Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Change Management

Corporate Restructuring
Mergers and Acquisitions

Last time we….

- Examined the different roles played by **leaders** in the change management process
- Explored the skills and qualities required by leaders of change to ensure success
- Understood the need for leaders to be proactive in the change process
- Identified how leaders of change can adapt their style and focus to the different phases of the change process
- Identified the range of choices facing leaders and their organisations when considering change

Today's objectives

- To examine the reasons for **restructuring** and the process involved
- To examine BPR and lean techniques
- To assess how teams can best address organisational change

- To examine the purpose of **merger and acquisition** activity
- To review the research into successful/unsuccessful M&As
- To apply change theory to M&As with a focus on guidelines for leaders

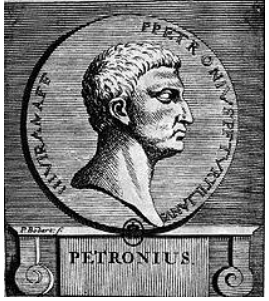
- To consider the impact of the above on your case study
- To review the **assignment's** key requirements

Why restructure an organisation?

BHS
BRITISH HOME STORES

- http://www.bbc.co.uk/news/business-34289275
- http://www.bbc.co.uk/news/business-36125495
- https://youtu.be/0K-4i93PJGE

Restructuring



We trained hard. But is seemed that every time we were beginning to form into teams, we would be reorganised. I was to learn later in life that we tend to meet any new situation by reorganising.

And what a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency, and demoralisation.

Gaius Petronius, Arbiter, *The Satyricon,* 1 A.D.

Restructuring

https://youtu.be/y9k-7VcW6ic?list=PLQz3e7J9NhzCcUthOhNe_gBFiiKF66oET

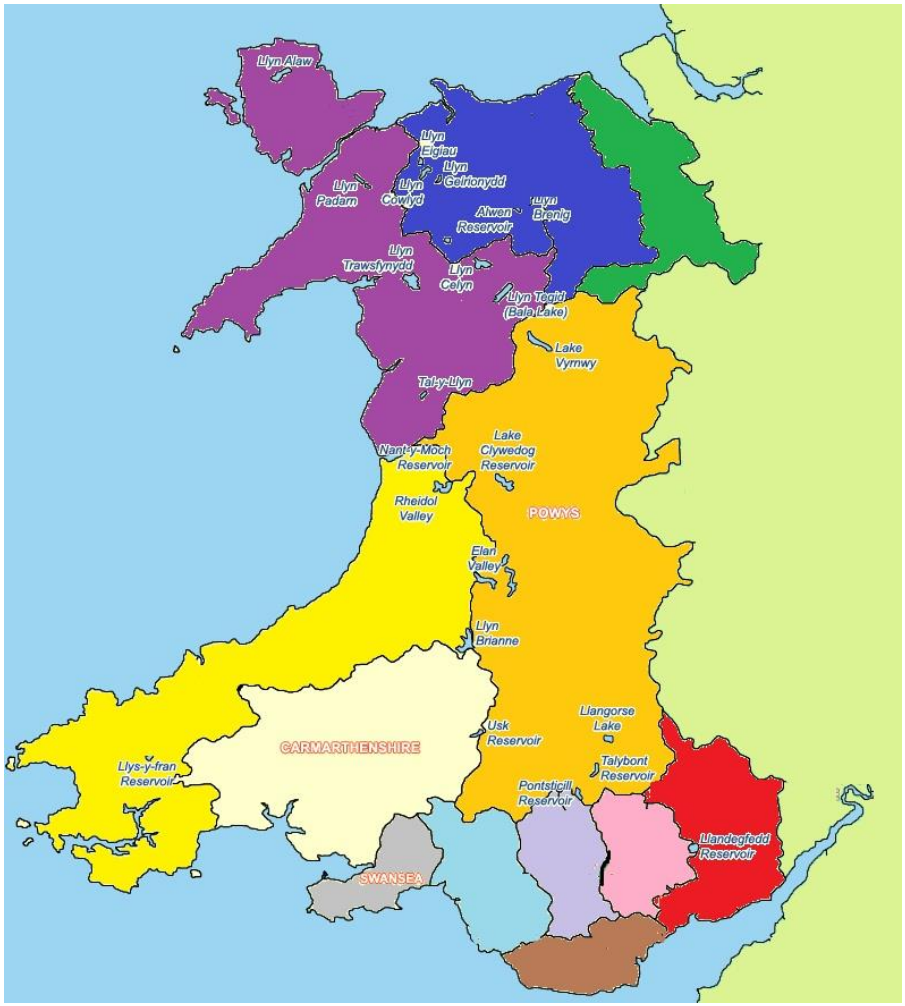
How many times?

