.

Agile companies have learned that the stability of an organizational home is critical because it helps companies to redeploy employees in less successful cells more easily and rapidly, with little of the disruption and fear over job losses that traditionally deter and hinder change. We're not talking about fixed-term projects with a clear end date but rather about an open-ended deployment that could last a few weeks – or a few years. Functional heads therefore have the responsibility to provide coaching and develop capabilities that enable people to move on quickly to the next opportunity, opening a new door when an old one closes.

Governance

The idea behind agile governance is to establish both stable and dynamic elements in making decisions, which typically come in three types. We call big decisions where the stakes are high Type I; frequent decisions that require cross-unit dialogue and collaboration, Type II; and decisions that should be parsed into smaller ones and delegated as far down as possible, often to people with clear accountability, Type III.

It is Type II topics that most often hinder organizational agility. Companies that have successfully addressed this problem define which decisions are best made in committees and which can be delegated to direct reports and to people close to the day-to-day action. They also establish clear charters for committee participants and clarify their responsibilities – avoiding, in particular, overlapping roles. This is the stable backbone. But these companies also make speedy decisions and adapt to changing circumstances: they dynamically rotate individual members of such committees, hold virtual meetings when necessary, and spend their meetings engaging in robust discussion and real-time decision making rather than in sharing information through endless presentations, many dealing with issues that have already been resolved.

Take an energy company which introduced a new approach after realizing that its internal governance was broken. It found, for example, that the executive committee actually had no explicit decision rights: the committee's meeting agenda was set by the CEO's executive assistant after lobbying from individual executives, and the vast majority of meeting time was spent listening and reacting to presentations. To address the problem, the company appointed a chief of staff to manage meetings and declared a meeting-time target of 90 percent dialogue, debate, and decision making. The CEO asked meeting participants to watch recorded presentations as part of their "pre-read," and that alone cut presentations and information sharing to less than 10 percent of the total meeting time. The company also clarified the responsibilities and voting rights of meeting participants and set up a strategy group to engage

with a broader set of nonvoting leaders on the more important decisions. Thanks to a new spirit of collaboration and trust, there are no longer “meetings after the meeting” to talk about what didn’t come up earlier.

The introduction of a mandate for balanced governance, with a charter and clear decision rights at its core, also had a galvanizing effect on the agility of a major global healthcare business we know. Previously, a simple product enhancement for a particular country required a torturous half-year approval process involving six overlapping committees. Now a single cross-functional team can make this sort of decision in a matter of weeks. A second team is involved in certain cases, though only to improve coordination, not as part of the decision-making process. Clear authority thresholds, below which no higher-level approval is necessary, are in place for product-group leaders. Thanks to greater clarity about voting rights and committee-chairing responsibilities, it is now easy to convene the core team or to make urgent decisions virtually and over the phone.

Process

Much as agile companies underpin the new dynamism with a degree of stability in their structure and governance, they create a stable backbone for key processes. These are usually signature processes, which these companies excel at and can explicitly standardize but are hard for competitors to replicate. In a brand- and innovation-driven consumer-goods company such as P&G, for example, product development and external communication are high on the list of signature processes. Amazon’s synchronized supply chain, with its common language and standards identifying clear decision rights and handoffs, is another. In many companies, idea to market, market to order, and order to cash are signature processes. When everyone understands how these key tasks are performed, who does what, and how (in the case of new initiatives) stage gates drive the timetable for new investment, organizations can move more quickly by redeploying people and resources across units, countries, and businesses. In other words, everyone must speak the same standardized language.

When that kind of standardization is lacking, agility suffers. Executives at one highly diversified global technology company we know noted how slowly local units were responding to new initiatives. On closer examination, the leaders discovered that those involved invariably devised their own customized processes as part of any solution. The result? Essentially identical processes had multiple variants, each with its own governance conventions and different and duplicative structures. Employees spent too much time on internal discussions about best practices, methodologies, and process frameworks and not enough on actively improving their own ways of working.

The company has now created a common operational language, codified in one standard process framework for all 60 businesses in its portfolio. It harmonized these processes where feasible but also spelled out the allowable degree of differentiation for business models or for the needs of specific customer segments. As a result, the company could further simplify and harmonize roles and job titles. It can now execute any operational activity in just seven standard value chains covering 22 processes, such as order to cash.

Extra dynamism comes from two new overarching roles in the organization – those of a business-process owner, who champions and improves each signature process, and an integrator, responsible for cross-functional collaboration, execution, and performance management. The integrator is accountable for meeting specific end-to-end KPIs and targets and for leading cross-functional teams executing processes. The rollout is in its early stages. Nonetheless, there is a growing realization, across the organization, that while the old approach seemed fast and responsive to local needs, the new one enables the company to move even more quickly, without having to change processes constantly.

Performance management is particularly crucial in the context of agile processes. In many businesses, a top-down strategy guides efforts to realize the CEO's and top team's targets, which are cascaded down the organization to business units, smaller units, and ultimately individuals. Along the way, each function, product group, and territory develops its own metrics, often in isolation from – or even at cross-purposes with – other departments working toward the same end. Silos are thus reinforced, and dysfunction rears its head.

One company we know moved from this top-down target-setting approach to one involving a set of performance metrics jointly owned across the value chain. Originally, the sales leaders, rewarded by top-line numbers, tended to inflate inventory needs at the start of a production cycle. Meanwhile, the logistics managers, judged by waste-minimization targets, significantly reduced that figure when they could. The supply chain therefore often exceeded its targets, but salespeople frequently ran out of stock and key customers were alienated. To solve this problem, the company built a few common KPIs (sales-forecast accuracy and customer satisfaction) into the incentives of sales, logistics, and manufacturing managers, so that all functions had some stake in business outcomes. This change laid the foundation for regular team targets, reset every quarter; more frequent performance conversations, both for individuals and teams; and additional peer reviews – changes that have enabled the company to become more agile.

□ □ □

Agile companies regularly rethink and, if necessary, redesign their structures, governance mechanisms, and processes to strike a balance between speed and stability. But a company attempting to become more agile may find the effort daunting. One critical prerequisite for sustaining real change is putting in place the behavioral norms required for success. This is not about making cultural statements or listing company values; it is, rather, a matter of instilling the right kinds of behavior for “how we do things around here.”

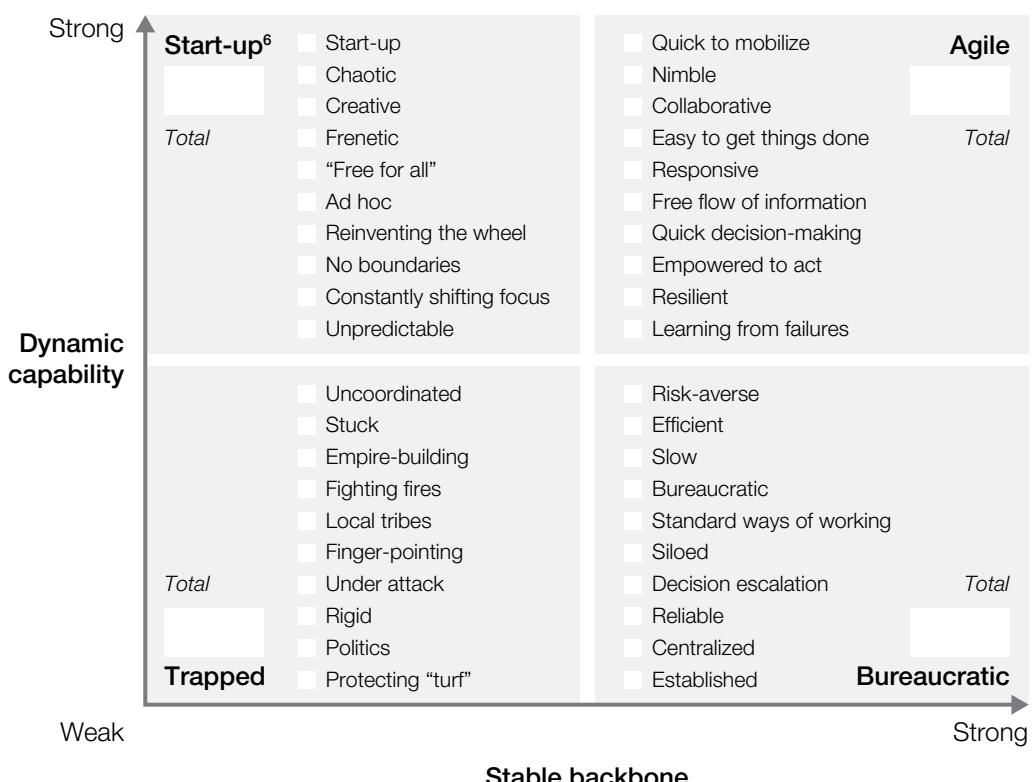
While agile companies seem to share a few behavioral norms, such as a bias for action and the free flow of information, other norms vary according to the nature of the company and the specific recipe it adopts to encourage a healthy, high-performing culture.⁵ The clearer and more widely adopted these kinds of behavior become throughout all levels and units of a company, the easier it will be to change structures, governance, and processes in pursuit of agility.

