

Slobodan Panić

National Bank of Serbia, the Institute for Manufacturing Banknotes
and Coins – Topčider, Belgrade

Responsible Restructuring – the Most Important Aspects

UDC: 005.35:005.591.4

DOI: 10.7595/management.fon.2012.0016

The restructuring is a complex process of adjusting the company for changes that come from the environment, in order to increase business efficiency and competitiveness. The two most important things for a successful restructuring are the justice and communications. Responsible companies are companies with vision, who knows that worrying about employees today, provide their own prosperity tomorrow. The restructuring should be seen as an opportunity for the company to direct its focus on those areas of business where it made its greatest comparative advantages. Employees in such circumstances should be regarded as the highest value of the company to be developed, not as an expense that should be reduced as soon as it appears the first signs of crisis.

Keywords: The restructuring, business efficiency, Procedural justice, Distributive justice, communication strategy

The restructuring is a complex process of adjusting the company to changes that come from the environment, in order to increase business efficiency and competitiveness. This process is characteristic for both the developed market economies and the countries in transition. The changes that occur in the former socialist countries are associated with the reforms of the political system and they, as a rule, are followed by delicate socio-economic consequences. The transition of state enterprises to the market economy is a process that is itself very complex. In the conditions of a turbulent environment, restructuring becomes a more complex process, far more complicated than the one that takes place in the companies that have had decades of experience in market operations. If we add the cultural, ideological, moral, legal and other differences that shape the macro-environment of companies in different parts of the world, it is clear why it is not possible to define precise and universal guidelines for successful restructuring. However, there are certain rules of conduct applicable to all systems, which contribute to the transformation of the company to be conducted with less trauma and greater chances for a successful outcome. What is desirable and what should be avoided in the restructuring is the subject of this chapter.

The two most important things for a successful restructuring are the justice and communications. Justice refers to the application of what is fair, in particular, to an impartial adjustment of conflicting demands or determination of a deserved reward or punishment. Procedural justice refers to the procedures used in decision making. The procedures are fair to the degree to which they are consistent in relation to the people and in relation to the time, free from prejudice, based on accurate information, correctable and based on the prevailing moral and ethical standards.^[1] Distributive justice refers to the outcome of such decisions such as the awarding of bonuses and making decisions about layoffs. It exists if there is a belief that "everyone gets what he deserves." Procedural and distributive justice together form a broader concept called organizational justice. The perception of employees in terms of fairness has important effects on their attitude and behavior. The workplace is considered to be fair when there are three basic elements present: trust, openness and respect. If the organization operates in a fair manner, it respects each person who contributes to its success and demonstrates that every individual is important. All three elements of fairness are very important to maintain the engagement of a person at work. Procedurally fair behavior evidently results in reducing stress, increasing productivity, job satisfaction and organization commitment. It also encourages the so-called organizational membership behaviors (discretionary individual behavior that exceeds his/her official role, willingness to help colleagues, voluntary applying for new jobs, respect for rules and procedures even when they are not considered to be suitable to the person concerned, the interest in the organization and the defense of organizational goals).^[2]

The perception of procedural justice is particularly important for employees during periods of significant organizational changes, because then it becomes a decisive factor that determines their attitudes and behavior. Procedural justice has three components.^[3] The first is *the voice of workers* and means that the policy of the organization should leave enough space and opportunity for workers to influence decision-making. Previously, we had an example of a company that set a condition to its employees – it is necessary to reduce costs and you choose how it is to be accomplished. The final outcome was beyond all expectations and the company has, in only 3 months, recorded a positive financial result. The second component is *an interactive justice* and refers to the quality of human relationships which the worker faces in their daily work. This kind of justice exists if the company treats the employee with dignity and respect. Injustice is manifested in various forms of destructive behavior: inconsistency, attacks on privacy, abuse of authority, coercion, deception, public criticism, violating of dignity and the like. The employees' perception of interactive justice, primarily in the area of relations with superiors in the company, substantially determines their relationship to leadership in general, affects job satisfaction and productivity. *Informational justice* is the third component of procedural justice. It is expressed in providing explanations about the decisions made. Responsible companies regularly inform their employees about the important issues for the organization, thereby reducing uncertainty and encouraging organizational affiliation. Informing is especially important at the time the redundancies have to be decided upon. Employees who remain in the company, as well as those who are made redundant, show more positive reactions and a greater loyalty to the organization if they are informed in advance about the reasons for dismissal and if it is explained to them how they will contribute to the company to get out from the crisis.