England?

https://youtu.be/1VYDtrirKXI

22 Welsh Councils

post Williams report 2014 (10-11…..probably)



Should we be discussing restructuring as a theme for change at all?

- Or be examining the reasons behind the change instead?
- Is it the solution to organisational issues?
- It impacts on many people's lives, so often
- What are the dynamics involved?
- What can go wrong?
- What does a 'good' process of restructuring look like?

Or….

- Should it be the last option to be considered by management rather than the first?
- Does it really address the organisational issues it seeks to resolve?
- Are there any other tools available?

Stacey and Shaw – Complex Change, the Leader's Role?

- To decide what business the organisation is in and stretch people's thinking on how to get there.
- To ensure that there is a high level of connectivity between different parts of the organisation.
- To focus peoples' attention on important differences: between current and desired performance, between style of working, between past and present results.

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Activity (30m)

In small groups:

1. Highlight 5 reasons why an organisation might restructure itself?

2. Identify three organisations currently being restructured and the reasons why

Reasons for Restructuring

- Downsizing or rightsizing
- Rationalisation or cost-cutting
- Efficiency or effectiveness
- Decentralisation or centralisation
- Flatten the hierarchy
- Change in strategy
- Merger or acquisition
- New product or service……..

And……

- …….Cultural change
- Internal market realignment
- Change of senior manager
- Crisis – internal or external

Restructuring should only take place……

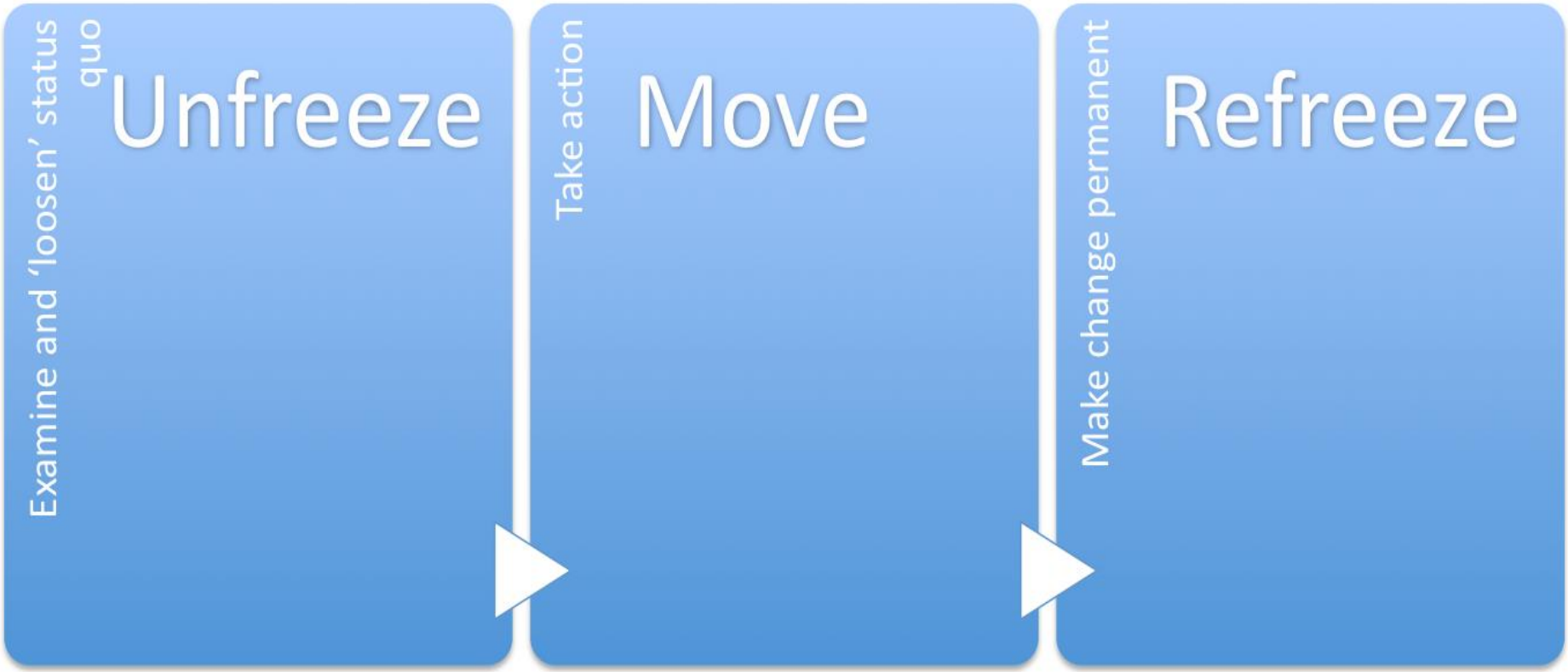
- Due to a change in strategy
- Clear rationale
- Occur in conjunction with other changes such as process change and culture change

