



“MEET ME IN THE MIDDLE”: A HOLISTIC APPROACH TO ORGANIZATIONAL REDESIGN

AN FTI CONSULTING REPORT



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“MEET ME IN THE MIDDLE”



Referencing a pop tune in the title of an article about organization design might seem a bit banal, but its basic message holds true for companies looking to conduct an organizational design effort – that is, strategic requirements and executive-level organizational architecture need to be supported by appropriate processes, staffing, roles and responsibility mapping, and metrics for frontline personnel, along with robust change management and communications protocols in order to execute these processes effectively and achieve their goals. An organizational redesign that does not balance aspiration and pragmatism, or “meet in the middle,” typically results in ambitious ideas that may make sense on paper but either cannot be fully implemented or are ineffective when put into practice.

As the pace of industry-wide disruptions has accelerated over the past two decades, traditional company organizations have been forced to quickly adapt to meet both internal and external competitive challenges. There are several options that executive management may utilize to reinvigorate or transform the business – one of them being organizational redesign to help build an effective structure that supports the company’s core differentiation capabilities.

Based on FTI’s experiences, clients are typically motivated to consider an organizational redesign effort when faced with one or more of the following scenarios:

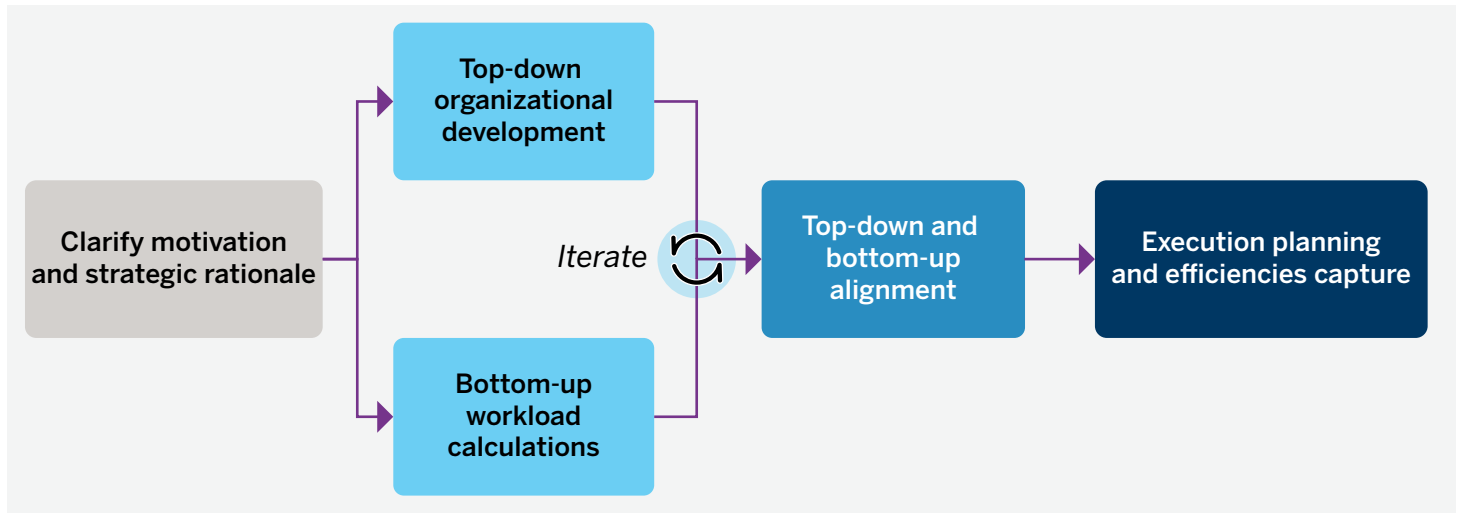
- **Scenario 1:** Experiencing a major company event or transaction (e.g., merger, acquisition or carve-out)
- **Scenario 2:** Confronting external drivers (major market disruption, competitor actions)
- **Scenario 3:** Confronting realigned strategic and financial priorities (growth imperative, new market penetration, cost optimization, technology transformation)
- **Scenario 4:** Undergoing a company-wide restructuring
- **Scenario 5:** Fast-tracking performance improvement initiatives

Depending on the magnitude of change (in any of these scenarios), making a few changes to reporting lines and boxes on an organization chart no longer suffices for an organizational redesign effort. Effective organizational redesign requires a holistic approach driven by the company’s vision and strategy, exploring means to define roles and responsibilities, processes and supporting technologies that will help enable a company to perform better. The proposed organization structure then needs to be enabled by employees with the right skill sets (i.e., revised talent acquisition and training strategy) and managed through an effective performance-management framework that defines metrics, which drive accountability.