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Exhibit 1 – Worksheet: where does your organization fall today?

Place a check mark by every word that describes how it currently feels to work at your company. Total the number checked in each quadrant to see where your company falls.

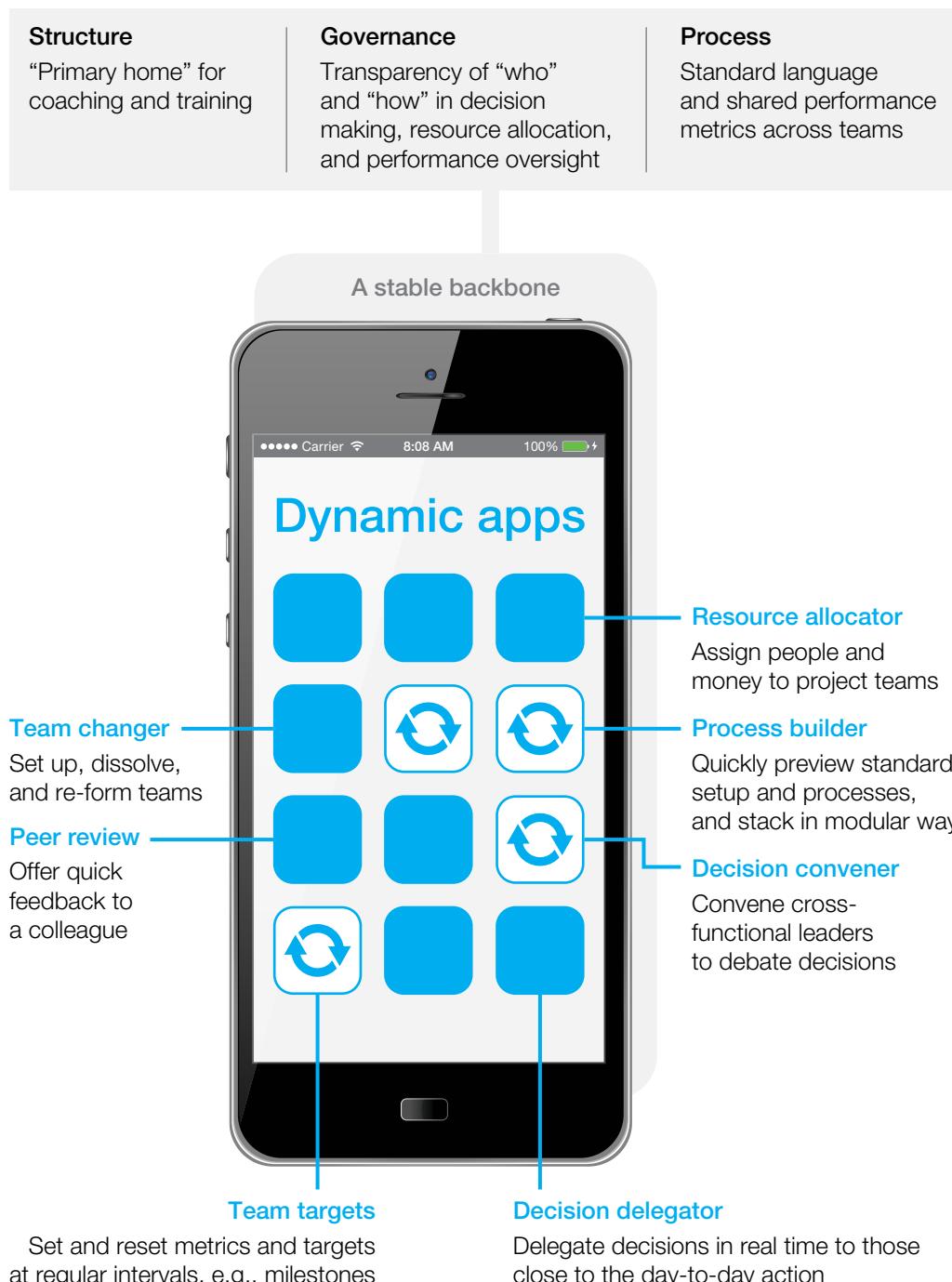


⁵ For more, see Aaron De Smet, Bill Schaninger, and Matthew Smith, “The hidden value of organizational health – and how to capture it,” *McKinsey Quarterly*, April 2014, on mckinsey.com.

⁶ Exhibiting the characteristics of a start-up.

Exhibit 2 – Agility and the smartphone: an analogy

The phone's fixed hardware platform and space for new apps mirrors the agile organization's stable backbone and dynamic capability to add, abandon, replace, and update "apps." Together, these allow the organization to respond quickly to market changes.





Why agility pays

Michael Bazigos, Aaron De Smet, and Chris Gagnon

New research shows that the trick for companies is to combine speed with stability.

Over the past decade, we've studied the impact of a wide range of management practices on different dimensions of organizational health¹. This analysis, based on surveys of more than two million respondents at over 1,000 companies, has become a stable baseline for understanding the incremental contributions of specific organizational and leadership characteristics to the health, positive and negative, of the companies in our sample.

We've long inquired into the processes and structures that reinforce organizational stability. But from November 2013 to October 2014, we added questions, for the first time, on speed and flexibility. Our goal was to discover how often leaders and managers moved quickly when challenged and how rapidly organizations adjusted to changes and to new ways of doing things.

Taken together, these two sets of questions, old and new, provided the foundation for a simple matrix, comprising a speed axis and a stability axis. The matrix turns out to be a surprisingly strong predictor of organizational health and, ultimately, of performance. We describe companies that combine speed and stability as agile (see box, "A word on methodology").

A word on methodology

We measured speed by asking survey respondents how often they observed their leaders (and, separately, managers) making important decisions quickly and their organizations adjusting rapidly to new ways of doing things. We measured stability by asking respondents how often they observed their organizations implementing clear operating goals and metrics, setting clear standards and objectives for work, establishing structures that promote accountability, designing jobs with clear objectives, and devising processes to document knowledge and ideas.

The percentage of respondents who answered "often" or "almost always" compared to all respondents was calculated for all companies, resulting in the Agility Index.

No one would expect sluggish companies to thrive. It's equally reasonable to assume that success achieved through breakneck speed, without stabilizing processes and structures underfoot, will be hard to sustain over the long term. Yet some executives might not only reasonably maintain that speed and stability pull in opposite directions but also hypothesize that they may be negatively correlated. Our latest research, however, confirms that the opposite is true.

It's significant that all 37 of the management practices we scrutinize, when combined with speed and stability, generated better outcomes in their respective dimensions of health, as well as better overall health. In 4 of the 37 – financial management, financial incentives, capturing external ideas, and involving employees in shaping a company's vision – speed and stability had a particularly striking impact.

¹ We define health as an organization's ability to align, execute, and renew itself faster than the competition does and thus to sustain exceptional performance over time.

When we divided the companies in our sample² among different groups based on their relative stability and speed scores³, things got even more interesting (Exhibit 1):

- Relatively few companies stood out as being especially agile: 58 percent of them had speed scores, stability scores, or both that hovered near average.
- An additional 22 percent of companies in our sample were slow – either slow and unstable, a group we describe as trapped (14 percent), or slow and stable, which we call bureaucratic (the remaining 8 percent). These slow companies generally have poor organizational health: in fact, they had the lowest percentage of companies with top-quartile organizational-health scores in our sample: only 5 percent for trapped companies and 17 percent for bureaucratic ones.
- In our sample 20 percent of the companies were fast. Another 8 percent were fast, pure and simple – a group we describe as “start-up.” (These companies were not start-ups, but resembled start-ups in their speed, irrespective of size.) The rest (12 percent), which we call agile, combined speed with stability. All of these fast companies had better organizational-health scores than the other 80 percent did. Agile companies, however, enjoyed a far greater premium: the odds that one of them would rank in the top quartile for organizational health were 70 percent (Exhibit 2). Fewer “start-ups” enjoyed top-quartile performance, but this quadrant was our only nonagile category in which a majority of the companies (52 percent) had health scores above the median.

Given the striking outperformance of the agile companies, we conducted additional analyses to better understand the characteristics and benefits of agility. For example, we identified the ten management practices that differentiated our sample’s most agile companies from the least agile ones (Exhibit 3). This analysis showed the following:

- Both role clarity and operational discipline are highly ranked practices among agile organizations (those in the top quartile of the Agility Index) but not among the least agile ones (the bottom quartile). This is powerful evidence that part of what makes agile companies special is their ability to balance fast action and rapid change, on the one hand, with organizational clarity, stability, and structure, on the other.
- Agile organizations appear to be powerful machines for innovation and learning. Their performance stands out in three of the four management practices – top-down innovation, capturing external ideas, and knowledge sharing – associated with that outcome.
- Agile companies seem to be strong at motivation. Five practices on the Organizational Health Index promote it, and these companies particularly excel at two of them: meaningful values and inspirational leadership.