Cameron & Green (2015)

Possible other reasons in reality

- New boss
- Process/product failure
- An argument
- Dissatisfied customer
- Underperforming person/department

Lewin's Three Step Model



LEWIN'S 3 STEP MODEL – Lewin (1951)

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Kotter's Eight Step Model

Kotter, HBR, March-April 1995

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Beckhard and Harris' Change Formula

For change to happen, the forces for change must outweigh the perceived costs of change

(effort, discomfort, exposure, difficulty, risk).

$$C = ABD > X$$

C = change.

A = level of dissatisfaction with status quo.

B = desirability of proposed change or end state.

D = Practicality of the change (minimum risk and disruption).

X = cost of changing.

Beckhard and Harris (1987)

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Why Change? Strategic Review

- Gives a clear rationale which can be communicated
- Addresses internal/external environmental factors – key drivers identified
- Identify critical success factors
- Design options
- Risk assessment

Learning from best/previous practice

- Use the internal reservoir of knowledge
- Check back on previous projects and reflect on successes/failures
- Access expertise
- Achieve a balance between what's worked elsewhere and what will work for you

Project planning & implementation

- Leadership – task and people needs
- Future direction and strategy
- Communication
- Implementation
- Supporting mechanisms

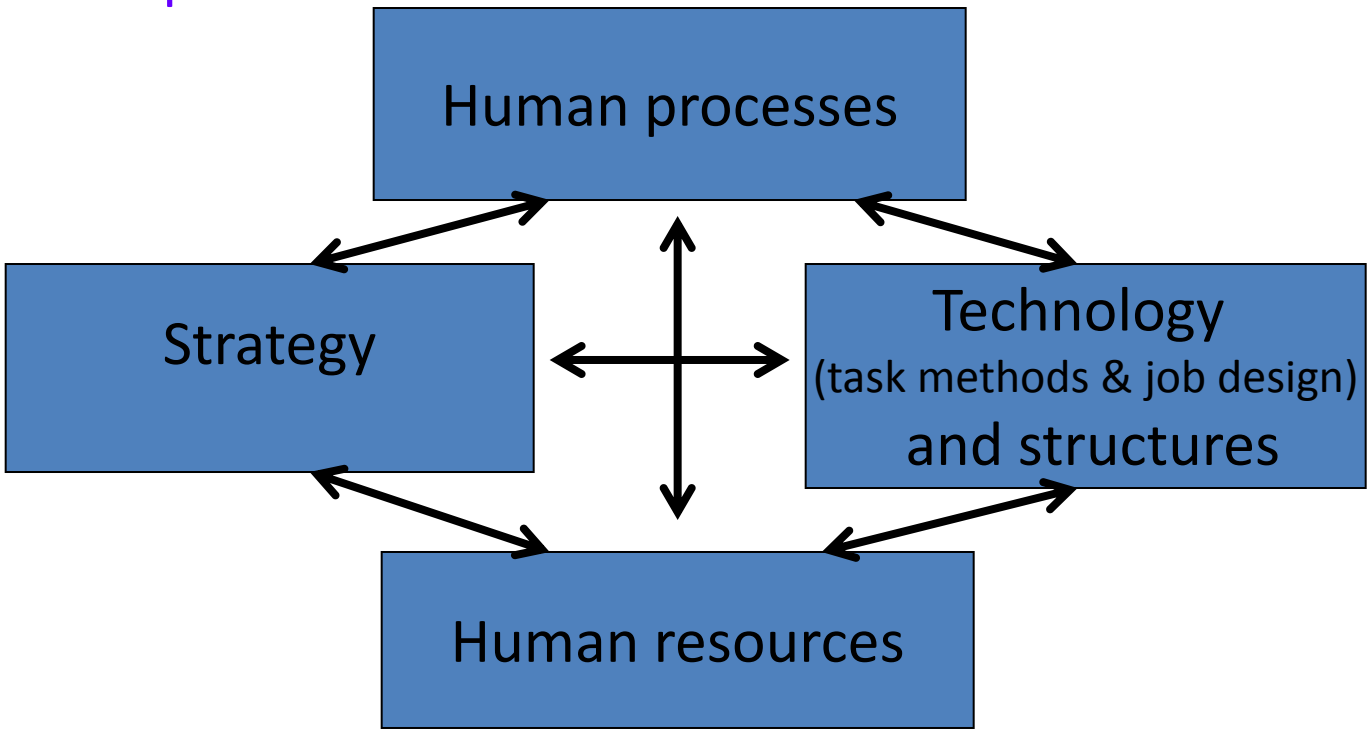
Monitoring and review

- Robotic implementation (machine approach)?
- Monitoring and feedback loops needed
- Expect resistance
- Factor in from the start

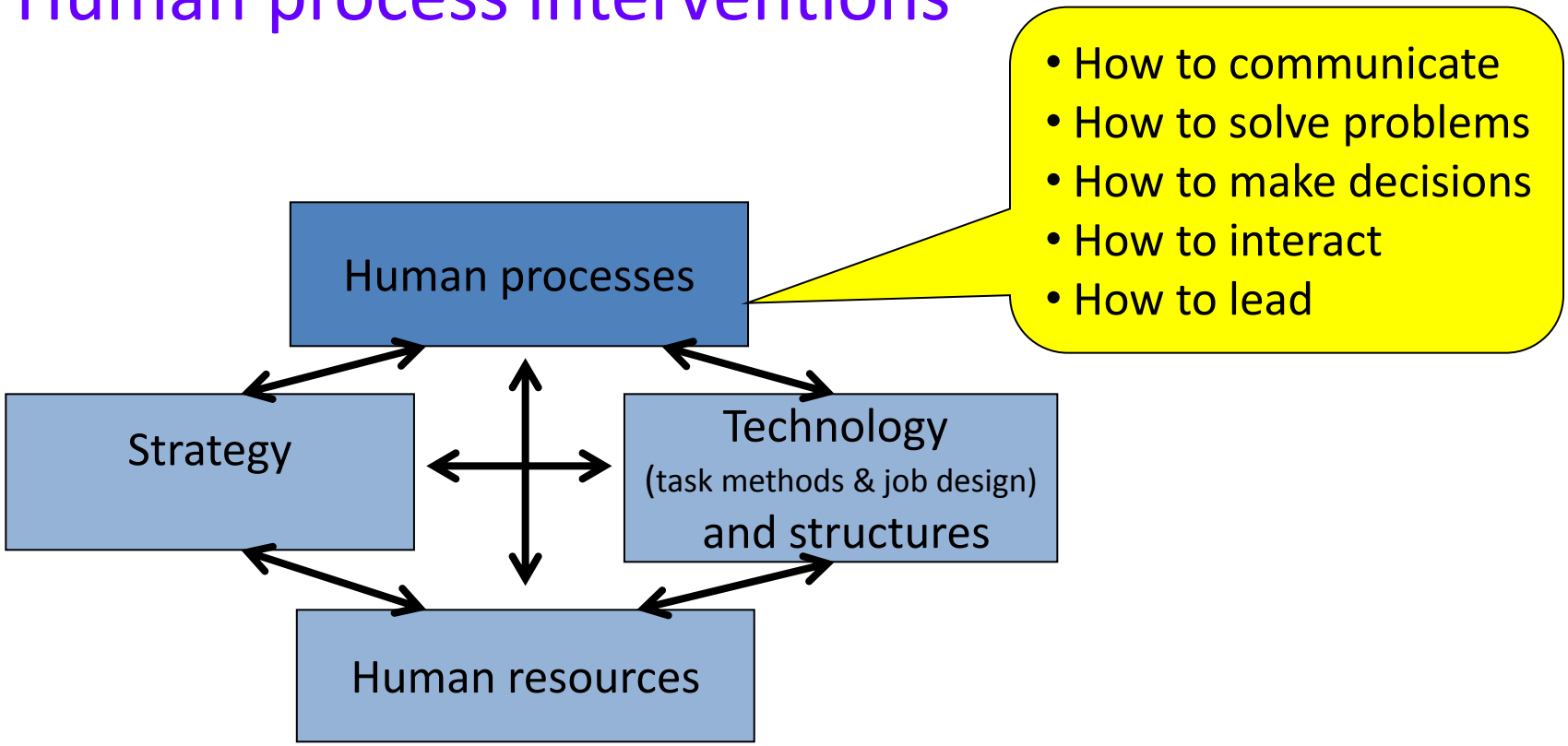
A typology of interventions based on focal issues

