To Restructure or Not? That Is the Managerial Question

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Some 72 per cent of manufacturing firms in a current survey, report significant changes in their organization structures in the last two years. Structure is seen by many as a powerful tool in mobilizing resources in both an efficient and effective manner. The desire for change is clearly present, but whether positive outcomes will result is another matter. What is the role of structure? What factors affect structure? Which structural types work best? These are some of the key questions many senior managers have to grapple with.

Organization structure is the formal presentation of systems of positions and relationships within the firm. It should be an operational statement of the firm's goals. It specifies formal communication channels, who does what and who is responsible for whom/what. Structure may be seen as a statement from senior management as to how they wish the firm to work. In essence the structure of the firm should reflect the activities of the firm. As trends towards teamworking, empowerment, total quality management, etc. gather pace, structure needs to facilitate these initiatives. While many firms are now much better at displaying mission statements, quality definitions and other corporate data, many people inside the firm remain unaware of the organization chart and its true significance.

Triggers

Factors affecting structure emanate from internal or external stimuli. The changes may be real or cosmetic, short- or long-term, reactive responses or amplifications of strategic readiness for the future. Internal triggers often include the managing director's desire to improve the structure, rationalization of positions and the need for better or quicker communications. It may be a current problem that gives rise to change or a more proactive intervention by senior management. External triggers are commonly changes in the environment or changes in technology. Burns and Stalker's[1] famous study in 1961 concluded that stable technologies and environments brought about mechanistic structures, while firms operating in a rapidly changing environment needed more flexible, organic systems and structures. Mechanistic structures are typically rigid, hierarchical and well-defined, whereas organic structures focus on networks rather than hierarchies and lateral rather than vertical communications.

The outcome of changes in structure can be difficult to assess. Few empirical studies have sought to quantify the impact of structure and structural changes. The quickening pace of change and the vast array of other initiatives e.g. total quality management, investors in people, etc. makes it particularly difficult to assess the outcomes from structural alterations. Furthermore, little is known about the time lags involved between changing structure and the impact of such changes.

Restructuring can offer many potential benefits to the firm. These include cost benefits, decision making benefits, communications benefits and managerial control benefits. The recession has undoubtedly forced many firms to consider leaner structures. Removing hierarchical layers, i.e. de-layering, and the cutting out of certain positions may be primarily driven by a desire for lower costs. Quicker and more effective decision making may be a goal which requires the re-definition of roles and responsibilities. As many firms adopt an increasing orientation towards the customer, restructuring can allow greater clarity of the communication channels used to deal with customers. Managerial control can be increased by removing unnecessary fragmentation of jobs, and job redesign, *per se*, may logically bring about changes in the structure. Equally, empowerment and teamworking may well require

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less hierarchical structures if they are to be instrumental in the movement towards total quality management. In short, restructuring is perceived by many as an opportunity to change and to bring about improvements.

To what extent is there a shared desire for a new structure, a common understanding of it and an appreciation of whether it will solve current problems or merely create a whole new set of unidentified issues? This article sets out to present some preliminary findings from the research and to raise some of the issues currently facing many organizations.

ESRC (Economic and Social Research Council) funded research currently being undertaken at the University of Sheffield for the Centre for Economic Performance (CEP) is seeking to assess the impact of structure, among other internal variables, on corporate performance. The survey of over 100 UK manufacturing firms is now nearing the end of the data collection phase. Initial analysis on some 52 companies in the sample is already providing important empirical evidence.

Participating Firms

Participating firms emanate from four main sectors – engineering, plastics, electronics and a miscellaneous group comprising furniture manufacturers, brewers, food companies, etc. The criteria for involvement in the project include having more than 80 employees, with ideally a single-site operation. Data has been collected by interviewing the directors and senior managers, usually taking a whole day.

Some 66 per cent of firms in the initial analysis, typically employing 80-200 employees, have a structure following functional lines, e.g. production, sales, etc. The desire to move away from this traditional type appears to be minimal, but the wish to reduce the number of hierarchical levels is high. Redefinition of positions and tasks is another frequently cited stimulus for change. Thirty-five per cent of firms report moderate changes in structure, while 45 per cent state that they have undergone major change. Major change is either relative to the previous position, or is significant on the scale of change for that organization. Seventy per cent of respondents suggest the result is a leaner organization. Lean is generally assumed to mean a reduction in layers or positions, in other words, rationalization. In 23 per cent of cases the result of change has had no impact on leanness, while 7 per cent state that the outcome can be described as less lean. A minority of firms reported greater clarity and efficiencies without necessarily making the structure leaner.