The achievements of one of the most agile organizations we studied, a business-process-outsourcing company, emphasize the importance of balancing speed and stability. Financially successful and growing, it has captured market share by rapidly entering new geographical

² These observations rest on a global study of 161 companies around the world. In this effort, we used our Organizational Health Index (OHI), including the new matrix, to survey more than 365,000 individual employees.

³ Relative scores are the difference between index scores and those expected by the OHI score.

markets. But it is equally adept at exiting markets that contract. In 2014, the company extricated itself from them so effectively that it offset declining revenues by capturing new operational efficiencies in the most profitable markets. In this way, it continued to increase earnings before interest, taxes, depreciation, and amortization (EBITDA).

By way of contrast, let's look at a bureaucratic organization and at a "start-up" organization we know. The former is a leading professional-services firm specializing in audit, tax, and advisory services. Its processes and structure are stable to a fault. Of course, the industry is highly regulated by many government and judicial entities. But while the firm's competitors have found ways to act quickly, this one is dogged by an obsession with compliance and a blind determination to minimize litigation risk.

For example, it deliberately avoids storing assessments of its employees – an unusual choice, since most other companies have elaborate talent-management databases. (The compliance officer's rationale is that a dissatisfied client might start discovery proceedings in a future lawsuit and find out that the firm knew about a relevant issue concerning the person at the center of such a case.) A board composed entirely of senior partners, many of them CEO aspirants, exacerbates the firm's cumbersome decision making. Not surprisingly, it has been trailing its competitors in major performance categories each year.

The "start-up" organization was a joint venture between the divisions of two large technology companies, one North American and one from continental Europe, responsible for a similar range of consumer offerings. The joint venture's main product line was communications equipment. It celebrated an early win, producing an award-winning product that generated high demand. That device was designed by just one person in record time, an achievement showing exemplary speed and flexibility. But this person's three functional titles – all at the senior level – were far from optimal for the next stage of the joint venture's development. With little thought given to designing replicable innovation processes, the joint venture found it impossible to develop another winning product. The speed that had been its hallmark began to wane as management focused on the constant renegotiations between the two parties. These unhealthy levels of internal competition caused leaders to lose sight of external threats. The joint venture ended as a one-hit wonder.

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Our earlier research consistently showed a strong relationship between organizational health and the creation of value: the healthiest companies far outpace those with moderate or low health in long-term total returns to shareholders.⁴ Our new analyses suggest that speed and stability are significant catalysts for organizational health and performance.

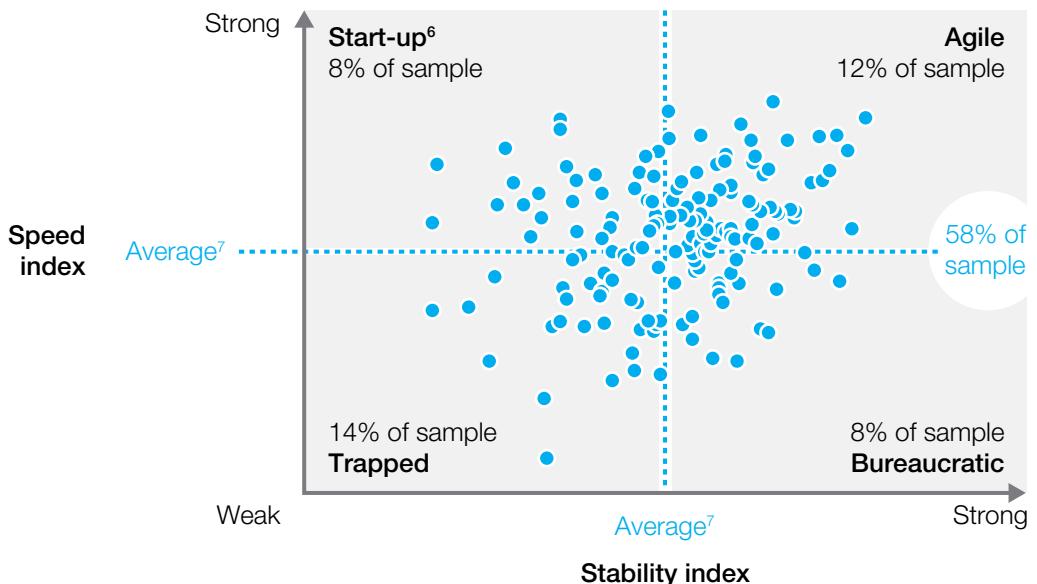
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⁴ See Aaron De Smet, Bill Schaninger, and Matthew Smith, "The hidden value of organizational health – and how to capture it," *McKinsey Quarterly*, April 2014, mckinsey.com.

**Exhibit 1 – Few companies excelled in either relative speed or stability –
58 percent hovered near average**

Distribution of 161 companies by Organizational Health Index (OHI) scores⁵



**Exhibit 2 – 70 percent of agile companies rank in the top quartile
of organizational health**

Share of companies within each category for OHI scores⁵, by quartile

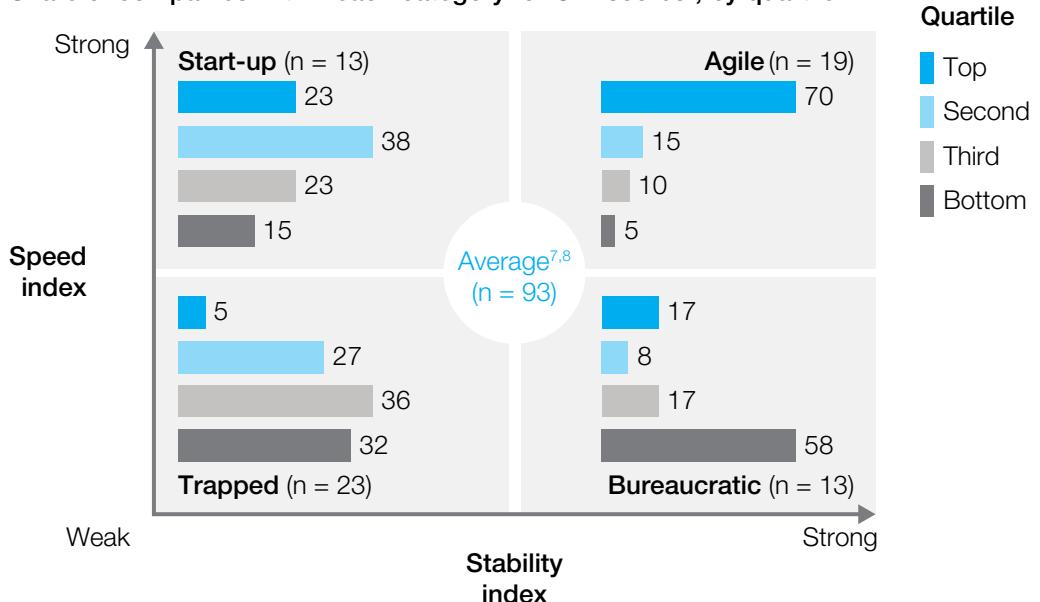


Exhibit 3 – Ten management practices differentiated the most from the least agile companies

Ranking of 161 companies based on OHI scores

Practice	Most agile	►	Least agile	Associated outcome
Role clarity	1	34	35	Accountability
Top-down innovation	2	35	37	Innovation and learning
Capturing external ideas	3	24	27	Innovation and learning
Process-based capabilities	4	15	19	Capabilities
Operationally disciplined	5	28	33	Culture and climate
Internally competitive	6	23	29	Culture and climate
Meaningful values	7	24	31	Motivation
Knowledge sharing	8	13	21	Innovation and learning
Inspirational leaders	9	23	32	Motivation
People-performance review	10	10	20	Coordination and control

⁵ Scores have been adjusted to remove the portion of OHI variance shared by the factors of speed and stability to highlight the specific contribution of each factor (speed or stability) along its axis.

⁶ That is, companies with a mode of operating suited to a very small start-up (not actual start-ups).

⁷ Mean \pm 0.50 standard deviation on each axis of matrix.

⁸ These 93 companies were nearly evenly spread across quartiles for organizational health.



Getting organizational redesign right

Steven Aronowitz, Aaron De Smet, and Deirdre McGinty

Companies will better integrate their people, processes, and structures by following nine golden rules.

"If at first you don't succeed, try, try, try again." If W. E. Hickson, the British author known for popularizing that familiar proverb in the mid-19th century, were alive today, he might easily be applying it (disparagingly) to the efforts of modern corporations to redesign their organizations.

Recent McKinsey research surveying a large set of global executives suggests that many companies, these days, are in a nearly permanent state of organizational flux. Almost 60 percent of the respondents, for example, told us they had experienced a redesign within the past two years, and an additional 25 percent said they experienced a redesign three or more years ago. A generation or two back, most executives might have experienced some sort of organizational upheaval just a few times over the course of their careers.

One plausible explanation for this new flurry of activity is the accelerating pace of strategic change driven by the disruption of industries. As a result, every time a company switches direction, it alters the organization to deliver the hoped-for results. Rather than small, incremental tweaks of the kind that might have been appropriate in the past, today's organizations often need regular shake-ups of the Big Bang variety.