- Human process issues
- Techno-structural issues
- Strategic issues
- Human Resource issues

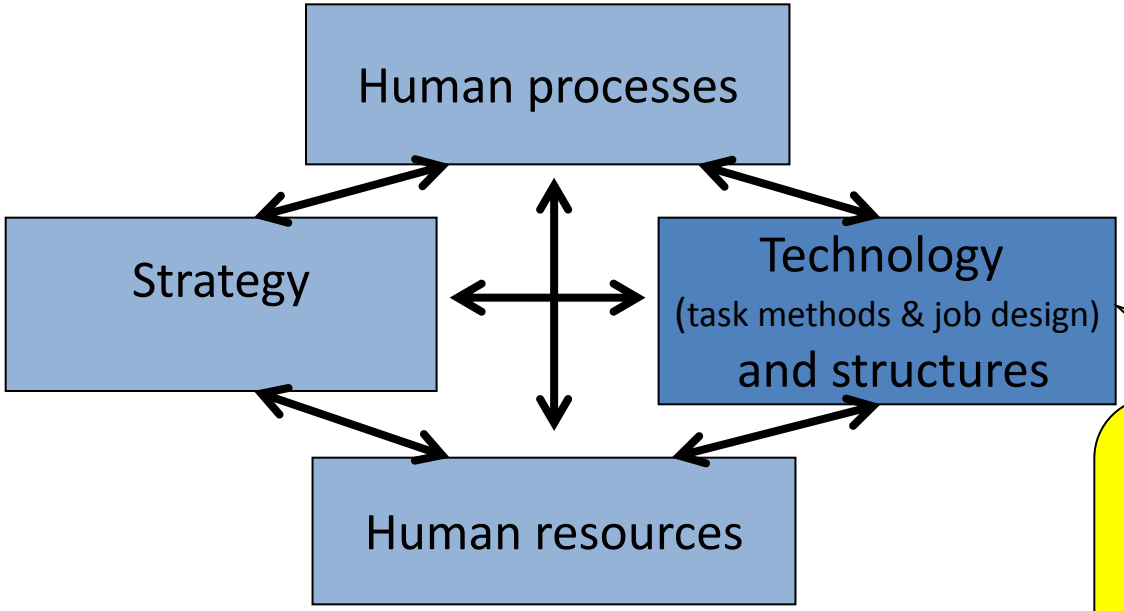
The systemic nature of organisations means that interventions targeted at one set of performance drivers may have consequences elsewhere.



