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ORGANIZATION PRACTICE

Preparing your organization for growth

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Companies that address their organizational weaknesses as they implement growth strategies give themselves an advantage.

Most senior managers pay close attention to the strategic side of growth—the "wheres," "whens," and "hows." Yet many underestimate the importance of *organizational* factors in translating a growth strategy into reality. This oversight can dampen a company's growth plans: organizational processes and structures that are well suited to today's challenges may well buckle under the strain of new demands or make it impossible to meet them. Likewise, key employees may lack the skills needed to cope with the additional complexity that growth brings. By reviewing the experiences of three organizations that faced the stresses imposed by new growth initiatives, this article seeks to illustrate such "pain points" and suggests some approaches for coping with them.

1

Stifling structures: European retailer

Well-defined organizational structures establish the roles and norms that enable large companies to get things done. Therefore, when growth plans call for doing things that are entirely new—say, expanding into new geographies or adding products—it's well worth the leadership's time to examine existing organizational structures to see if they're flexible enough to support the new initiatives. Sometimes they won't be.

A European retailer, for example, decided to expand beyond its base of small-format stores in urban areas by including a number of large-format stores in suburban ones. To serve suburban customers, the new stores would require a new mix of products, including adult clothing, larger housewares (such as furniture), and additional electrical appliances. The new stores would also offer lower prices than the old ones. All this meant that the new stores would have special supply chain requirements and that the stores' managers would need to focus more intently on price and cost than had been customary for the retailer.

As the company's senior executives planned the new stores, they began questioning whether to operate them as part of the existing organizational structure or at arm's length. Although launching them within the existing structure would be simpler, the executives concluded that doing so would deny the new stores the unique resources needed to become a meaningful growth platform. The executives were concerned, for example, that the company's existing team of store designers would have difficulty making the new format's essential trade-offs, such as working with unfamiliar, lower-cost flooring and lighting products. Likewise, the executives were concerned that the existing supply chain would not cope easily with larger products, items with a short shelf life (such as adult fashion clothing), or the demands of new suppliers.

So the company launched the large-format stores as a separate business unit, with its leader reporting to the CEO. The new stores' management team was independent of the parent company and included mostly newcomers who would not seek to replicate its culture or processes. Still, the retailer also set the goal of bringing the new business unit back into the original structure once the first six new stores were up and running and the new retail concept was firmly established.

The new stores' managers developed their own local distribution centers and store designs, at a significantly lower cost per square meter than the company's other stores had achieved. They also found new suppliers; modified some existing systems, such as IT; and created a different overall customer experience that was more focused

on lower costs. The stores therefore had fewer floor employees per square meter, for example, and larger shelves that needed to be refilled less frequently.

Keeping the new stores separate helped get them up and running quickly but also made some processes at the corporate level more complex than they might have been. The IT systems supporting the new stores, for example, handled a number of processes differently, including store-level profit-and-loss statements. It was therefore difficult to consolidate sales figures, cost of goods sold, or wages across both types of stores.

Nonetheless, in just two years, six of the new-format stores were firmly established and meeting their financial targets. At this point, as planned, the parent company integrated all of the stores—large and small—into a single business unit. Because the new stores were past the start-up phase, executives determined that the benefits of using common systems and processes outweighed those of maintaining an entrepreneurial subculture. Therefore, many of the larger stores' modified processes, such as the amended financial and supply chain systems, were replaced by those the parent company used. The only remaining operational difference was the local distribution centers because the company's overall product mix was easier to handle through them even in the longer term.

In our experience, such separated approaches work best when a company can develop a convincing business case that existing structures and processes will make it very difficult to launch a new undertaking. This can be true when, for example, the new model is inconsistent with the old one (as with the European retailer) or could cannibalize it—say, if a high-tech firm introduces a new generation of technology. Companies need to decide how much, and when, local customization should trump global standards and the benefits of scale, taking into consideration factors such as the product or service being created, market conditions, internal culture, and the skills of the managers involved. In some cases, the necessary customization can be as minor as enabling people to work in a local language; in others, as large as creating a whole new business unit with different suppliers and customers.[1]

Deliberately making these approaches temporary, as the European retailer did, is critical. In our experience, two to three years is usually enough time for new operations to gain sufficient maturity to hold their own within the organization. It is also crucial for companies to reintegrate these innovative pockets *before* they reach substantial scale, or they will simply create an additional layer of complexity that makes the company as a whole harder to manage and could inhibit its next growth spurt.