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FTI ORGANIZATIONAL REDESIGN FRAMEWORK

FTI’s framework for organizational redesign combines a top-down and bottom-up approach to ensure that a company’s strategy and design requirements are compatible with the structure, effort and workload requirements at the frontline levels.



CASE EXAMPLE

Scenario 1: Experiencing a major company event or transaction (e.g., merger, acquisition or carve-out)

Client: Leading specialty chemicals manufacturer based in North America and Europe

Situation: Client recently completed the acquisition of a similar-sized peer and was looking to integrate the NewCo across all functions.

Actions: Based on the findings from the pre-deal diligence work, FTI supported client to facilitate a comprehensive suite of pre-closing, merger-integration planning activities to ensure a seamless transition into the NewCo operating model across all critical functions. For select functions, FTI conducted a detailed top-down and activity value-based bottom-up alignment of organizational structure based on the strategic goals for NewCo.

Result: The combined company is operating smoothly with no significant operational disruptions or strategic customer complaints. In addition to identifying and validating the diligence synergies, the FTI Consulting team was able to enact an incremental 30% increase in operating model efficiencies through reduction of waste/rework, improved processes and systems implementation.

This end-state operating model allowed for end-to-end supply chain process ownership, enabled rapid synergy capture with interim organization stages and dedicated roles (separating tactical from strategically focused activities), and integrated a shared services organization that enabled ongoing efficiencies and continuous process improvement.

This approach allows a company to think through how its strategy aligns with its top-down perspective on organization design (structure and management layers) as well as its bottom-up, frontline organization needs (from a workload and FTE perspective). The framework helps bridge the gap between strategy and execution requirements for the organization—hence, it “meets in the middle.”

TOP-DOWN ORGANIZATIONAL DESIGN

An organizational redesign effort starts with the executive team articulating its incentive using a set of design principles for its foundation. The design principles are typically driven by the company’s vision and strategy and help set up guardrails for the effort. The keys to defining effective design principles are: i) being specific in terms of critical value drivers that should be foremost in the team’s mind; ii) articulating business priorities for the most important decisions that will need to be made; iii) identifying expected trade-offs and providing direction on which way the team is leaning; iv) defining scope clearly; v) delineating which cultural components need to be preserved and which ones need to be developed.

Based on the direction provided by the organizational guiding principles, there are multiple options to consider for the future-state structure of the company. Below is an overview of some common options, with potential pros and cons to consider:

- **Functional:** This is the most traditional form of organization design, whereby teams are organized based on the various functions across the organization (e.g., sales, marketing, supply chain). The functional structure is hierarchical in nature, allows specialization, and provides a clear trajectory of growth for employees. A potential disadvantage could be that functional team members (especially at mid-junior levels) may tend to operate in silos, and not have a cross-functional view of the overall company direction and associated trade-offs.

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- **Divisional:** This structure provides P&L responsibility to the division owner for core activities, while supporting services may be set up in a shared-services format. Common examples of divisions could be based on product offerings, business units or geographies. The structure allows for organizations to be shaped based on market/customer requirements, which enables businesses to go to market with new offerings faster. A potential disadvantage of this structure is that there might be duplication of roles with implied cost redundancies across the organization.
- **Process-based:** This type of structure is organized by focusing on the end-to-end core processes that help the company deliver a product or service to its customers and assigning responsibilities accordingly. This mind set helps organizations to be cognizant of the interconnections between teams as they work toward delivering a product or service to the customer. A potential challenge for this setup is ensuring clear handoffs between teams, with clear metrics and accountability.
- **Matrixed:** This structure marries the advantages of the above organizational design options, with employees having multiple reporting relationships (e.g., a supply chain manager may be aligned to the supply chain function as well as to a consumer products division for North America) through solid and dotted lines across the organization. As expected, this type of structure may help align team members on trade-offs, but could become complicated and cumbersome for managing growth, resulting in a slowdown in the decision-making process via confusing and overlapping role mandates.
- **Flat:** This structure does away from the traditional pyramid-like organizational configuration and focuses on creating a “flat” organization that does not have a lot of hierarchy. This type of structure limits the number of management layers within the organization and empowers team members to work more collaboratively with each other. A potential disadvantage of the “democratic concept” behind this structure is the capability and accountability for decision-making in cases where team members may disagree on a project or process. Typically, we see flat organization structures with a consensus decision-making culture, which presents a barrier to making critical decisions in a time-sensitive environment.

