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Effective Restructuring

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Introduction

Reserve Bank Governor Stevens made a point when he told a House of Representatives Committee that:

“Pure economic efficiency and the text book says that minimum regulations point you towards the high efficiency end of the spectrum.”

“But,” he continued, “there are also community notions of fairness and equity, and someone has to decide how to balance those to things, and that’s your job.”



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- > A good downsizing will chip away staff in non-performing sectors and strengthen the performing areas.
- > However, if handled badly, a reduction in the non-performing sectors can quickly spread to your viable staff creating a spiraling downfall of a company as the wrong employees depart.
- > During the economic problems of 2001-2002, one human resource study reported in the *Standard* found that only 47% of the large companies engaged in major downsizing actually met their cost reduction goals.

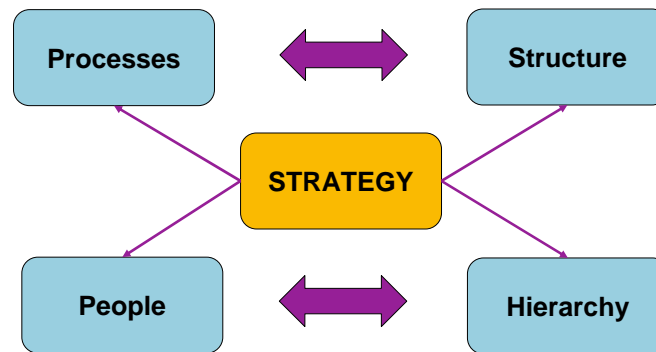


The Purpose of Restructuring

- > The purpose of organisational change is to better implement organisational structure.
- > The change will always be the surgery, but the purpose of the change is to ensure the long term survival of the organisation.
- > Unless people believe in and support the change, it is doomed to failure.



Strategy and Company Characteristics



Step 1 Analyze the extent of the problems



- > Is the profit picture merely ailing or is it terminally ill?
- > Is the Company's core business still financially viable?
- > Can the Company respond in a timely fashion to changing regulations and market demands?



Step 2

- > Responding to the accelerated changes in a contemporary environment means that the Company has to be able to do two things:
 - > Sustain continuous ongoing improvement in quality systems and customer satisfaction: **Evolution**
 - > Be able to introduce major change initiatives when needed and get working faster: **Revolution**

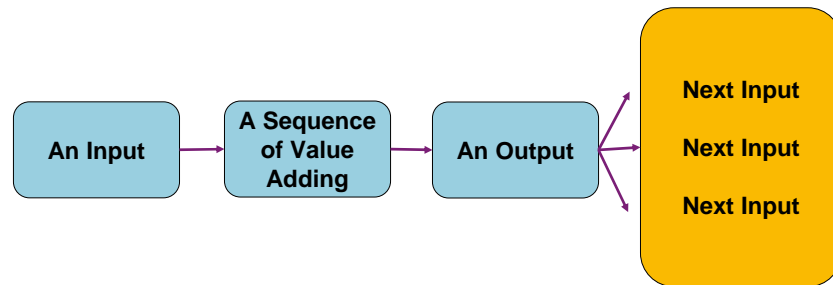


Step 3

- > Develop a restructuring plan and present it to the Board of Directors, Management and the employees.
- > Ensure the plan has undergone a robust SWOT analysis.
- > Changing work processes usually requires a lot of analysis and hard work.
- > Every work process has an input, a sequence of value adding activities and outputs.



Step 3



Step 4

- > Start at the top; replace weak members of Top Management and the Board of Directors.
- > Top executive salaries:
 - “Top managers in the late 1980s had a multiple of 20 times the earnings of the average worker was perfectly adequate CEO pay.
 - Performance related pay contracts boosted the ratio to 275 times by 2007.
 - ‘Performance Pay’ can be a misnomer, an incentive to financial engineering that has destroyed value on a heroic scale. By severing any common interest between top managers and the rest of the workforce, performance pay has fatally undermined the internal compact that makes Organisations thrive in the long term.”

Simon Caulkin – So Horrible That We Ought To Be Revolting



Step 5

- > Reduce Management layers.
- > Combine divisions and broaden the span of control for Senior Managers.
- > Unprofitable Companies are often clogged up with Middle Management.
- > Get rid of silo structures that make responding and changing impossible.
- > Streamline reporting relationships for support functions.
- > Employ rigorous benchmarking to determine the optimal staffing for back office operations.



Step 5

- > Organisational structure should be:
 - > Simple and transparent;
 - > Decentralised with smaller operating units;
 - > Built from teams (an important structural component).



Step 6

- > Identify the most profitable customers;
 - > These are not necessarily the biggest accounts.
- > Concentrate on buyers who make few demands on the customer service department, rarely return products and require only minimal marketing to prompt repeat orders.



Step 7

- > Prune less profitable lines.
- > Increase financial and employee investment in more profitable areas, withdraw completely from unprofitable markets.
- > The Company should be built to enhance core organisational competencies, ie non-core are outsourced.
- > Designed to balance functional expertise and cross-functional effectiveness:
 - > Ability to coordinate multiple relationships;
 - > Enable good focus on the customer;
 - > Enable good focus on the competitor.



Step 8

- > Close some facilities to reduce overheads.
- > Consolidate divisions to eliminate duplicate administrative functions and/or sell off underperforming divisions of the Company.
- > Restructuring work processes should focus on
 - > Improvement of processes;
 - > Reduction in process cost;
 - > Reduction in waste;
 - > Improvement in quality of output;
 - > Customer as the next stage in the process.




Step 9

- > Put together a redundancy structure taking into account
 - > Casuals to be made redundant;
 - > Calling for voluntary redundancies;
 - > Setting up a merit-based selection process and declaring positions open;
 - > Make staff redundant.

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Step 10

Outsource costly services. Paying a flat fee to have selected services performed may reduce expenditures associated with in-house services.





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Step 11

- > Investigate the latest technology for streamlining operations and/or improving products. Internal processes are often linked upstream to supplier input and downstream to customers (IT inventory levels, joint component design and specification etc);
 - > Appropriate IT systems.




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Step 12

- > Schedule meetings to deal with questions and concerns of remaining employees.
- > After restructuring, the Company's Management will need to explain new procedures and financial projections.




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Evaluation of a Performing Organisation

- > Flatter; few levels between CEO and worker.
- > Excellent bi-directional information flow.
- > Develop decision-making as close to the problem as possible.
- > Purpose vision and values-driven decision making.
- > Management focused less on contract and more on:
 - > Defining the boundaries of operations;
 - > Assuring the understanding of Purpose, Vision, Values and Strategy;
 - > Modelling the cultural norms.



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People Management Systems and Evaluation should have:

- > Employee skills, multi-tasking capability.
- > Individuals able to articulate the relationship between their job and strategy.
- > Training and development needs assessed and dealt with.
- > A good objectives system, relevance to the strategy transparent.
- > Individuals as the recipients of consistent, accurate and frequent feedback.
- > Participation systems (teams, suggestion schemes, small group participation).
- > Reward tied to achievement.
- > Individuals with a positive perception of the Organisation and Manager.



Conclusion

- > Restructuring is a tool to support the Company strategy;
 - > **IT IS NOT THE STRATEGY.**

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