Contents

1 Foreward

This document describes the process that a business goes through when undertaking a restructuring. It is hoped that Executives that are considering, are on the brink of, or are implementing a restructuring will find it useful. It is based on the author's many and various experiences of the process. It provides some suggestions for the content of a restructuring programme and defines the approach that should be adopted.

2 What is Restructuring ?

Restructuring is a change to the physical configuration of the assets; physical, human and financial (and long-term liabilities) of a business. It can be a change in the size or configuration of its;

- People; organisation type, organisational shape, number of staff
- Physical state; territories, countries, sites, buildings, manufacturing cells
- Physical assets; production processes and machines
- Financial assets and Liabilities; Loans, working capital, creditors and debtors
- A combination of some or all of these

It can be described quite clearly, in physical terms. The current state of the business is the starting point (point 'A'), which may need documenting and verifying, and the definition of the target state is the end point (point 'B'). Both can be clearly described.

This document describes different aspects of restructuring, however, it does not describe financial restructuring. Financial restructuring can have a profound effect on the financial performance of a business and can lead to its continued trading in extreme cases. But it generally doesn't significantly affect the physical shape of the business.

3 What distinguishes Restructuring from Transformation ?

Restructuring usually has a specific purpose in mind e.g. lower costs, more capacity, integration or divestment of a business(es). It is generally a re-scaling of a business to cope with new circumstances.

Transformation is a change in purpose, a change in method or approach, process or system, and/or the introduction of new products or services. It can be differentiated from restructuring by simply leading to something being done significantly differently or something new being done.

Complex changes in a business can contain elements of restructuring and transformation and are generally labelled as 'Business Transformation'.

And both are different to improvement, or continuous improvement, which is the incremental improvement in the steady state performance of typically a stand-alone business unit, or collective of units.

Transformation is described in a separate paper from Pearson Management Consultants Limited. This paper describes restructuring.

4 What triggers Restructuring ?

Restructuring can be triggered as a reaction to, or in anticipation of;

- An unsatisfactory and / or declining or stagnating financial performance
- A significant (step-change) in volume either up or down
- A merger or separation of two, or more, businesses or divestment(s)
- A change in organisational philosophy

It is often triggered by a management team that are not directly in control of the daily business, usually from 'Group', 'Head Office' or 'Division' or from an acquisitive company. Sometimes the incumbent management are given the task of restructuring but more usually there is some change in senior management at the same time. This is largely determined by the reason the restructuring has arisen. Restructuring can be seen as a 'last resort' or as the failure of other attempts to improve. It can, therefore, commence in a negative atmosphere, and often does because of the things it can entail.

5 How should Restructuring be managed ?

Restructuring should be managed formally as a project, or in the case of large scale, multi-step changes as a programme. Failure to consider the management of a restructuring in this way can lead to failure which in turn could lead to

- the failure of the business
- a significant unplanned dip in performance
- additional costs due to compensation claims from employees
- a sub-optimal outcome for the future needs of the business

Often a senior executive is give the responsibility for managing the process of restructuring. This may be a dedicated role depending on scale and importance of the restructuring. A project manager is usually appointed to support the Executive.

5.1 Consider the law

While Employment Law is rarely, if ever, a permanent block to change it can potentially affect timing and sequencing. It is almost certain that consultation with staff will be required. The nature of the change, the prevailing Employment Law in the territory or territories that are in scope, the size of the business and the scale of the changes proposed can all effect the consultation timeline. If the restructuring has an International, European dimension then directives relating to European Works councils may also come into effect depending on scale. It is wise to seek professional Employment Law advice early in the life-cycle of a change, potentially while still considering the options, or in anticipation of even beginning to discuss the change(s). If a change is being considered while acquiring a business then a feasibility should be made as part of the process of Due Diligence.

5.2 Define and agree the objectives

Defining and agreeing objectives often comes after the 'obvious' decision has been taken to restructure. This is because the events that lead to the decision have either already happened or are advanced and the reason or 'drive' for the restructuring is obvious. The setting of more detailed objectives is often over-looked. Taking on a restructuring without some clear objectives does not necessarily lead to 'failure' but it certainly increases risk of creating a sub-optimal 'point B'.

Objectives may include

- a targeted value for the cost-base of the business, its profit level or return on capital
- a productivity level and capacity utilisation based on an assumed volume
- the number of staff, the number layers in the organisational structure, the ratio of direct to indirect staff, the number of managers, the split of staff between territories or functions
- the number of sites or regions, the realisation of income from the sale of freehold property(ies)
- improvements in customer service,
- a growth in sales or the fulfilment of a significant increase in orders
- completing the restructure against a pre-defined deadline, for example the expiry of a lease
- a capped budget to fund the change

This list is by no means an exhaustive one. It is, however, representative of the types of objectives that can typically be listed. Often there are multiple objectives. Sometimes these may also prove to be conflicting – for example the budget and timescale versus the expected scope or the desired productivity level and the capital expenditure available. Early analysis should focus on either resolving these conflicts or, as a minimum registering them as issues or risks.