The management of the company that undertakes the restructuring should know that the first question each employee will ask is: "Did you treat me fairly?". The answer to this question will define their overall behavior and attitude toward the company. Communication is very important, particularly in times of major change. To illustrate the impact of communication in business, we will use the results of a four-month investigation into two companies, that merged.^[4] The reasons for the mergers were increased competitiveness, through a combination of complementary product lines and cost reduction elimination of certain duplicate functions (administration, transport, distribution, etc.). Both factories have produced the same product, with approximately the same number and structure, with similar patterns of governance and the level of profits. In the preparations for the fusion and during its realization one factory gave its employees detailed and timely information, but the other retained its previous system of information. The researchers conducted a survey of workers in both factories, in the period immediately after the merging announcement, and three months later. In the first company, immediately after the decision was made and before the media got the information, all employees received a letter from the manager that informed them about the merging, including the reasons and the expected effects. The workers were also informed about the implications that merging would have on them. To facilitate a two-way communication between the management and the employees, the company implemented three modes of communication: bulletin of the merging, the phone line for the employees to get informed and weekly meetings of managers, lower-level managers and workers in all eight organizational units of the factory. The intention was to provide employees with relevant, frequent and accurate information about merging, a fair treatment of the workers and to give precise answers to their questions. The second company did not submit additional information after the first letter was distributed to all the employees. The changes in the perception of workers, two weeks after the announcement of the merging and three months later, were dramatic, as seen from the following table:

Table 4.2.1. Differences in perceptions of workers

WORKERS PERCEPTION	CONTROL FACTORY	EXPERIMENTAL FACTORY
Stress	increasing 9%	<u>without change</u>
Uncertainty	increasing 24%	increasing 2%
Job satisfaction	reducing 21%	increasing 7%
Commitment	reducing 11%	<u>without change</u>
The company is fair, honest and careful	reducing 25%	increasing 14%
I intend to stay	reducing 12%	reducing 6%
Productivity	reducing 20%	<u>without change</u>

Source: Vein F. Cassio, Responsible Restructuring, p.177

In both factories, immediately after the publication of the merging, the employee responses were negative. However, as soon as the program of intensive informing began, the situation in the experimental factory has begun to stabilize. The perception of fairness, honesty and attention of the company, as well as personal productivity assessment, began to rise and returned to the level before the merging announcement. In the control factory, the attitude of the employees to the changes remained emphatically negative. Instead of decreasing, the initial tension grew as the process progressed and the company was faced with serious problems.

These results are entirely consistent with the results in the field of organizational justice. Even when they are affected by the outcome of the process, the employees are less dissatisfied, if they understand the reasons and actions of the management and if they deem them fair. Because of that, the openness and constant communication are most important for successful restructuring. It should be known that a majority of employees are confused and worried about the changes that are to come, which negatively affects their criticism and objectivity. Insignificant events may seem very important to them, random errors, when connected, can be perceived as a conspiracy. In accordance with the changed role of businesses in the society, it is of great importance for internal and external public to believe that the organization acts as a socially responsible entity, which should be based on the principles of voluntarism, comprehensiveness and transparency.

In the absence of real information, employees set their own versions, and this is an excellent ground for disinformation. In a situation where they do not understand the reasons for changes and fear for the outcome, it is natural that employees do not support the changes, they are reserved and sceptical, and often show an open resistance. The communication strategy should achieve the following goals:^[5]

- To gain understanding and acceptance by the staff;
- To minimize the effects of uncertainty;
- To make people keep their focus, energy and commitment to the organization;
- To provide support to shareholders and other stakeholders;
- To change the behavior of employees in accordance with the new objectives of the organization;
- To maintain productivity.