Human process interventions



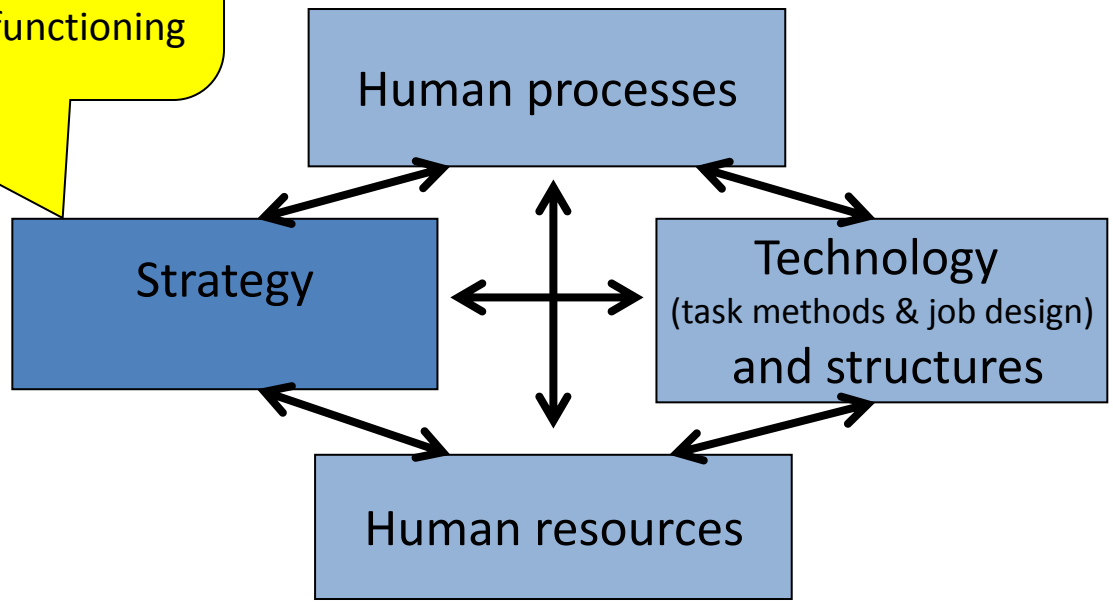
Techno-structural interventions



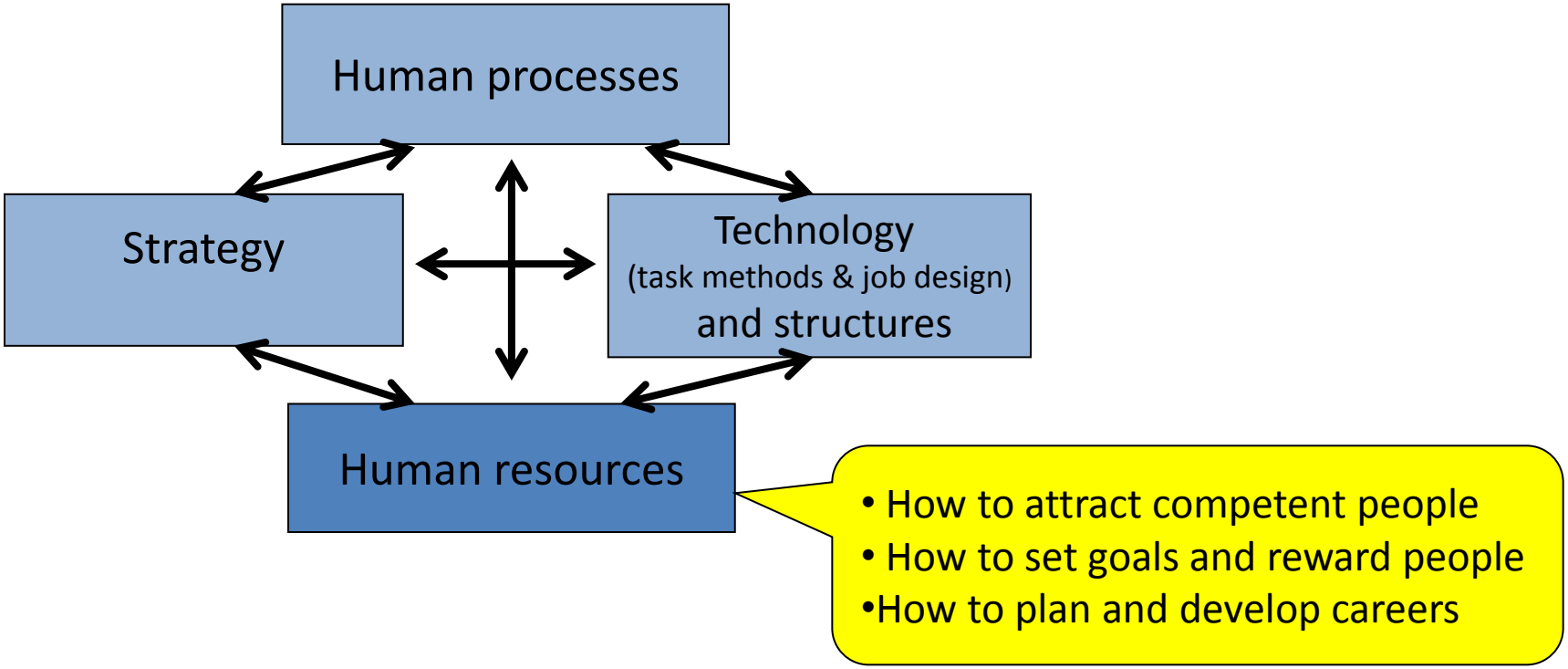
- How to divide labour
- How to co-ordinate departments
- How to produce products and services
- How to design work