Once developed the objectives should be agreed with the Sponsor of the restructuring. Clearly the over-riding objective is the clear statement that captures the basis for the restructuring.

5.3 Consider the options

In simple restructuring projects there may not be many options and it is easy to move on to assessing the risks and the scope of the work required to complete it. However, in most restructuring situations there is either more than one solution to achieving the objectives or the business analysis of the main elements reveals a weakness in the business case that leads to additional options being considered. 'Optioneering' can be as simple as writing a list of options and placing them on a grid, for example with the dimensions of 'ease of implementation', 'cost', 'risk', 'benefit'. By ranking options it is sometimes possible to reduce the number to a few that can be assessed further – for risk, opportunity, cost, complexity, timing.

Ultimately a single option becomes the preferred one and a recommendation is put forward, albeit at this stage all of the details of its precise form may not be known. It can also help to firm up the objectives. Its comparison to the other options can be a good way of reinforcing the case for the proposal. This can also prove useful once consultation has commenced as the employee representatives may ask about alternatives that were considered or may propose something.

5.4 Consider risk and opportunity

Risk and opportunity should also be considered in parallel with considering the objectives at the outset of the process. Up to this point no commitment has been made and nothing has been decided. So a consideration of them can inform the decision to proceed. In more complex, large-scale situations that could have a profound effect on a business it is possible that further work will be requested to asses certainty around risks, opportunities and assumptions.

Text on assessing risk and opportunity are extensive. For complex, high-cost situations it is advisable to consider using a risk professional and to assess risks statistically in a standard software tool. Many of these tools enable risks to be linked to financial business indicators in a model. This provides for a more thorough assessment of the risk envelope of the proposed restructuring.

As a minimum a cross-section of stakeholders should consider the risks of the option, or options, being considered. It is surprising how a few people who know the business in detail can derail what in the first instance seemed to be a logical option. They should assess the likelihood and impact – often the impact grid will be developed for a specific situation. The potential mitigating actions and their effect should be modelled. The degree of residual risk can then be considered. Some options may hold more residual risk than others which can inform the selection process for the preferred option.

Ultimately the assessment of risks and opportunities provides input to the consideration of the options, to the schedule (the actions) and to the business case. Typical risks may be

- The reaction of stakeholders to the proposal; employees, customers, suppliers, unions, shareholders
- Failure to achieve the desired performance or final state
- Implementation issues; costs, time, quality
- Hidden costs; delays, disruption, compensation, tribunals
- Poor management of the change process
- Insufficient resources to support the change process and the scope of work
- Lost sales, opportunism by competitors

5.5 Set out the scope, timeline and organisation

Once the start-point , point 'A', and the end point, point 'B' have been 'fixed' it is possible to plot the route from 'A' to 'B'. Setting a pre-defined date for the attainment of point 'B' can also help to frame the activity – durations can be weeks, months or years depending on the nature of the restructuring.

This is typical project management work. Brainstorming all the work that has to be completed. Developing a sequence of activities. Determining dependencies. Estimating durations. From these activities a plan emerges. This can be rough-cut and high-level to begin with. It should consider any major 'business-as-usual' events or seasonality e.g. 'Christmas peak' , the termination of a lease, the completion of a major contract.

A project approach should be adopted.

- A **Work Breakdown Structure (WBS)** should be developed to describe the scope in clearly differentiated elements. Examples are
  - **People**; Organisation design, consultation, redundancy, recruitment, outplacement
  - **Sites and physical infrastructure**; closures, investments, divestments, sales, layouts of factories, warehouses and offices
  - **Business processes**; Systems and Data
  - **Product transfer**; consolidation of production to provide scale efficiencies
  - **Customers and sales**; redistribution of accounts between sales staff, redefinition of sales territories, pricing changes, harmonisation of terms and conditions
  - **Supply-chain**; supplier rationalisation, supply-chain broadening, purchase consolidation and renegotiation

- **Financial management**; harmonisation of reporting, consolidation of ledgers, consolidation of teams e.g. purchase ledger, credit control, reporting

- **Information systems**; rationalisation of systems, transfer of hardware

■ A **Benefits Map** should be developed that ensures there is a line of sight from actions or changes to benefits. This also aids prioritisation and sometimes descoping by eliminating unnecessary changes. It is also useful where the business case is complex and can benefit from more granular analysis; benefits may be derived from only specific investments. Typical benefits are

- Reduced payroll

- Reduced site and infrastructure costs

- Additional sales and margin generated by a more effective sales team or scaled up operation