Indirect communication via the Internet, other forms of electronic communication, written communication, newsletters etc. are acceptable, but they cannot be a substitute for personal remarks to employees. A two-way communication based on the "listen–talk–persuade" in terms of important changes, is simply irreplaceable. It is also essential that the source of information should be true. Important announcements should be provided by the general manager, not a direct supervisor. His information should be based on a story that is true, consistent and understandable, the vision must be clear, even if the details were not, the middle and lower level management should be aware of that and the report has to be confirmed by the facts from the previously prepared and tested materials. The reference to confidentiality, template approach, surprises and empty promises are counterproductive. A good way is to address large groups, followed by a number of meetings in small groups. The meetings in small groups allow a genuine dialogue in which a person can hear and weigh the arguments from both sides.

The persons responsible for direct communication with employees should be trained and well prepared. There must be a full compliance within the management in the company, at all levels. Long intervals between one announcement and another should not be allowed. Information should be simple and consistent, so that all employees should understand it. Channels of feedback should be always kept open, so the administration would know what the attitudes of workers are, whether and in what direction they are changing and adjusts its actions accordingly. Along with communication the most important operating parameters should be checked. The plan for restructuring must be flexible to incorporate the essential facts that arise during the implementation.

What is really the link between companies and employees can be seen only when a crisis occurs. Responsible companies are companies with vision, who know that care about employees today, provide their own prosperity tomorrow. They are also familiar with the ups and downs of normal business operations and they are preparing for them. So the *first step* in responsible restructuring is planning. Prevention is the main difference between organizations that are ready for and welcome changes with the detailed mechanisms and those who at the first signs of a crisis react reflexively and take short-term and often ill-considered steps, which usually results in a mass dismissal of employees.

The *second step* should be the analysis of the reasons for restructuring. What are the real causes of the crisis, are there other solutions (selling unprofitable assets, reducing costs, etc.), whether and to what extent

the employee dismissal solves the problem, how it will affect the workers who leave and those who remain, how the highest quality workforce can be retained, in which way the actions taken will affect the mission and the vision of the company, etc. are just some of the issues that companies must take into account in the restructuring process. *The third step* is to analyze the advantages provided by the stability. The previous research has shown that both the short and long term stability give better results than layoffs. *The fourth step* should be to inform the employees about the problems and involve them into decision-making, even before the final decision on restructuring is made. The management needs to know who the best workers in businesses are and in particular to respect their opinion, both because of their expertise and of the fact that they have a significant impact on other employees. Even when layoffs are unavoidable, the involvement of employees creates a sense of belonging, of personal control, reduces uncertainty and tension to an acceptable level. *Fifth*, the management needs to know what the real reasons for bad business are and not to use the dismissal of employees as "the fastest cure" for achieving short term goals, if the company is faced with long-term problems. It should consider all other options so that dismissals should be the last step, not the first. The management at all levels should, together with employees, seek solutions and to jointly bear the burden of reforms. *The sixth step* is related to cost reduction, which is usually the first reaction to the crisis. Such management behavior is logical, but it is still necessary to ask for the opinion of employees on what benefits they can give up most easily. Management should provide employees with a feedback on the amount of savings and what effects it has on the organization. *The seventh step* – if it is not possible to avoid making people redundant, this should be presented in a fair, consistent manner, and in a manner that allow employees to preserve their dignity. The redundancies should be announced as soon as possible. Management must find a way to retain the best employees, in times of crisis as well, because it is the most important prerequisite for the re-launch of the company. *The eighth step* – a regular communication with employees through a dialogue and communication, which is always important for the company, and especially in the times of crisis. The announcement of all relevant information creates an atmosphere of trust and honesty and is the only way to quench rumors and to avoid misunderstandings. *Ninth* – the company must do everything it takes to keep the remaining employees and to provide conditions for potential new employees to join. It is on the commitment and confidence of workers who remain that the future operations and the future of the company depend. They are expected to assume a greater burden, to be fair to customers, be inventive, to cherish an organizational culture, etc., all these in the conditions of redundancy threats when they suffer considerable pressure themselves. *Tenth* – restructuring means change, which means that management and employees should work differently in the new circumstances. They have to be prepared for it and adequately trained, so they would be able to effectively and swiftly respond to the demands posed by the new organization. Without raising the quality of those who remain, the redundancies are just a move that may bring immediate effects, however, the final result is deeply problematic. *The eleventh step* is a careful and long-term human resource planning and coordination of this plan with other strategic documents of the company – the analysis of macroeconomic conditions, market research, business strategies of companies, etc. Human resource management should include all relevant issues, such as: the reward system, measuring the contribution of each employee, stimulating innovation, training and development, employee informing, benefits, including workers and their associations into decision-making processes, recruiting and selecting new employees, acting in crisis etc.^[6]