Depending on which organizational structure is best suited for the company, the organizational redesign effort focuses on detailing a first pass of the top-down structure (i.e., the organizational blueprint), keeping the key design principles in mind.

BOTTOM-UP ORGANIZATIONAL DESIGN

In parallel, there needs to be an effort focused on building a bottom-up view of the current organization to help delineate roles and responsibilities more clearly in the current setup. An effective way to approach this would be to lay out the company’s value chain in terms of core activities that typically occur from start to end. These activities are then detailed and mapped to existing roles within the organization. This effort helps develop a solid baseline of key roles and responsibilities at each level of the organization.

CASE EXAMPLE

Scenario 2: Confronting external drivers (major market disruption, competitor actions)

Client: Leading oil field services business unit built on multiple acquisitions

Situation: Client embarked on a global business transformation to take advantage of an industry downturn with 20+ bolt-on acquisitions that brought about commercial complexity, disparate systems and redundant job functions.

Actions: FTI conducted a complete redesign of their commercial organization, covering assessment, design, execution and monitoring phases. We also analyzed the company’s customer profitability and organizational spans and layers across all regions to build a “One Commercial” organization. The effort required 70+ individual interviews with customers and organization leaders and facilitation sessions.

Result: Over 12 months we delivered a transformation across 40K+ team members, with alignment and standardization across the commercial-sales processes, key account planning, DealMachine, marketing, pricing, commercial excellence, and channel function creation, staffed and communicated with roadshows. Overall, we reduced and optimized head count by 10–20% across functions.

Once we have a current-state baseline of activities laid out, our next step would be to identify workload requirements across the organization. This helps break down FTE requirements by role and can be accomplished by using one or more of the following methods (depending on level of detail required):

