Restructuring and Rightsizing: A Proactive Approach to a Management Challenge

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Organizational change strategies such as rightsizing and restructuring are designed to transform companies into more efficient, agile, customer-driven organizations. However, these processes have both short-term and long-term consequences. Before undertaking a rightsizing/restructuring program, senior management should take pains to communicate the vision, process, expectations, and intended goals.

Restructuring/rightsizing is a proactive approach to boosting profitability, streamlining operations and maximizing returns on investment within an organization. The process involves evaluating all aspects of a business to determine whether the cost allotted to each area is appropriate and is generating appropriate returns for the company.

Focus on core competencies

The primary revenue generating engines of a business are its core competencies or core capabilities. Eliminating non-core aspects of a business may involve closing plants or offices, selling off non-core operations, consolidating sites or stores, revamping internal structures, eliminating non-essential or redundant tasks, as well as eliminating layers of management. Sometimes the restructuring process results in adding or growing sites, expanding certain operations (often either upstream or downstream operations) or investing in new lines of business which are expected to become profitable in the future. Many times internal processes such as sourcing and purchasing are examined and overhauled too.

Since labor is the largest expense for most companies, costs related to headcount and workforce management get careful scrutiny, and restructuring/rightsizing initiatives typically result in staff reductions, reassignments or realignments.

Salaries/wages, benefits, overtime costs, and other aspects of labor are all evaluated on a cost/return basis. Jobs and responsibilities that are not part of the firm's primary revenue-generating functions may be outsourced or allocated to outside consultants on a contractual basis. Part-time and temporary workers may handle tasks previously performed by full-time workers in order to reduce payroll costs.

It is incumbent upon management to explore all possible means of reducing labor costs before resorting to layoffs. Options can include offering early retirement and optional release packages, internal lateral moves, job sharing and hiring freezes.

In addition, before implementing drastic reductions due to rightsizing or restructuring, it is important to consider other possible ways of improving efficiency, productivity, and competitiveness, such as Six Sigma quality initiatives, HR strategies that empower employees, and other techniques that encourage employee loyalty, productivity and stability.

Cost-benefit analysis
It often takes years to realize cost benefits from rightsizing/restructuring. In the short term unemployment claims, severance payouts, and quality or service issues caused by restructuring can bleed away cost savings. The time and resources dedicated to the restructuring process itself are often significant. Plus there are costs associated with retraining, retooling, reorganizing, relocating functions, exiting facilities and terminating operations.

Moreover, the process takes an emotional toll and impacts productivity as employees adjust to changes in their locations, roles and responsibilities. Top performing employees often leave—sometimes taking valuable institutional knowledge and important customer relationships with them, while those who stay may underperform for a period of time due to stress, frustration, or lack of skill, knowledge or experience.

Leading and managing the process
Major restructuring initiatives can involve re-financing debt, negotiating bridge loans, securing new sources of investment, reorganizing departments and reassigning responsibilities or tasks, combining or eliminating operations, closing facilities, spinning off subsidiaries or branches, forming partnerships or joint ventures, and various other types of strategic initiatives.

For senior management, rightsizing/restructuring is generally viewed as a painful but necessary task, one that ultimately benefits the company and saves jobs that would be lost if the company went out of business. Inevitably, the aftermath of such a process places greater demands on managers to make adjustments, to motivate their teams, and do more with less within the changing landscape of their own responsibilities and departments.

Executives who are responsible for making strategic rightsizing/restructuring decisions face a conundrum. On today's global economic stage, a firm's failure to perform at a peak level puts it a severe competitive disadvantage. At the same time, the process of restructuring/rightsizing is clearly fraught with potential negative effects on employees, customers and communities. Finding the right balance between these outcomes is the primary challenge facing corporate leaders today.

In conclusion
Successful organizational change drives greater productivity, revenue, profits, and, ultimately, shareholder value. Balanced against these gains are required investments in engineering and implementing the changes required. Companies considering a path toward rightsizing or restructuring should include the following in their due diligence, planning and implementation processes:

- New directions and changes should be compared to and aligned with a company's core competencies when making contraction and expansion decisions.
- Well-planned reorganizations generate mid- and long-term efficiencies, cost savings and revenue, but short-term costs can be significant. Build in a thorough cost-benefit analysis.
- Major changes bring both benefits and downsides. Executives and managers must be prepared to adjust, lead and motivate in ways that help employees, customers and communities join in and support the new path.

Because there are many difficult and controversial decisions to be made—and because these decisions impact a wide variety of financial areas—companies should consider hiring an outside financial services resource with a proven track record in rightsizing, repositioning and restructuring organizations.

About CFO Edge

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