2

Unscalable processes: European biotech company

Business processes are another area that companies often overlook, to their detriment, when they are growing. It's important for a company to determine which processes will come under particular stress when it grows. The case of a European biotech company illustrates the dangers of not addressing potential problems early.

Before the company began an ambitious growth strategy, it used a small group of ten key scientists to make decisions about its product portfolio. The group's culture of collegiality, informality, and communal decision making worked quite well, and each scientist actively helped to shape and refine every project. Quarterly reviews of the research portfolio took one or two days.

But as the company grew and the volume and diversity of its projects increased, the number of scientists involved in portfolio management also had to expand. The meetings grew in length, and no clear decisions were made. By the time the company had 40 scientists involved, the process had become unmanageable. The scientists—and business leaders—were intensely frustrated, the collegial culture was disintegrating, and there was no agreement about which projects should proceed or what level of resources they required. The scientists became defensive and territorial, and the company was saddled with a bloated, expensive, and slow-moving set of projects.

Fixing these problems required formalizing the portfolio review process. This move, in turn, meant rethinking the scientists' governance processes—determining, for example, who would attend, lead, and set the agenda for meetings. Scientists would now have to prepare and distribute briefs in a standardized format ahead of each meeting and break into subgroups to make decisions on related research projects. The company established clear decision rights and decision-making protocols, including formal stage-gate mechanisms to determine, for example, if products were ready to enter large-scale clinical trials. It also worked to ensure that there were clear, strong links between portfolio decisions and the way scientists and other resources were assigned to projects.

Getting the large—and frustrated—group of scientists to accept these changes was much harder than it would have been had the company addressed the issues before it grew. This was particularly true because the changes involved culture and mind-sets, not simply different documents or meeting formats. The scientists had, for example, enjoyed receiving and giving input on the full set of research projects and initially found it difficult to accept more defined responsibilities and a sense of exclusion from important discussions.[2] It took two years to implement these changes, and not all of the scientists were comfortable with them. Within nine months, however, most of them saw that the projects with the greatest scientific interest were getting more resources, which boosted morale and corporate results.[3]

3 Unprepared people: Technology manufacturer

Growth naturally creates new interactions and processes, expected and unexpected, and often at a fast pace. To manage them, the employees who face the greatest complexity—for example, those in functions or businesses that will see increased activity—must have "ambidextrous" capabilities. These enable people to take initiative beyond the confines of their jobs, to cooperate and build linkages across the organization, and to complete many tasks in parallel.

Companies sometimes forget to think about these capabilities in the units immediately involved in growth and very often don't do so beyond them. A manufacturer of cutting-edge technology products that was seeking to expand from its domestic base, for example, found itself limited by the surge in complexity associated with operating under several different national regulatory regimes. The company's cautious legal department rejected deviations from home country procedures. As a result, the department tended to add new legal constraints in each new jurisdiction but was unwilling to remove constraints that didn't apply to it. The expansion plans stagnated until senior executives realized that the company's legal department needed new leaders who felt comfortable assessing and mitigating the risks in these new, ambiguous environments. The company responded by hiring new lawyers—a few in the home country, as well as new legal leaders in the markets where they were seeking to expand.

The specific organizational challenges companies face as they grow will differ according to their growth strategies. By managing organizational complexity early, however, any company can improve the odds that its growth plans will succeed—while making it less difficult than ever to get things done. o

done within organizations: simplifying processes, reducing duplications of accountability, and building capabilities. For more, see Julian Birkinshaw and Suzanne Heywood, "Putting organizational complexity in its place," mckinseyquarterly.com, May 2010; as well as Julian Birkinshaw and Christina Gibson, "Building ambidexterity into an organization," *MIT Sloan Management Review*, Summer 2004, Volume 45, Number 4, pp. 47–55.

[1] The outcomes will vary markedly. For more on how companies can approach these decisions, see Giancarlo Ghislanzoni, Risto Penitten, and David Turnbull, "The multilocal challenge: Managing cross-border functions," mckinseyquarterly.com, March 2008.

[2] For more on managing culture change, see Carolyn Aiken and Scott Keller, "The irrational side of change management," mckinseyquarterly.com, April 2009.

[3] More broadly, we know from our research and client work that only a few steps are really critical to making it easy to get things

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