Internal and external triggers for change may of course be competing forces, thereby increasing the managerial dilemma. A delicate balance exists between the desire to stick to known structures and the quest for innovation. Wholesale restructuring is potentially very dangerous, as is the failure to communicate effectively a proposed change in structure. Undoubtedly, some structural changes require alterations in attitudes and behaviours if they are to be successful. Burns and Stalker[1] identified that shifting from a mechanistic structure to an organic one is quite likely to cause anxiety, stress and insecurity in those party to the changes. Perhaps most importantly, it is not difficult to appreciate the level of concern shown by shopfloor workers who are now at the centre of many initiatives, after many years in a traditional scenario of "them and us".

The desire for "shared responsibility" is a common goal cited by many senior managers in the survey. This may be a desirable change as firms move towards more holistic concepts such as total quality management. Whatever the reason, shared responsibility requires managers to delegate successfully and employees to be willing and able to expand their responsibilities at work. A clear structure can be an excellent starting point in this process. Empowerment is a simple concept to talk about, but to mobilize workers successfully through a new structure is an entirely different thing. Can managers delegate effectively and can employees successfully grasp the baton? Does the structure facilitate or hinder such changes?

Returning to external triggers for change, the environment may be the key imperative. Firms that are particularly innovative or that operate in complex, dynamic environments, often seek a more flexible structure. Concerns are generally expressed about the speed of response in a market which changes rapidly. Functional structures, or rather the ways in which people enact functional structures, are often criticized in such environments. Some of the largest firms in our survey, with as many as 600 employees, operating in this type of environment have perhaps an even greater structural dilemma. Size and environment may both suggest a more sophisticated matrix type of structure. However, the unknowns of such structures are numerous and the risks are great, not least the reputation and future of the managing director. Size, goals, technology, markets, tasks, culture, etc. remain some of the many key determinants of structure, representing potentially competing forces for change.

Strategic Planning

Managerial control is effected through the structure and there is little evidence to suggest that senior managers are willing to move away from this traditional role. Most financial decisions, staffing issues and pricing decisions remain the responsibility of the MD, or in fewer cases the manager. Indeed the very act of the MD and senior managers creating the structure is a statement of their managerial prerogative. Fully integrated budgetary systems, emanating from strategic planning, tend to fit well with functional structures. Within these areas, profit or cost centres can often be identified. There is little doubt that cost control has been and still is, a key factor in bringing firms through the recession.

To illustrate, at least one firm, manufacturing sophisticated electronics products and operating in a complex and dynamic environment is undergoing substantial structural change. They are moving towards a matrix system where process teams rather than functional departments do all the day-to-day work. This structure might be perceived as a derivative of project teams. There are some 22 process teams in a workforce of 125. So have they abandoned a functional structure? While the simple answer is "yes", a more careful look reveals managerial control still being effected through a functional overlay, e.g. finance. Furthermore, a strategy group ensures co-ordination and there are five programme managers who act in a liaison role.

The structural dilemma, therefore, surrounds that delicate balance of systematization, flexibility and control. Are traditional structures necessarily rigid, hierarchical and bureaucratic? Are modern structures more adaptable, more focused and more efficient and effective? Assuming senior managers could get the right solution to this conundrum, they would still come up against two key problems. First, for how long would the structure remain "right", and second, the extent to which employees were aware of the structure, perceive the structure and perhaps most significantly, behave as required within the structure. There is little doubt that structure is a key mechanism in bringing about change (see Leavitt[2], Katz and Kahn[3] among others). Whether a structure can be designed, implemented and made to work throughout the organization is an entirely different matter. In fact, structural change may be perceived negatively or be responsible for bringing about dysfunctional outcomes. Better the devil you know?

In attempting to change the structure, one has to consider the scale of change, the pace of the change and possibly of greatest importance the style in which the change is managed. Is it paradoxical that changes towards greater participation are decided on by senior management? The evidence suggests that at best, some consultation precedes a new structure. Participation and democracy are new styles not always easy for people to appreciate, accept or partake of fully.