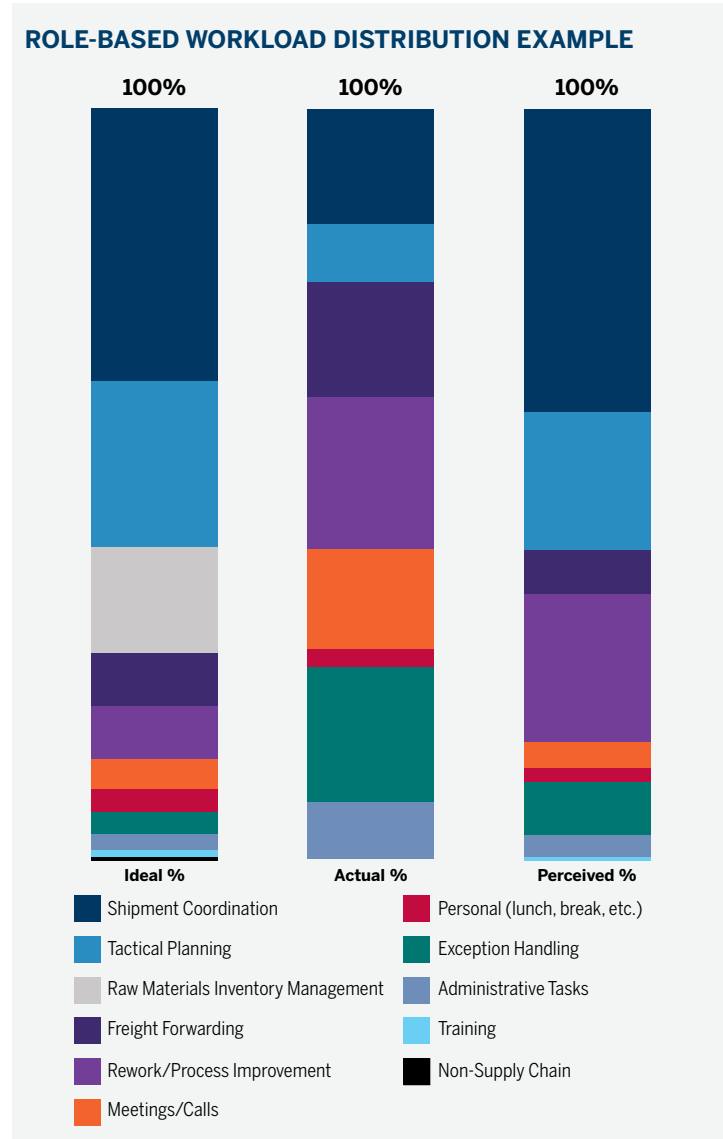
- Activity Value Study:** Conduct an activity value study, by role, with a sample set of participants, and log actual time for required activities to be accomplished. Although time-consuming, this method provides the most accurate view of workload requirements by role and is best suited for roles with a repetitive set of tasks/activities. This method may not be suitable for roles where type of work performed varies on a day-to-day basis.
- Surveys:** Capture workload requirements by role through a series of surveys across a target pool of participants, based on the current-state baseline generated. This method is effective in terms of reaching out to a wider audience in a time-effective manner. However, it may have some disarray in the data received due to user-bias errors that would need to be corrected.
- Interviews:** Condense the information capture requirements from activity value studies and surveys through a series of interviews with key participants across the organization. This allows interviewers to identify potential user-bias errors through follow-up questions and clarification.

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iv. Data Analysis: Utilized in cases where activities within the baseline can be clearly associated with workload drivers (e.g., number of POs or invoices processed, number of inbound and outbound shipments), it can be used in conjunction with the methods above to drive toward an accurate picture of workloads.

Based on the FTE workload requirements calculated through the bottom-up activity-based exercise above, we now have a granular point of view of workload distribution across the organization. Depending on the method used to arrive at these calculations, it may also offer a perspective on value-added vs. non-value-added activities, as well as identify any process, system or skill-set inefficiencies that need to be eliminated for our future-state design. A secondary advantage of this exercise is that it helps identify individuals and/or roles that may formulate “single

points of failure” – i.e., over-reliance on a role or person with tribal knowledge of company processes and workflows that are not common place across the organization can have a significant negative impact on service levels and efficiencies. A sample output of this exercise for a logistics specialist role is highlighted below:



CASE EXAMPLE

Scenario 3: Confronting realigned strategic and financial priorities

Client: Leading online educational institution specializing in the healthcare industry

Situation: Client was faced with multiple internal and external challenges driving shrinkage in the top line while simultaneously faced with increased cost and regulatory pressures, resulting in the risk of not meeting debt covenants with its key lenders. Client retained FTI to design a comprehensive transformation program, particularly focusing on realigning its organization to best serve the needs of its students and lenders while maintaining or expanding EBITDA margins.