Frustratingly, it also appears that the frequency of organizational redesign reflects a high level of disappointment with the outcome. According to McKinsey's research, less than a quarter of organizational-redesign efforts succeed. Forty-four percent run out of steam after getting under way, while a third fail to meet objectives or improve performance after implementation.

The good news is that companies can do better – much better. In this article, we'll describe what we learned when we compared successful and unsuccessful organizational redesigns and explain some rules of the road for executives seeking to improve the odds. Success doesn't just mean avoiding the expense, wasted time, and morale-sapping skepticism that invariably accompany botched attempts; in our experience, a well-executed redesign pays off quickly in the form of better-motivated employees, greater decisiveness, and a stronger bottom line.

Why redesign the organization?

Organizational redesign involves the integration of structure, processes, and people to support the implementation of strategy and therefore goes beyond the traditional tinkering with "lines and boxes." Today, it comprises the processes that people follow, the management of individual performance, the recruitment of talent, and the development of employees' skills. When the organizational redesign of a company matches its strategic intentions, everyone will be primed to execute and deliver them. The company's structure, processes, and people will all support the most important outcomes and channel the organization's efforts into achieving them.

When do executives know that an organization isn't working well and that they need to consider a redesign? Sometimes the answer is obvious: say, after the announcement of a big new regional-growth initiative or following a merger. Other signs may be less visible – for example, a sense that ideas agreed upon at or near the top of the organization aren't being translated

quickly into actions or that executives spend too much time in meetings. These signs suggest that employees might be unclear about their day-to-day work priorities or that decisions are not being implemented. A successful organizational redesign should better focus the resources of a company on its strategic priorities and other growth areas, reduce costs, and improve decision making and accountability.

The case of a consumer-packaged-goods (CPG) company that chose to expand outside its US home base illustrates one typical motivation for a redesign. Under the group's previous organizational structure, the ostensibly global brand team responsible for marketing was not only located in the United States but had also been rewarded largely on the performance of US operations; it had no systems for monitoring the performance of products elsewhere. To support a new global strategy and to develop truly international brands and products, the company separated US marketing from its global counterpart and put in place a new structure (including changes to the top team), new processes, new systems, and a new approach to performance management. This intensive redesign helped promote international growth, especially in key emerging markets such as Russia (where sales tripled) and China (where they have nearly doubled).

Avoiding the pitfalls

That CPG company got it right – but many others don't, and the consequences can be profoundly damaging. Leaders who fail to deliver the benefits they promise not only waste precious time but also encourage employees to dismiss or even undermine the redesign effort, because those employees sense that it will run out of steam and be replaced by a new one, with different aims, two to three years down the line.

We believe that companies can learn from the way successful redesigners overcome challenges. By combining the results of our research and the insights we've gained from working with multiple companies on these issues, we've identified nine golden rules. They cover everything from early alignment, redesign choices, and reporting structures to performance metrics, the nature of effective leadership, and the management of risks.

Individually, each of the rules is helpful. Our research shows, though, that 73 percent of the executives whose companies followed more than six of them felt that the organizational redesign had succeeded. Executives at these companies were six times more likely to "declare victory" than those at companies that adopted just one or two. Following all nine rules in a structured approach yielded an even higher success rate: 86 percent (Exhibit 1).

The rules, it's important to make clear, are not self-evident. We tested more than 20 common approaches and found that upward of half of them weren't correlated with success. We expected, for example, that benchmarking other companies and trying to adopt some of their structural choices might be an important ingredient of successful redesigns – but there is no evidence from the research that it is. Our rules, incidentally, are broadly relevant for different industries,

regions, and company sizes. They also hold true for redesigns prompted by different types of organizational change, including end-to-end restructurings, postmerger integration, or more focused efforts (such as cost cutting or improvements in governance).

1. Focus first on the longer-term strategic aspirations

Leaders often spend too much time on the current deficiencies of an organization. It's easy, of course, to get fixated on what's wrong today and to be swayed by the vocal (and seemingly urgent) complaints of frustrated teams and their leaders. However, redesigns that merely address the immediate pain points often end up creating a new set of problems. Companies should therefore be clear, at the outset, about what the redesign is intended to achieve and ensure that this aspiration is inextricably linked to strategy. One retail company we know, strongly committed to creating a simple customer experience, stated that its chosen redesign option should provide "market-segment-focused managerial roles with clear accountability" for driving growth. The specificity of that strategic test proved much more helpful than simply declaring a wish to "become customer-centric."

2. Take time to survey the scene

Sixty percent of the executives in our survey told us they didn't spend sufficient time assessing the state of the organization ahead of the redesign. Managers can too easily assume that the current state of affairs is clear and that they know how all employees fit into the organizational chart. The truth is that the data managers use are often inaccurate or out of date. A high-profile international bank, for example, publicly announced it was aiming to eliminate thousands of staff positions through an extensive organizational redesign. However, after starting the process, it discovered to its embarrassment that its earlier information was inaccurate. Tens of thousands of positions, already referenced in the press release, had been inaccurately catalogued, and in many cases employees had already left. This new organizational reality radically changed the scope and numbers targeted in the redesign effort.

Knowing the numbers is just part of the story. Leaders must also take time to understand where the lines and boxes are currently drawn, as well as the precise nature of talent and other processes. That helps unearth the root causes of current pain points, thereby mitigating the risk of having to revisit them through a second redesign a couple of years down the road. By comparing this baseline, or starting point, with the company's strategic aspirations, executives will quickly develop a nuanced understanding of the current organization's weaknesses and of the strengths they should build on.

3. Be structured about selecting the right blueprint

Many companies base their preference for a new structure on untested hypotheses or intuitions. Intuitive decision making can be fine in some situations but involves little pattern recognition, and there is too much at stake to rely on intuition in organizational redesign. Almost four out

of five survey respondents who owned up to basing decisions on “gut feel” acknowledged that their chosen blueprint was unsuccessful. In our experience, companies make better choices when they carefully weigh the redesign criteria, challenge biases, and minimize the influence of political agendas.

Interestingly, Fortune magazine found that its most admired companies had little in common when it came to aspects of their organizational design, beyond a flexible operating model.¹ This finding is consistent with our experience that off-the-shelf solutions aren’t likely to work. The unique mix of strategy, people, and other assets within a company generally requires an individual answer to things like role definition, decision-making governance, and incentives, albeit one based on a primary dimension of function, geography, or customer segment. The key is to get the right set of leaders reviewing options with an open mind in the light of redesign criteria established by the strategic aspiration.

Take a large public pension system we know. Its leaders convinced themselves that a new organization must be set up along product lines. Challenged to reconsider their approach, they ultimately arrived at a functional model – built around health, pensions, and investment – that has served the system well over the past five years and underpinned significant cost savings and the launch of innovative products.

4. Go beyond lines and boxes

A company’s reporting structure is one of the most obvious and controllable aspects of its organization. Many leaders tend to ignore the other structure, process, and people elements that are part of a complete redesign, thereby rearranging the deck chairs but failing to see that the good ship Titanic may still be sinking.

Companies such as Apple and Pixar are well known for going far beyond lines and boxes, taking into account questions such as where employees gather in communal spaces and how the organizational context shapes behavior. One small but fast-growing enterprise-software player we know made some minor changes to senior roles and reporting as part of a recent organizational redesign. But the biggest impact came from changing the performance-management system so that the CEO could see which parts of the company were embracing change and which were doing business as usual.

Surveyed companies that used a more complete set of levers to design their organizations were three times more likely to be successful in their efforts than those that only used a few. The strongest correlation was between successful redesigners and companies that targeted at least two structural-, two process-, and two people-related redesign elements.

¹ Mina Kimes, “What admired firms don’t have in common,” Fortune, March 6, 2009, archive.fortune.com.

5. Be rigorous about drafting in talent

One of the most common – and commonly ignored – rules of organizational redesign is to focus on roles first, then on people. This is easier said than done. The temptation is to work the other way around, selecting the seemingly obvious candidates for key positions before those positions are fully defined.

Competition for talent ratchets up anxiety and risk, creating a domino effect, with groups poaching from one another to fill newly created gaps. This is disruptive and distracting. A talent draft that gives all units access to the same people enables companies to fill each level of the new organizational structure in an orderly and transparent way, so that the most capable talent ends up in the most pivotal roles. This approach promotes both the perception and the reality of fairness.

Powerful technology-enabled solutions allow companies to engage hundreds of employees in the redesign effort in real time, while identifying the cost and other implications of possible changes. One Web-based tool we've seen in action – full disclosure: it's a McKinsey application called OrgLab – helps leaders to create and populate new organizational structures while tracking the results by cost, spans, and layers. Such tools expand the number of people involved in placing talent, accelerate the pace, and increase the level of rigor and discipline.