The restructuring should be seen as an opportunity for the company to direct its focus on those areas of business where it achieves its greatest comparative advantages. Employees in such circumstances should be regarded as the highest value of the company to be developed, not as an expense that should be reduced as soon as the first signs of crisis appear. Stability, ethics and honesty are the most important motivational factors that produce the desired reaction of employees – dedication, customer care and innovation. These are, at the same time, traits that make responsible companies different.

Conclusion

The restructuring is a complex process of adjusting the company for changes that come from the environment, in order to increase business efficiency and competitiveness. The transition of state enterprises to the market economy is a process that is itself very complex. In conditions of the turbulent environment, restructuring becomes more complex process, far more complicated than the one that takes place in companies that have decades of experience in market operations. In such circumstances it is particularly important that this process takes place with respect to principles of fairness and openness in communication between stakeholders. What is really the link between companies and employees can be seen only when a crisis occurs. Responsible companies are companies with vision, who knows that worrying about employees today, provide their own prosperity tomorrow. Stability, ethics and honesty are the most important motivational factors that produce the desired reaction of employees - dedication, customer care and innovation. These are, at the same time, traits that responsible companies make different.

REFERENCES

- [1] J.Greenberg „Reactions To Procedural Justice in Payment Distributions: Do the Means Justify the Ends?“, Journal of Applied Psychology 72, 1987, pp.55–61
- [2] J.A.Collquitt, D.E.Colnon, M.J.Wesson, C.O.L.H.PorterandK.Y.Ng, „Justice at the Millennium: A Meta-analytic Review of 25 Years of Organizational JusticeResearch“, Journal of Applied Psychology 86 (2001), pp.425–445
- [3] J.A.Collquitt “On the Dimensionality of Organizational Justice: A Construct Validation of a Measure”, Journal of Applied Psychology 86 (2001), pp.386–400
- [4] D.M.Schweigerand, A.S.De Nisi „Communication With Employees Following a Merger: A Longitudinal Field Experiment“, Academy of Management Journal 34 (1991), pp. 110–13
- [5] M.Feldmanand, M.Spratt „Five Frogs on the Log“, A CEOs Field Guide to Accelerating the Transition in Mergesrs, Acquisitions and Gut–Wrenching Change (New York: Harper, 1999)
- [6] F.Casio „Strategies for Responsible Restructuring“,opening address at the National Man Power Summit, Singapore, October 2001
- [7] Dragomir Voicu–Dan; Anghel Elena Roxana „Social Responsibility Practices Regarding Facilities Granted to Employees and Consumer Protection in Selected EuropeanCompanies“, source: Amfiteatru Economic, vol. 13, Issue 29, pp. 86–103, Publishedfebr. 2011.
- [8] Randall Julian, Procter Stephen, „Ambiguity and ambivalence Senior managers' accounts of organizational change in a restructured government department“, Source: Journal of Organizational change management, Issue 6 pp. 686–700, Published 2008.

Received: June 2011.

Accepted: June 2012.

About the Author

Slobodan Panić

National Bank of Serbia, The Institute for Manufacturing Banknotes and Coins – Topčider, Belgrade
E-mail: slobodan.panic@nbs.rs / www.nbs.rs

Slobodan Panić was born in Belgrade, on 19th October, 1964. He graduated at the Faculty of Economics in Belgrade, where he also received his M.A. degree with the thesis "The Selection of Means of Economic Propaganda Strategy". His doctoral theses, with which he received his Ph.D. degree in January 2012 at the Faculty of Organizational Sciences, was titled "Market transformation of state-owned companies in Serbia". Since 2003 he has been employed in the National Bank of Serbia – The Institute for Manufacturing Banknotes and Coins at Topčider, as Director of Sales Board.