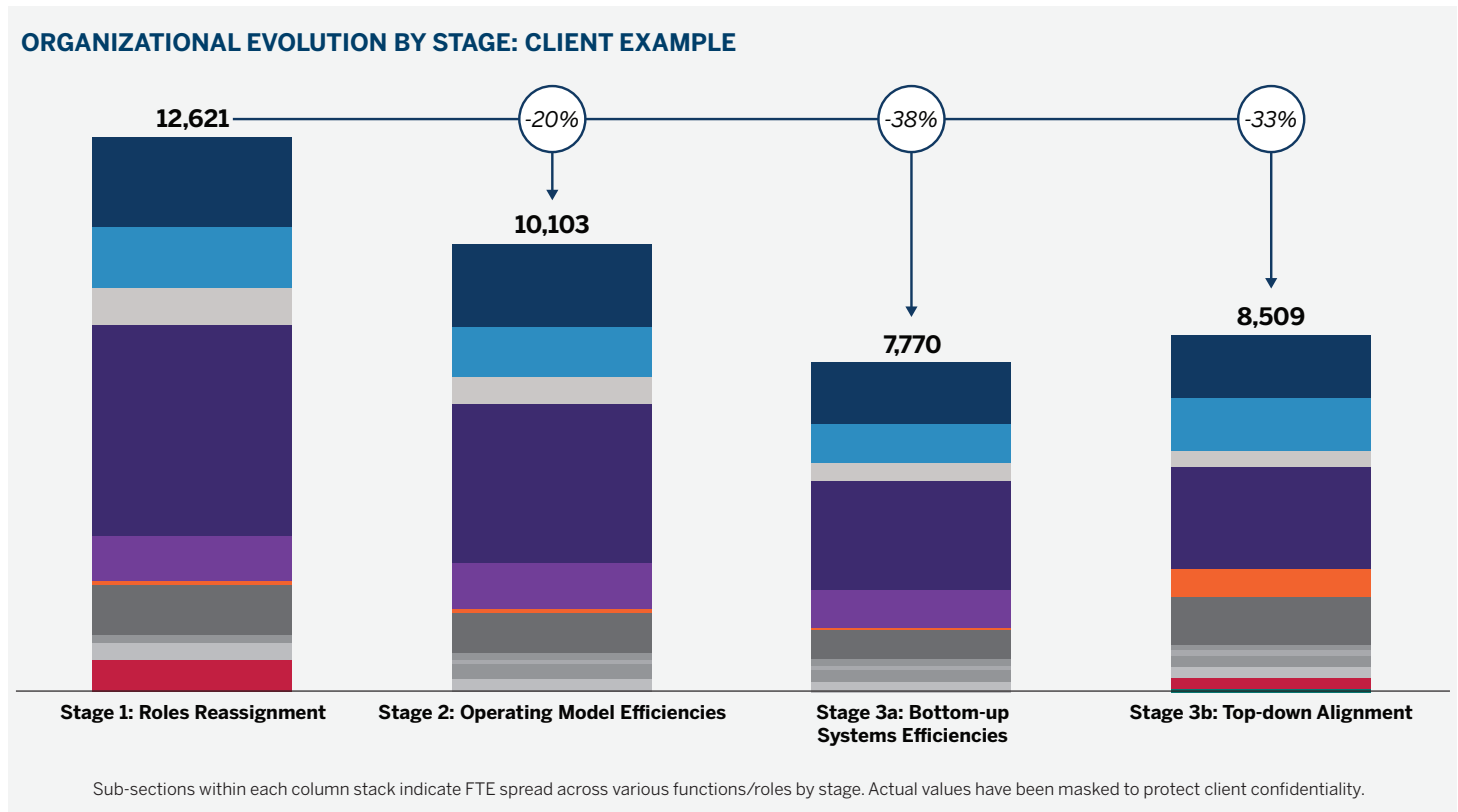
Actions: FTI conducted a deep-dive current-state assessment across all functions to understand existing roles and responsibility definitions and headcount by functions, spans and layers analysis, employee cost and headcount trends, and targeted interviews across the organization. FTI built out a series of hypotheses based on the go-forward strategy as well as recurring themes observed across the current organization, which were then validated with the management team. The qualitative and quantitative inputs recorded were converted to an opportunity long list that was acceded by members of the board. The validated short list of opportunities was fine-tuned and detailed based on potential savings and headcount impact, ease of implementation, expected timeline, investment needs and recommended next steps.

Result: The assessment helped identify key areas of organizational improvement by rooting out systems and process inefficiencies, formalizing roles and responsibilities and reducing duplication of workload, and increasing collaboration through formal handoffs across the student lifecycle. FTI’s assessment identified 62 unique opportunities for improvement, driving \$14–\$17 million in annualized savings over a two-year time frame.

TOP-DOWN AND BOTTOM-UP ALIGNMENT

At this point, we converge the top-down organizational structure design with the bottom-up view of current-state workload, to: i) reallocate roles and responsibilities across the organization; ii) create new roles, where appropriate; iii) eliminate any potential inefficiencies identified; and iv) identify high-potential talent as well as talent gaps within the organization. Some of the common checkpoints to consider while validating the future-state organization are: i) clarity in the chain of command for decision-making; ii) effective span of control (depending on specialty/complexity of tasks performed); iii) level of centralization vs. decentralization within the organization; and iv) spectrum of responsibilities by role/function (too narrow or too broad).