6. Identify the necessary mind-set shifts – and change those mind-sets

Leaders of organizational-redesign efforts too often see themselves as engineers and see people as cogs to be moved around the organizational machine. Organizations, however, are collections of human beings, with beliefs, emotions, hopes, and fears. Ignoring predictable, and sometimes irrational, reactions is certain to undermine an initiative in the long run. The first step is to identify negative mind-sets and seek to change the way people think about how the organization works. Actions at this stage will likely include communicating a compelling reason for change, embodying the new mind-sets, putting in place mechanisms that reinforce the case for change and maintain momentum, and building new employee skills and capabilities.

One company in the payments industry – beset by changing consumer habits, technology-led business models, and regulatory pressure – understood the importance of shifting mind-sets as part of its recent redesign. The group's sales team traditionally worked well with large retailers and banks. But looking ahead, the company knew it would be important to establish a new set of relationships with high-tech hardware and software players. Simply appointing a new boss, changing role descriptions, and drawing up a revised process map wasn't enough. The company therefore embarked on a program that consciously sought to shift the thinking of its sales experts from “we create value for our customers” to “we create value with our partners.”

7. Establish metrics that measure short- and long-term success

Nobody would drive a car without a functioning speedometer, yet a surprising number of companies roll out an organizational redesign without any new (or at least specially tailored) performance metrics. Some older ones might be relevant, but usually not the whole set. New metrics, typically focusing on how a changed organization is contributing to performance over the short and long term, are best framed at the aspiration-setting stage. Simple, clear key performance indicators (KPIs) are the way forward.

During the redesign effort of one high-tech manufacturer, it set up a war room where it displayed leading indicators such as orders received, orders shipped, supply-chain performance, and customer complaints. This approach helped the company both to measure the short-term impact of the changes and to spot early warning signs of disruption.

One utility business decided that the key metric for its efficiency-driven redesign was the cost of management labor as a proportion of total expenditures on labor. Early on, the company realized that the root cause of its slow decision-making culture and high cost structure had been the combination of excessive management layers and small spans of control. Reviewing the measurement across business units and at the enterprise level became a key agenda item at monthly leadership meetings.

A leading materials manufacturer introduced a new design built around functional groups, such as R&D, manufacturing, and sales, but was rightly anxious to retain a strong focus on products and product P&Ls. To track performance and avoid siloed thinking, the company's KPIs focused on pricing, incremental innovation, and resource allocation.

8. Make sure business leaders communicate

Any organizational redesign will have a deep and personal impact on employees – it's likely, after all, to change whom they report to, whom they work with, how work gets done, and even where they work. Impersonal mass communication about these issues from the corporate center or a program management office will be far less reassuring than direct and personal messages from the leaders of the business, cascaded through the organization. An interactive cascade (one that allows two-way communication) gives people an opportunity to ask questions and forces top leaders to explain the rationale for change and to spell out the impact of the new design in their own words, highlighting the things that really matter. This can take time and requires planning at an early stage, as well as effort and preparation to make the messages compelling and convincing. When a top team has been talking about a change for weeks or months, it's all too easy to forget that lower-ranking employees remain in the dark.

One financial-services company encouraged employee buy-in for an organizational redesign by staging a town-hall meeting that was broadcast in real time to all regional offices and featured all its new leaders on a single stage. The virtual gathering gave them an opportunity

to demonstrate the extent of their commitment and allowed the CEO to tell her personal story. She shared the moment when she realized that the organization needed a new design and the changes she herself was making to ensure that it was successful. All employees affected by the changes could simultaneously talk to their former managers, their new managers, and the relevant HR representatives.

9. Manage the transitional risks

In the rush to implement a new organizational design, many leaders fall into the trap of going live without a plan to manage the risks. Every organizational redesign carries risks such as interruptions to business continuity, employee defections, a lack of personal engagement, and poor implementation. Companies can mitigate the damage by identifying important risks early on and monitoring them well after the redesign goes live. The CPG company mentioned earlier, for example, realized that rolling out its reorganization of sales and marketing ahead of the holiday season might unsettle some of those involved. By waiting, it made the transition with no impact on revenues.

Tracking operational, financial, and commercial metrics during a design transition is helpful, as are “pulse checks” on employee reactions in critical parts of the company. Clear leadership accountability for developing and executing risk-mitigation plans is so important that this should be built into regular appraisals of managers.

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In our experience the most successful organizations combine stable design elements with dynamic elements that change in response to evolving markets and new strategic directions. Corporate redesigns give organizations a rare opportunity to identify the stable backbone and set up those elements ripe for dynamic change. Successful leaders and successful companies take advantage of such changes to “rebuild the future” – but a landscape littered with failed efforts is a sobering reminder of what’s at stake. Following the nine simple rules described in this article will increase the odds of a happy outcome.

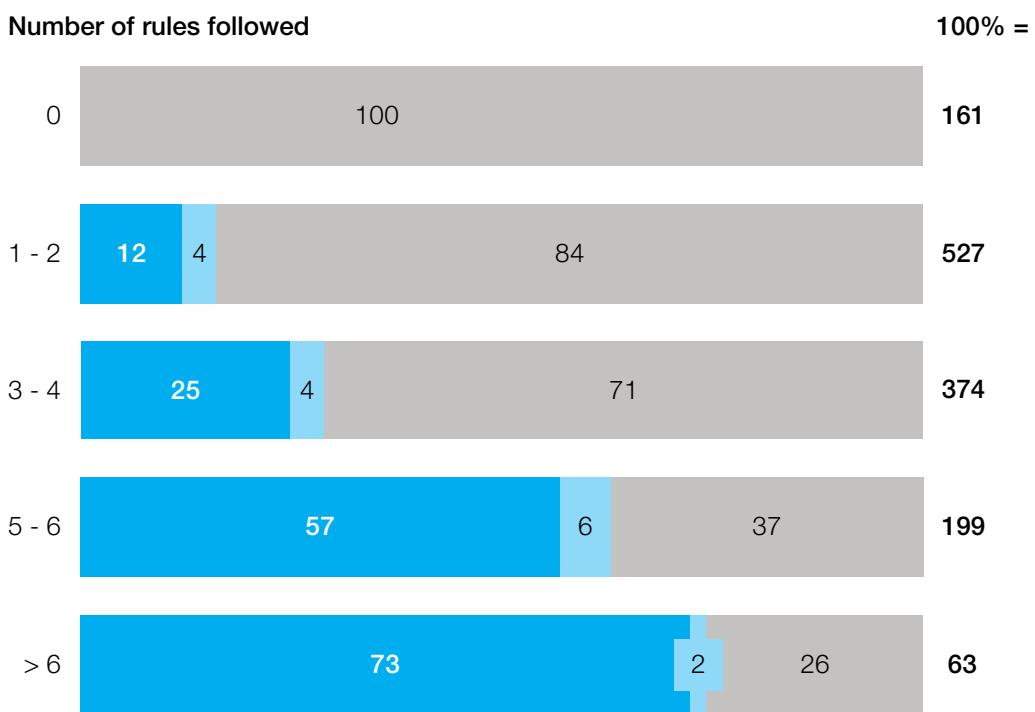
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Exhibit 1 – Our research identified nine golden rules for successful organizational redesign

Share of redesigns, percent (numbers may not add up due to rounding)

- █ Met objectives and improved performance
- █ Met objectives but did not improve performance
- █ Did not meet objectives or stalled/stalled



Following all the rules in a structured approach yields even higher success rates



Source: 2014 McKinsey survey of organizational redesigns in 1,323 companies

Organizing for the future

Aaron De Smet, Susan Lund, and Bill Schaninger

Platform-based talent markets help put the emphasis in human-capital management back where it belongs – on humans.



The best way to organize corporations – it's a perennial debate. But the discussion is becoming more urgent as digital technology begins to penetrate the labor force.

Although consumers have largely gone digital, the digitization of jobs, and of the tasks and activities within them, is still in the early stages, according to a recent study by the McKinsey Global Institute (MGI). Even companies and industries at the forefront of digital spending and usage have yet to digitize the workforce fully (Exhibit 1).¹

The stage is set for sweeping change as artificial intelligence, after years of hype and debate, brings workplace automation not just to physically intensive roles and repetitive routines but also to a wide range of other tasks. MGI estimates that roughly up to 45 percent of the activities employees perform can be automated by adapting currently demonstrated technologies. (For more, see “Four fundamentals of workplace automation,” on mckinsey.com.)

This coming digitization of the workforce – and the powerful economics of automation – will require a sweeping rethink of organizational structures, influence, and control. The current premium on speed will continue, to be sure, even as a new organizational challenge arises: the destabilization of the way people work.

From bedrock to quicksand

The threat to organizational health is plain. As we argue in the article “Agility: It rhymes with stability”, the hallmark of an agile age is the ability to be stable and dynamic, allowing incumbents to make the most of their big-company advantages, while simultaneously keeping pace with quicker-moving disruptors. Like old masonry buildings – such as the Musée d'Orsay in Paris or the Asian Art Museum of San Francisco – that have new glass and steel added to their existing structures, today's leading companies must integrate the contrasting elements of stability and speed to create a more functional, modern whole.