- Lower product costs through higher productivity

- Reduced IT costs through system and infrastructure rationalisation

- Cash realisation from a sale of a business unit and/or from asset sales

■ An **Organisation Breakdown Structure (OBS)** should be developed to confirm the accountabilities and responsibilities as well as the resources required to manage the process of restructuring. Some guiding principles when considering the design of the OBS are

- Managers who are likely to be 'surviving' should be the ones chosen to lead work-streams. If exiting executives, are to be involved then the terms and timing of their exit packages should be linked in some way to a successful restructuring

- A number of staff should be dedicated 100% to supporting the restructuring. Having teams manned with 100% of part-time people – ones who have to support a day job – is a recipe for failure. It is recommended that a minimum of one person per WBS element should be full-time

- Teams should be adequately supported in the technical aspects of their work. Early assessment is required to ensure that the people proposed or selected have the required knowledge. Restructuring throws up requirements in every function that can test local knowledge to breaking point. If any single team in the OBS fails then generally a restructuring fails to some degree. So, as in normal business, selection of the right people is key. Often managers are only willing to release less able members of their team – this should be challenged.

- A **Cost Breakdown Structure (CBS)** should enable the costs to be clearly described. It is good practice to provide a 'crib sheet' of cost elements for each team in the OBS as a thought provoker. An experienced accountant should manage the CBS and its development should be viewed as a 'budget' process. Sometimes the cost of a restructuring can be of the same scale as an operating budget. Restructuring does not generally follow a typical business rhythm and experience in its development and phasing is invaluable. Cash in-flows and out-flows should be mapped and challenged. Businesses can hit trouble with unexpected cash-outflows that can have an impact on the timeline of the restructuring e.g. cash to fund redundancies, recruitment or capital investment.

5.6 Define the business case

The above, when coupled with a reasonably detailed schedule provides the input to a business case. A cash-flow based model should be used to develop the phased business case and to develop the required ratios for investment appraisal e.g. Internal Rate of Return (IRR), Payback period, Return on Capital Employed (ROCE). It is possible that more than one option has to be modelled to this level. Cash-flow models can also be tested for their sensitivity to variances in costs, benefits and timeliness. This can be used as a crude tool to show the impact of the risks identified. The sponsors are then generally presented with the options, the assumptions on which they are based, their costs and benefits and risks. This should lead to an informed decision.

Once a decision has been made then more detailed communication and consultation should (or has to) take place.

5.7 Communicate and consult

The precise timing of communication and consultation will be affected by the situation in the business, the nature of the proposal, the maturity of the existing engagement with employees' representatives and the law. There is no single timeline that can be proposed or has to be followed other than the basis of the law.

In restructuring processes in an International environment then the differing requirements and approaches of the legislative frameworks in force have to be mapped out. In multi-national organisations in Europe where a body representing all of the staff in the company exists, or has to be created for the purposes of consultation, then any cross-border issues or decisions have to be discussed there first before agreements are struck Nationally. This can lengthen the process 'in country' but is a necessary first step. Once cross-border issues are resolved it is then possible to commence consultation 'in-country'.

The processes within each National legislative framework are well described in each country. This usually commences with the presentation by management of a clear set of proposals and often the issuing of a pre-formatted document to the employment ministry of the National government. These vary in format but usually require the employer to define the impact of their proposals on the organisation in terms of the numbers of jobs that will be lost (in the case of a rationalisation) by location and type.

Announcing a restructuring is often emotional. Communication should be clear and concise. There may be simultaneous announcements taking place in different locations, and with different messages. The overall thrust of the announcement should be consistent but each site, and possibly function or team, may require different details. Often some cascading takes place with managers who have been pre-briefed delivering messages tailored for consumption locally at lower-levels in the organisation. All messages should, however, be consistent and accurate – and most probably produced by a small team and approved by the Executives. Verbal announcements should be followed up immediately with written ones, including letters to staff and, if the company has one, via the intranet.

Once communication has taken place then consultation can begin. Again the text available on this subject is extensive and the law prescribes some elements of it. Ultimately the objective is to minimise the negative impact on those people who ultimately may be losing their jobs in the case of a down-sizing. The approach to consultation varies between countries and this may need close co-ordination. As challenges are made and responded to it is important that the integrity of the proposal and its associated benefits are maintained. Any variances should be escalated.

Once consultation is completed then implementation can commence.