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CASE EXAMPLE

Scenario 4: Undergoing a company-wide restructuring

Client: New entrant offshore-focused client going through a restructuring process

Situation: The rapid decline in oil prices and the resulting slowdown in offshore drilling activity adversely impacted the company’s business, forcing it into bankruptcy. FTI was engaged by the financial advisor to prepare for the ownership transfer of the company via a debt-for-equity exchange.

Actions: FTI performed an in-depth review and evaluation of its business plan and the size of cost reduction opportunities, with a focus on G&A, shore-based offices, rig manning, supply chain and capital expenditures. We performed interviews with key personnel to develop responsibility matrices to determine the go-forward organizational size and structure and identify core business and governance process improvement actions. FTI helped the client in developing and executing its 100-day plan for a rapid cost takeout. We established a project management office and governance structure.

Result: Identified and realized run-rate savings of more than \$30 million across several areas, consisting of \$20 million in personnel and related costs, with the remaining \$10 million in supply chain and capital expenditure.

As indicated in the case example above, an organization navigates through various stages of change as it reaches alignment (numbers and roles masked for confidentiality reasons):

Stage 1: Roles Reassignment: In this stage, the organization reassigns personnel to the required future-state roles and responsibilities to make sure that the targeted organization structure is implemented.

Stage 2: Operating Model Efficiencies: In this stage, the organization experiences process-related efficiencies as personnel focus on performing their designated roles, minimizing overlaps and non-value-added work.

Stage 3a: Bottom-Up Systems Efficiencies; and Stage 3b: Top-Down Alignment: The organizational workload in these stages provides the upper and lower bounds of the target future state based on efficiencies gained from having the right systems, people and processes in place, supported by the appropriate level of management structure to sustain the company’s strategy.

The output of this exercise is a fully implemented organizational structure, down to role levels, with suggested staffing requirements for each, as well as a target implementation and change management plan toward future state, plus key milestones and steps required to get there. The effectiveness of this structure is heavily dependent on ensuring that the right talent gets placed in the appropriate roles and provided with adequate training, tools and support structure to succeed, and then measured through a clear performance management framework. Lastly, ensuring that the management teams are brought on board to help drive the necessary and ongoing change management protocols is imperative to make the improvements sustainable.

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CASE EXAMPLE

Scenario 5: Fast-tracking performance improvement initiatives

Client: Industry leader in B2B modular space and storage solutions

Situation: Client had recently retained FTI for an end-to-end redesign of its customer experience model, focusing on improved accountability and efficiency of tasks throughout the customer lifecycle. Upon completion of the assessment and design phase of the customer experience model, the client retained FTI to create future-state organization design recommendations based on the outputs of a resource-balancing model built to understand workload requirements in the current and future states.

Actions: FTI built a “bottom-up” resource model based on individual tasks of current-state roles, data from activity volume and time estimates per activity from surveys of employees in current-state roles. The model’s recommendations for a future-state workload were used as an input toward designing and staffing the future-state organization down to the branch level, as well as for delineating centralization vs. decentralization of key activities and roles.

Results: The workload analysis helped develop recommendations for future-state roles and responsibilities, laid the foundation for creating a new customer-experience organization structure, and helped designate centralization vs. localization of key activities. A segmented branch structure was created based on workload, in order to help maximize FTE workload efficiencies and drive standardization across the board. The model also helped drive 8–15% in annual workload savings through systems and process efficiencies. Additionally, the model helped pinpoint the most time-consuming activities within a customer lifecycle, allowing the client to focus on improvement initiatives in high-impact areas.

CONCLUSION

There is no silver bullet to achieving a successful organization redesign since each company’s internal and external requirements are unique. However, FTI’s methodology provides a structured process for companies to balance both the strategic and tactical needs of the front line. Achieving this balance will help ensure that core differentiation capabilities are preserved, strengthened and enhanced to position the company for success amid disruptive challenges. We have provided a prescriptive viewpoint of some key considerations for organizational redesign and an executable footprint to achieve it on the ground.



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