McKinsey research shows that bedrock aspects of stability – workers' roles and the processes that support them – are the first and fourth most important factors, respectively, differentiating agile companies from the rest. What happens when these roles and processes suddenly turn to quicksand? Most of the organizational ideas of the last half-century or more have taken for granted the underlying building blocks of jobs and the way people work, both individually and together.

Automation can devastate these assumptions by disaggregating jobs into their component tasks and subtasks and then hiving off those that can be automated. It will force companies to figure out how to reassemble the remaining tasks into something that makes a new kind of sense, even as it reconceptualizes the very idea of what a job is. The early stages of these efforts may already be visible as organizations free highly specialized knowledge workers from

¹ See McKinsey Global Institute, “Digital America: A tale of the haves and have-mores,” December 2015, mckinsey.com.

mundane tasks. The most talented surgeons at one cardiac hospital, for example, perform only the heart surgery itself, while more junior staffers handle pre- and post-op procedures; a similar redesign has helped lawyers on the partner track and school administrators make the most of their scarcest skills.²

Once roles and tasks are sorted out, the newly constructed jobs that result must be reaggregated into some greater whole, or “box,” on the org chart. Those boxes then need a new relation to each other. Will the destabilization of jobs prove powerfully liberating to organizations, making them far more agile, healthy, and high performing? Or will it initiate a collapse into internal dysfunction as people try to figure out what their jobs are, who is doing what, and where and why?

Regaining stability

The answer may depend on the ability of corporate leaders to restabilize the workforce – and to reconceive organizational structures – by using the very same digital technologies that have destabilized it in the first place.

How can they do so? No doubt, at this early juncture, many possibilities exist. One intriguing approach might work as follows: first split multifaceted jobs into discrete tasks, automating some and determining what can be done more effectively by humans. Then match those needs with the employees who can meet them, where they are, and when they’re available.³ Finally, introduce a market-clearing mechanism to tie everything together.

Executives have long dreamed of organizational market mechanisms that could mobilize talented people for their best opportunities.⁴ But these have proved difficult to achieve at scale. They may be more feasible now, though, thanks to digital workforce platforms – software layers that help executives allocate collections of workers’ skills against a wide array of projects and processes. Companies can deploy such a platform even as they lower overhead costs and improve their responsiveness and flexibility.

These new platforms, as we will see, may provide a novel form of organizational structure, but they won’t restabilize the workforce in and of themselves. Companies must also be careful to account for the more permanent aspects of their employees’ working lives, such as the business segments they know best, their functional areas of expertise, and the geographies where they live. As digital workforce platforms remake organizational structures, these more enduring “homes” will provide a key aspect of stability. More important, a dynamic internal market, in which the most talented and sought-after workers receive the highest compensation, helps people find new and more meaningful ways to commit themselves to their roles, even as the organization finds new ways to assess, develop, and reward them.

² See Martin Dewhurst, Bryan Hancock, and Diana Ellsworth, “Redesigning knowledge work,” Harvard Business Review, January - February 2013, hbr.org.

³ For a more detailed description of this process, see Susan Lund, James Manyika, and Sree Ramaswamy, “Preparing for a new era of work,” McKinsey Quarterly, November 2012, mckinsey.com.

⁴ See Lowell L. Bryan, Claudia I. Joyce, and Leigh M. Weiss, “Making a market in talent,” McKinsey Quarterly, May 2006, mckinsey.com.

The combination of platforms, markets, and deeper engagement with digitally enabled workers holds appealing implications for managing human capital. That means not just allocating talented people effectively and efficiently, which is alluring enough in itself, but also freeing employees to focus on the more meaningful parts of their roles, as machines take over those that can be automated. Managers can benefit as well, by getting out from under the burden of appraisals, which will be redefined and multisourced on the workforce platform, so they can focus more on the development and professional growth of their direct reports. All this, to be sure, must carefully sidestep an obvious pitfall reflected in the current anxiety about a new kind of “digital Taylorism,” which, rather than freeing employees to pursue greater meaning and purpose, would chain them to more highly controlled – and controlling – approaches to work.⁵

Done right, however, platform-based talent markets can help put the emphasis in human-capital management back where it always belonged – on humans.

Think “platform”, not “structure”

Workforce platforms are therefore likely to provide considerable stability in changeable environments. Agile companies tend to have more fluid structures, in which day-to-day work is organized in smaller teams that often cut across business lines and market segments. Platform-based talent markets might provide a solid structure to help supplement and even replace traditional hierarchies. They could also greatly alter how matrix organizations work.

As the old view of hard and dotted lines begins to fade, companies might choose to group employees by their strongest activities and skills. From this functional home, they could be “rented,” via a talent market, by business-line and project leaders. The result would be at once more stable, since employees would be associated with familiar homes, yet more dynamic, as platform-based talent markets would help companies to reallocate their labor resources quickly when priorities and directions shift.

What is a platform?

“Platform” is one of those loosely used words that often lack a specific definition. Broadly speaking, digital platforms are software layers that gather and synthesize large volumes of data to make digital services available and accessible on various devices. They help define the rules and the way work gets done, while better coordinating activities and lowering interaction costs. The best kind of platform invites the involvement of diverse participants, some of whom build their own offerings, tools, and applications on top of it.⁶ In practice, platforms typically take the form of a Web site, app, or other digital tool that connects different types of users.

Most of us are familiar with the impact of digital platforms on business and consumer markets. Think, for example, of Google’s AdSense, connecting advertisers, Web sites, and customers. Newer industrial platforms, such as GE’s Predix or the German manufacturer Trumpf’s Axoom platform, use the Internet of Things to connect machines and organize production.

⁵ See “Digital Taylorism,” Economist, September 12, 2015, economist.com.

⁶ For ideas on creating platforms that invite company-wide conversations, see Gary Hamel and Michele Zanini, “Build a change platform, not a change program,” October 2014, mckinsey.com.

Like digital technology in general, digital platforms have been slow to penetrate the world of work. But after transforming consumer and industrial markets, these platforms – publicly accessible ones like LinkedIn or Monster.com as well as those inside companies – are now poised to do the same thing across the full spectrum of human-capital management. External platforms are already well established, but it's a different story behind the corporate firewall: companies must themselves fashion digital workforce platforms using customized mash-ups of tools from solutions providers. HireIQ, for instance, provides software to digitize the interview process and apply predictive analytics to the results. More comprehensive solutions offer further unity and integration. In either case, they usually require extensive customization.

The investment required to put together digital workforce platforms is not small. They also call for superior technical capabilities, including sophisticated data management, advanced-analytics skills, and adaptable application development. Perhaps more important, they require a far more robust understanding of each employee's skills, experiences, attitudes, performance, potential, and, if you will, desires or dreams for the future. Even though many of the tools used in platforms are available from third-party solutions providers, integrating them into a smoothly functioning whole is no trivial endeavor.

At least the utility of workforce platforms isn't trivial, either. MGI modeled sample organizations in a range of industries with a diversity of workforce mixes, operating models, and financial characteristics. In this way, it estimated that companies using a combination of publicly available and behind-the-firewall platforms could realize an increase of 275 basis points in profit margins on average by 2025.⁷ These increases come about through productivity gains among front- and middle-office workers (which can translate into revenue or other increased output opportunities) and through savings in recruiting, interviewing time, training, onboarding, and attrition costs. The upsides, we suspect, may be far greater for companies that actually succeed in making markets for talented workers inside their organizations.

What follows is a more detailed look at how workforce platforms can resolidify the way work gets done, even as they improve collaboration, retention, succession planning, and decision making.

Matching individuals, teams, and projects

Companies have long had difficulty maximizing the visibility and mobility of their best people. Managers can struggle to find the right person for a specific project, and talented workers can't always see opportunities that might help them grow professionally and develop their expertise. Staffing coordinators have tried to step into the breach, but their efforts, even when effective, are necessarily limited in scale. These traditional shortcomings will soon increase as the exigencies of automation drive companies to break up jobs into their component parts.

Workforce platforms, which can sort information on employees' skills, performance in previous assignments, working styles, personality traits, availability, and locations, can be particularly valuable matchmakers. Moreover, they can play the clearinghouse role in a neutral and non-

⁷ For the full MGI report, see "Connecting talent with opportunity in the digital age," June 2015, mckinsey.com.

biased way, matching people and opportunities while improving the success of staffing efforts by expanding the known pool of candidates across a whole company. Workforce platforms can also streamline the way employees find colleagues with specific expertise – an important capability for large multinationals with operations spread around the world.

Consider the uses of workplace platforms in hospital systems. Nurses must constantly be matched to departments and cases, taking into consideration their specialized training, availability, doctors' preferences, and technical requirements. Sophisticated software can better deploy the substantial float pool of nurses and per-diem physicians, and the platform's real-time communication tools can help frontline medical personnel access specialists immediately.