Change

Decentralization of decision making, empowerment, teamworking, total quality management and manufacturing cells are some of the reasons cited for change. These of course require far more than mere structural change if they are to be effective. The ultimate challenge for management is to bring their new organization chart to life. Changes in attitudes, values and behaviours is the bottom line of structural change. Some senior managers concede that issues considered by them to be major change, may be viewed as moderate or minor by workers lower in the hierarchy. Will shopfloor workers perceive the change or rationale for change as intended?

Eighty-two per cent of firms in the CEP survey report significant changes in recent years with regard to the decentralization of decision making. The move towards greater decentralization is quite clearly the trend, with 90 per cent of respondents stating this was the direction in which they were proceeding. The scale of these changes is somewhat more variable, as Figure 1 shows.

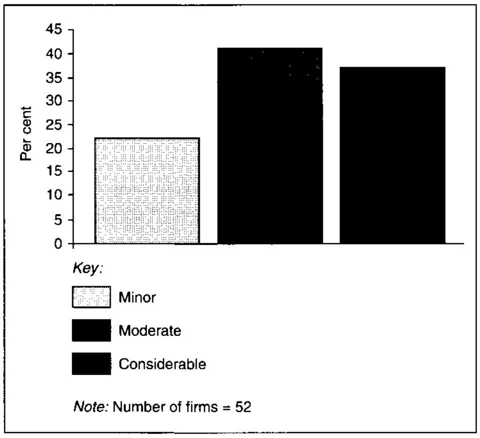

Figure 1.
How Big Were the Changes with Regard to Decentralization of Decisions?

"Big" can be a relative or absolute concept. Firms with very traditional structures and little history of structural change, may well perceive restructuring in pursuit of greater decentralization of decision making as considerable. Others may suggest that this is a route they have been following for some time.

A major factor in the success or otherwise of such changes is communication – its channels and perception. Many firms report increased feedback to workers, especially in the areas of corporate performance and quality. The publication and dissemination of information is now often used as a medium in the process of increasing awareness among employees. However, employees are often unfamiliar with such efforts and are likely to remain sceptical about them. Is sufficient training being given to those who will be expected to contribute more? Are people being made aware of their new-found roles and responsibilities? Messages are being sent, are they being received?

Over 70 per cent of firms in the survey have travelled, or are travelling the route to BS 5750, with its implications of quality awareness and training. A smaller number are now working on and moving towards total quality management (TQM). Interestingly some people do not like the term TQM, because of connotations of the "M". TQ, TQE (excellence) or continuous improvement are some of the terms which seem to be more popular. Of course those serious believers in this new, pervasive attitude recognize that structural changes alone will not bring about the desired effect. More and better communication, training, effective open-door policies and a general change in culture will be necessary if the real benefits are to be achieved. Perhaps particularly daunting is that, unlike BS 5750 which has a definite "end" in achieving accredited status, TQ has no such end. A task for management will therefore become not just the scheduling of the implementation of the process, but assessment and communication of its effects *en route* to "infinity".

Participation

This new participative culture offers significant perceived potential for both worker and organization. Indeed many principles have been around for almost 100 years. Was it not F.W. Taylor, the "founder" of the Scientific Management School at the turn of this century, who advocated that no one knew the job of the worker better than the worker, him/herself? Today this is often expounded as TQ, participation and open communication. The ultimate success of such changes remains to be assessed. The hope of the CEP team at the University of Sheffield, is that their project will soon enter time period two, when an assessment of changes over time will start to be made. It will be interesting to see whether new structures, systems and styles will positively affect corporate performance.

The creation of a new culture, based on shared responsibility, greater employee awareness and a change away from traditional managerial control, is invariably started by the MD. The MD's vision for the company needs to be clearly stated and articulated. A change in the structure of the firm, for example to facilitate goal achievement, is the easy part of the process. Encouraging employees to accept the full implications of the new structure is a far more difficult challenge.

The firms in the survey have one important factor in common, they have all survived the recession. In doing so many have undergone dramatic changes which employees are only just starting to feel. Finding the right organization structure, implementing it successfully and monitoring its effectiveness and efficiency are key tasks for senior managers in the near future. As Peter Drucker[4] once wrote, " A good organization structure is not a panacea... but the the right organization structure is the necessary foundation; without it the best performance in all other areas of management will be ineffectual and frustrated". The survival and success of our manufacturing industries may well depend on this key management decision.

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