5.8 Manage the process of restructuring

The scope, schedule and business case should be summarised in a document, which could be a Programme Definition or a Project Plan. In a complex restructuring it is advisable to create some form of Project Office. It is usual to appoint one of the senior Executives as the Restructuring Director. This would comprise the full-time executive, the project manager and the full-time staff allocated to the restructuring process who would all, preferably be co-located at least for part of each week. This Project Office can

- Track progress and manage the development of the schedule
- Produce progress reports
- Manage costs
- Oversee risks and their mitigation and look out for emerging risks and issues
- Co-ordinate between the elements of the WBS and between the teams defined by the OBS
- Do work to support the restructure

- Prepare packs for reviews with sponsors
- Track decisions and assumptions
- Track progress versus the business case
- Manage change (see below)

The frequency of reviews should be such that they enable pace and traction to be developed in the early stages and control to be established and maintained over the duration of the process. Weekly project updates may be appropriate, especially in the early stages with overall reviews of the restructuring being held with the senior executives fortnightly. Once a month the finances of the restructuring; costs and benefits; and the risks should be presented at the executive review. The Restructuring Director should chair these reviews.

One of the main tools for managing a restructuring is the forward looking schedule. This needs to be developed in a manner that enables its easy presentation in different degrees of granularity to varying audiences. Ideally there should be one schedule developed in Microsoft Project, other 'simple' project management software or potentially in Enterprise Project Management software such as Primavera. A standard method can be applied to project schedules for each WBS element so that consistency is achieved. The Executive Steering team should be presented with a forward looking schedule every two weeks. It should highlight the major decisions and events that are coming up and, if appropriate, the forum at which any decision needs to be made e.g. company Board Meeting, International Works Council meeting etc. This regular management of forward looking 'major' items can prove invaluable in aligning corporate governance processes with the restructuring. Knowledge of them is also important when developing the original schedule.

Managers throughout the company will play a key role in implementation. They need constant and specific attention to ensure they know what is coming up and what they have to do. Resistance to change is often borne out of ignorance and middle managers are often the point at which change can fail. Considering managers as 'Business Change Managers', in MSP terminology, is good practice and the role MSP defines for them is a useful check list for the expectations of them.

5.9 Manage any changes formally

Point 'A', the start point, and point 'B', the goal should be as clearly defined as possible as early as possible in the process. This isn't always possible where options exist. However, with a clear set of assumptions it is possible to start the process of restructuring without knowing all of the answers. In fact this is usually the case. So it is almost certain that as the process proceeds that variation will occur. Variation is called change.

Once agreed the detailed objectives form the basis of the restructure and should be placed under 'change control'. It is not unusual for subsequent decisions or events to affect one or more objectives. A degree of tolerance may be agreed. However, if an objective is going to be missed or the risk analysis indicates that this is possible then this should be escalated. In severe cases a restructure could be stopped or delayed depending on the severity of the issue.

Changes need to be documented, assessed and sentenced. They could involve changes to scope, design, budget, benefits, timeline etc. The Project office needs to ensure that it is managing all of these elements against defined baselines and that events, proposals or decisions that cause variations are treated formally as changes. The level at which change can be sentenced is a decision for the executives. However it is usual for any change that materially affects the business case to be presented at a fortnightly meeting with the sponsor(s) – or if necessary by an emergency meeting – so that decisions are taken consciously. A register of all changes should be maintained by the project office to provide traceability to the original baseline.

5.10 Close out the process of restructuring

Restructuring can be disruptive. Poorly managed restructuring can appear to those suffering it to be endless. By managing a restructuring formally, as a project, with a defined outcome in mind and formal management of change it is possible to be clear about its attainment. As a project it should be temporary and it should stop, either when the objective has been reached or before this if the process has to be stopped early due to the forecasted failure to achieve the business case.

The close out should be undertaken by the Executive who should be provided with a formal close out report from the Project Office. It should be presented by the Restructuring Executive. It will confirm the performance versus the business case and will highlight any incomplete work – work that can be done as 'business as usual' at a later date.

Communication of the completion of the restructuring should take place to all stakeholders, both internal and external ones.

The staff, and potentially the external stakeeholders, need to know that the changes are 'over'. Generally 'drawing a line under the change' is what a population of staff need so they can truly focus on the new situation.

6 Summary

Restructuring is a 'once in a lifetime event' for many. It is fraught with risk. Formal management of the process using teams that are resourced appropriately greatly reduces the risk. Dedicating a small team to the task of providing the appropriate degree of coordination and effort reduces the risk further.

Using skilled resource to support the process, resources for whom it 'isn't a once in a lifetime experience', should be considered. Engaging these resources early in the process can help to avoid fatal errors.

A successful restructure can be the spring-board to continued and accelerated success. A poorly implemented restructure can hamper a business for years and can prove 'terminal'.

7 Contact

For more information about restructuring or to obtain advice on specific projects or issues please contact; Bill Pearson, Director, Pearson Management Consultants on 07387 159676 or at bill@pearsonmc.uk.

For more information about Pearson Management Consultants Limited go to http:/pearsonmc.uk