Bringing science to talent management

Whom shall we hire? What should we pay them? How can we retain these employees and help them grow and develop as their careers progress? Such people decisions are at the crux of organizational health not only for executives but also for entry-level workers, administrative staff, sales teams, and customer-service representatives. In the absence of sufficient data, companies often fall back on time-consuming and bureaucratic review processes that attempt to look at a year's performance and decide how to grade it for compensation purposes. These time sinks will probably become all the more difficult as companies break up jobs into their component tasks, rendering previous role definitions and job descriptions less relevant for evaluating performance.

Ericsson, Google, 3M, Wells Fargo, Xerox, and other early adopters of digital workforce platforms are finding that they help ground people decisions in hard data rather than gut instinct. The software provider Symantec, for example, used a crowdsourced performance-evaluation process to gain a 16 percent increase in employee satisfaction and engagement.⁸ Xerox reduced new-hire attrition and made call-center agents 3 to 4 percent more productive by implementing Evolv's HR analytics software, which sets up a 30-minute online-screening test for applicants and compares the results with a profile of top performers.⁹ An aging workforce gave 3M a reason to build an integrated workforce-technology platform to plan for succession management, thus increasing its employees' internal mobility and boosting their annual productivity by 4 percent.¹⁰ Wells Fargo used big data analysis by Kiran Analytics to identify its most engaged and high-performing frontline employees; the company then designed its hiring processes to screen for candidates with similar traits, raising teller retention by 15 percent.¹¹ Ericsson globalized its HR processes around an integrated platform designed to regather the tools and processes scattered by decentralization. (For more, see "How Ericsson aligned its people with its transformation strategy: An interview with chief HR officer Bina Chaurasia," on mckinsey.com.)

⁸ Eric Mosely, *The Crowdsourced Performance Review: How to Use the Power of Social Recognition to Transform Employee Performance*, McGraw-Hill Education, 2013.

⁹ Jessica Leber, "The machine-readable workforce," MIT Technology Review, May 27, 2013, technologyreview.com.

¹⁰ See Talent Mobility Good Practices: Collaboration at the Core of Driving Economic Growth, World Economic Forum, in collaboration with Mercer, 2012, weforum.org.

¹¹ Katie Kuehner-Hebert, "Predictive analytics for hiring," BAI Banking Strategies, September 6, 2013, bai.org.

Hard data can support more robust yet streamlined discussions that help companies to reach better-informed decisions. By making it possible to evaluate the performance of employees through multiple sources, digital platforms release managers from lengthy appraisal processes, freeing them to focus on coaching and professional development. They also bring to bear more data, such as the information generated when project teams bid for a particular employee with a specific set of skills, pushing up that person's per diem, which in turn gets reflected in the evaluation cycle. Rather than further destabilizing the organization, digital platforms, the markets they enable, and the hard data those markets provide can help to solidify and stabilize it.

Engaging the digital workforce

In a digital world, where switching jobs is easier than ever and top performers are increasingly in demand, it's no surprise that employees have become more mobile.¹² This change might represent a positive dynamic in the broader economy. But many companies face increased rates of attrition, which is not only expensive but also destabilizing – particularly when strategic capabilities, institutional knowledge, and leadership skills walk out the door. Workplace platforms offer new ways to restabilize attrition rates by helping employees become more engaged with their work and flagging early warning signs, so that managers can intervene before high performers leave as a result of low morale or boredom.

Getting personal

By allowing even the largest organizations to move beyond a one-size-fits-all approach to human resources and talent management, digital workforce platforms can help create the conditions in which employees feel energized by their work, valued by their organization, and happy in their environment. Such platforms can, for example, create a more personalized onboarding process that incorporates what companies know about new hires and their skills when they arrive. Appical, a Dutch start-up that uses digital games to transform the onboarding process, is among the companies creating tools to streamline orientation and training for new employees.

Workforce platforms also support the ongoing and self-directed virtual learning that's crucial to professional development and growth. Digital training services like those provided by City & Guilds Kineo and LEO Learning enable companies to cut back on live training sessions and create more comprehensive, personalized, and effective online learning programs.

Designing employee journeys

In product and service markets, digital technology has helped companies take a new view of interactions with customers by mapping and shaping their "journeys" from their first awareness of a product to its purchase and beyond.¹³ This new, technology-enabled approach helps companies answer an age-old question: Why should customers buy from us?

¹²Warren Bennis and Philip Slater were perhaps the first to foreshadow this trend, in 1968 in their book *The Temporary Society* (New York: Harper & Row).

¹³See David Edelman and Marc Singer, "The new customer decision journey," October 2015, mckinsey.com.

There's a similarly long-standing question for employers, of course: Why should top performers choose to work for us?¹⁴ In response, some companies have begun examining the design of their employee journeys with the same intensity they bring to designing the customer experience.

Why does the employee experience matter? For one thing, because studies show that intrinsic factors – the meaningfulness and purpose of work, for example – can motivate employees more effectively than just traditional extrinsic ones (think: money) tend to do.¹⁵ Furthermore, inroads by automation will doubtless leave many employees feeling vulnerable, though it is more likely to redefine jobs than to eliminate them. Improving the employee experience can help balance that feeling of vulnerability.

Just as digital technologies help companies design the customer decision journey, workforce platforms help them design the experience of employees as they move through their career paths, from their initial consideration of a company until they become alumni. At each stage along the way, the platform provides greater visibility into what works and what doesn't, by tracking the behavior of employees and enabling real-time, personalized responses to it.

Workforce platforms could, for example, roll up and provide access to the data gathered through the “sociometric badges” invented by MIT computer scientist Alex Pentland, who cofounded the social-technology firm Humanyze. These badges look closely at the interactions and social behavior of employees, even while raising new questions about confidentiality, ethics, and the use and sharing of information, among other things. The data they generate can help reveal, measure, and analyze organizational dynamics – and give companies a better understanding of how employees work and of how to make them more satisfied with their jobs (Exhibit 2).

Will such devices bring the looming presence of Big Brother? Case studies conducted with them found that they can actually reinforce the more humanistic elements of high performance: a pharma company, for example, found ways to improve the way people communicate with each other across departmental lines, while a German bank used badge data in reconfiguring seating arrangements to encourage more face-to-face interactions and to control e-mail overload.¹⁶

Of course, legitimate privacy concerns must be carefully tended to, though millennial workers, who have grown up with wearable technology, may be more comfortable with potential privacy trade-offs. Using aggregated and anonymized (rather than individual) data will help.

The leader as organizational architect

McKinsey research into the health of organizations finds that the definition of great leadership varies according to context. (For more, see “Leadership in context,” on mckinsey.com.) Certain kinds of baseline behavior that are required of leaders when organizational health is poor, for example, recede as it improves and other, higher-order forms of behavior

¹⁴Professors Rob Goffee and Gareth Jones also ask this question in their 2015 book *Why Should Anyone Work Here?: What It Takes to Create an Authentic Organization* (Boston, MA: Harvard Business Review Press).

¹⁵See, for example, Martin Dewhurst, Matthew Guthridge, and Elizabeth Mohr, “Motivating people: Getting beyond money,” *McKinsey Quarterly*, November 2009, on mckinsey.com; and Daniel Pink, *Drive: The Surprising Truth About What Motivates Us*, New York: Riverhead Books, 2011.

¹⁶For more about these cases, see humanyze.com/cases.html.

come to the forefront. This idea bears a resemblance to Abraham Maslow's hierarchy of needs: people concerned with their own (and their families') physiological health and safety have little or no time for higher-order needs like self-actualization.

The coming digitization of the workforce and the automation of tasks will take a toll on organizational health by destabilizing the ways and means through which work is performed. As this happens, executives should carefully reassess the well-being of their organizations and, in many cases, adjust their leadership styles for the new context. That may involve the kinds of behavior required when companies trend toward dysfunction: effectiveness at facilitating group collaboration, demonstrating concern for people, championing desired changes, and offering critical perspectives.

CEOs must be alert to how machine learning and advanced analytics will automate some of their own tasks, as well. They will not only have to rethink their leadership behavior but also keep a sharp eye out for their own comparative advantage.¹⁷

In an age of automation, CEOs and their top teams will need to gain an almost architectural sense of how machines and people work together side by side, each making the other more productive and effective, while never losing sight of their employees' humanity. They will have to look beyond the architecture of mechanical "hard" structures to include the orchestration of complex social systems as well.

Leaders must help to reconcile and interrelate the forces and mandates of digitization and automation on the one hand, with the needs and tenets of organizational health on the other. A virtuous circle could certainly arise, but so could a vicious one. If enthusiasm for technology makes executives lose sight of the human needs of the workforce – for example, by steering too far toward machine-based control of employees, especially lower-status, lower-paid employees – organizational health will surely suffer. (See sidebar, "Humanizing dynamic scheduling.")

The broader view required will force CEOs to transcend their own functional or business-unit backgrounds. Former CFOs, for example, have always had to see beyond the numbers on becoming chief executives. Now top leaders will need an even deeper grasp of people, the roles and tasks they perform, and their fears about the future.



The approaching age of automation, together with the impending penetration of digital technology into the labor force, threatens to destabilize crucial aspects of how employees work, by undermining the stability companies depend on to be agile. Executives can resolidify their companies even while making the most of the coming transformation if they adjust their leadership behavior, embrace digital workforce platforms, and deepen their engagement with digitally enabled workers.

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¹⁷See Martin Dewhurst and Paul Willmott, "Manager and machine: the new leadership equation," McKinsey Quarterly, September 2014, mckinsey.com.

Humanizing dynamic schedules

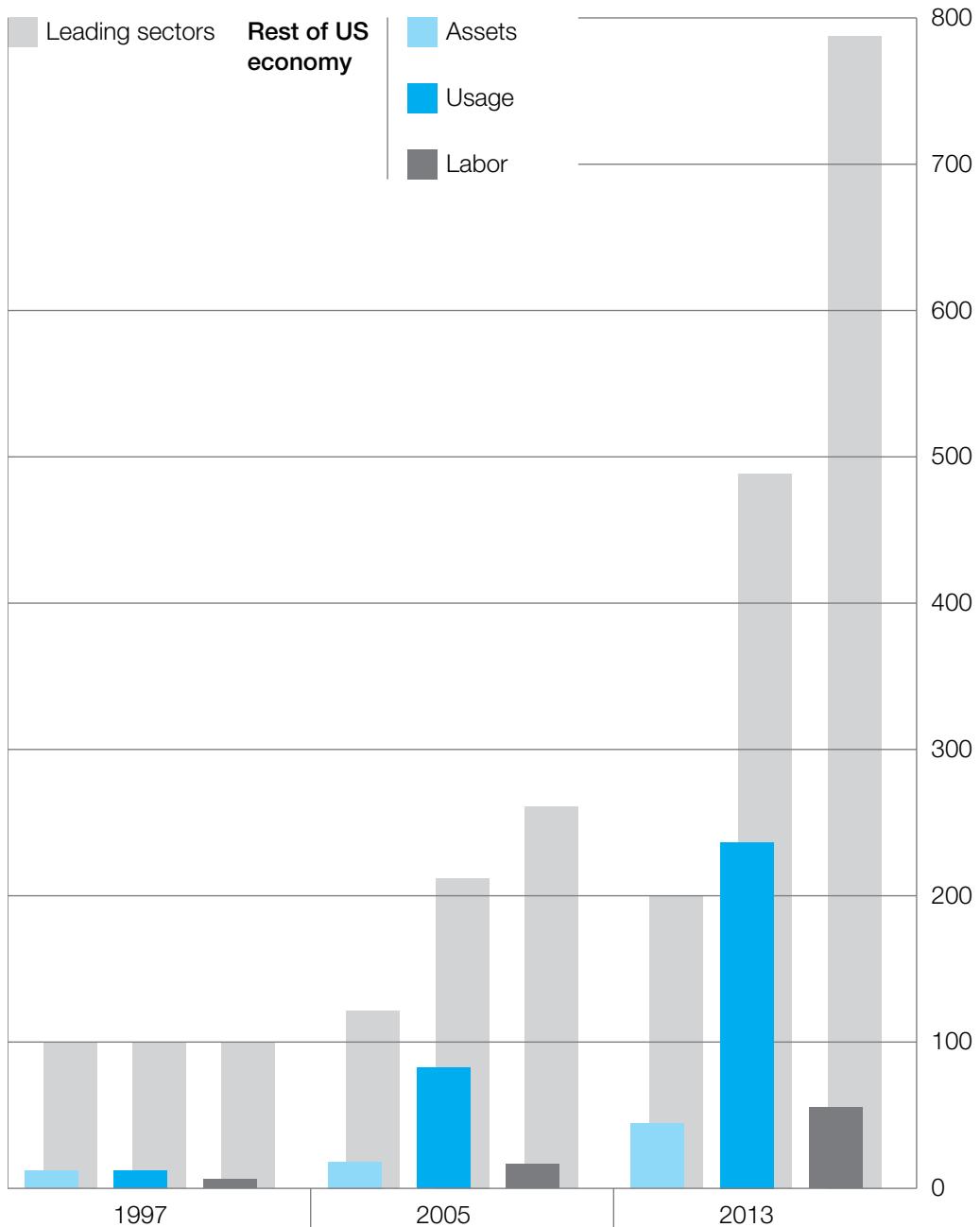
The data insights woven into workforce platforms can help companies combine demand forecasting with scheduling tools, so that staffing is adequate at peak times. These automated, just-in-time scheduling systems have set off a wave of controversy and questions about which of their uses are legal. Many companies, particularly in the retail and food industries, have used software tools to manage workforce deployment so tightly that employees have little notice or downtime before shifts.

Unpredictable, erratic schedules can make logistics like childcare impossible for employees, and when shifts are cut short, they lose pay. Hourly employees often find their incomes and lives squeezed.

Dynamic scheduling does not have to be used in this way. Companies that want to give employees greater flexibility can do so by using platforms that not only take into account the suitability of workers for a given assignment but also combine that information with their preferred tasks and times to work. Zappos, for instance, has launched an initiative to reward customer-service agents with “surge pay” during peak call-volume times, ensuring that flexibility matches up with customer demand. On-demand service platforms not only adjust pricing and deployment to meet instantaneous spikes in demand but also create flexible, entirely self-directed work opportunities. Approaching the schedules of workers empathetically can create win-win situations that pay off in greater retention, improved morale, better customer service, and higher performance.

Exhibit 1 – According to a recent study by the McKinsey Global Institute, most industries have yet to fully digitize their workforces and are lagging far behind the leading digitized sectors

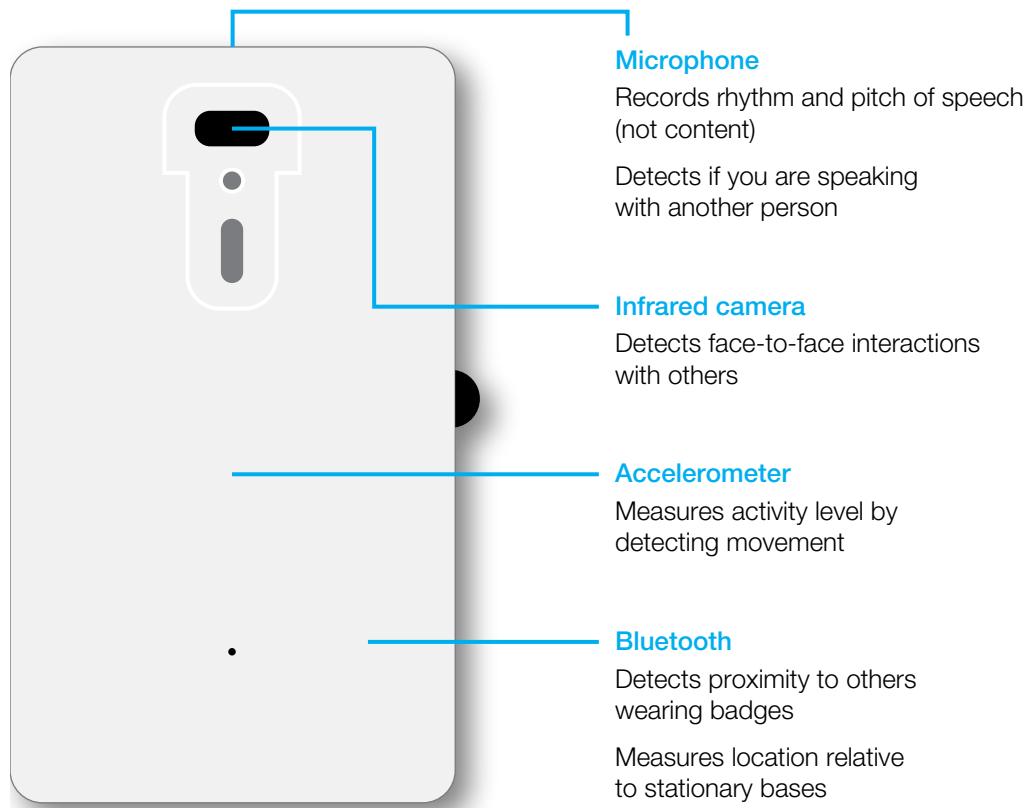
Degree of digitization; index: leading sectors in 1997 = 100



Source: ARP research; DMA; US Bureau of Economic Analysis; US Bureau of Labor Statistics; McKinsey social-technology surveys in 2007 (n = 1,867) and 2014 (n = 2,346); McKinsey Global Institute analysis

Exhibit 2 – Companies can use wearable technology, such as sociometric badges, to improve organizational dynamics and workplace design

Humanize's sociometric badge is worn around the neck and collects data through 4 sensors.



Level of data aggregation	Output
Individual	Personal profile for individual use
Team	Analysis of interaction patterns within groups
Organization	Analysis of interactions and differences in behavior between groups

To provide more holistic views, badge data can be integrated with other data sources, including:

- Workload (e.g., e-mail or call volume)
- Performance reviews (e.g., ratings)
- Demographics (e.g., tenure or role)
- Surveys (e.g., organizational health)

Source: Humanize; McKinsey analysis

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