Strategic interventions

- Which products, services, markets.
- How to gain competitive advantage.
- How to relate to the environment.
- What values to guide organisational functioning



Human resource interventions



Lean

https://youtu.be/wfsRAZUnonI

Lean is a production system that does more with less and less

– Lean is a customer-focused process that aims to provide customers with precisely what they want, free of defects, exactly when they want it.

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Lean: a set of tools or a philosophy

- Many practitioners focus their attention on lean tools and direct their efforts towards applying them to achieve specific outcomes such as cost reduction.

- Others view lean as a philosophy and focus more attention on acting in accordance with guiding principles and overarching aims to create a “lean enterprise”

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Womack and Jones‘ five principles of lean thinking

Lean thinking involves

- Specifying value
- Lining up value creating activities in the most effective sequence
- Conducting these activities without interruption
- Letting customers “pull” value from the producer
- Continuously seeking new ways to improve this process

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

The pursuit of perfection

- involves assessing the gap between the current reality and perfection (the complete elimination of waste) and working to close the gap

The Toyota Production System

- Its systemic qualities have has been represented as a house, all parts (foundations, pillars and roof) needing to work together to create the whole.

GOAL

highest quality, lowest cost, shortest lead time

(achieved by eliminating waste)

Just-in-time

- continuous flow
- reduced inventories

Jidoku

- detecting deviations from the standard
- building quality into the process

Stable and standardized processes

Level workloads permit minimum inventories – (big spikes will result in shortages unless large inventories are maintained)

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Just-in-time

facilitates smooth flow by ensuring that the right part is delivered to the right place at the right time.

- Because of batch production, demand uncertainties and lead times it is often necessary to hold inventories.
- Just-in-time refers to the way these inventories are replenished.
- Replenishment occurs when (and only when) the inventory is drawn down as parts are used in the next process downstream.
- Small inventories surface problems – large inventories hid waste caused by equipment breakdowns, late deliveries, production imbalances, defects, etc.

Process stopping to detect and eliminate defects (Jidoka)

- It involves workers inspecting their own work and stopping production and immediately fixing problems as they occur (never letting defects pass to next stage in the production process)
- It ensures that problems are constantly surfaced and processes are improved on a continuous basis

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Lean tools and techniques

- Seven wastes and Five whys are two examples of change tools used by lean practitioners.

Seven wastes

- Seven wastes offer employees a useful framework for searching out and eliminating all those activities that fail to add value.
  - Overproduction
  - Waiting
  - Unnecessary transportation
  - Over processing products or parts
  - Inventory
  - Unnecessary motion
  - Defective parts

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Five whys

A diagnostic tool that can be used to identify and eliminate the root cause of problems.

The NHS Improvement Network offer examples of how the five whys can be used to solve problems in healthcare settings.

- The patient was late in the operating theatre ***Why?***
- There was a long wait for a trolley ***Why?***
- A replacement trolley had to be found ***Why?***
- The original trolley's safety rail was worn and had eventually broken ***Why?***
- It had not been regularly checked for wear ***Why?***

Root cause: We do not have an equipment maintenance schedule

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Implementing lean

- Lean was originally developed in manufacturing companies and applied on the shop floor, but has since been applied in many non-manufacturing contexts such as finance, retailing and healthcare.

Summary

- Lean is defined as a customer-focused process that aims to provide customers with precisely what they want, free of defects, exactly when they want it.
- Womack and Jones' five principles were considered in turn
- The Toyota production system was presented as a successful example of lean
- It was noted that while lean is a philosophy, some regard it merely as a set of tools and techniques that can be applied to achieve specific outcomes such as cost reductions.
- Lean has been applied in both manufacturing and non-manufacturing settings.

Process reengineering

BPR involves switching attention away from fragmented functional thinking towards cross-functional processes.

"BPR involves a *fundamental rethinking* of business processes"

Hammer and Champy (*Reengineering the Corporation*)

- They argue that new thinking should not be influenced by imbedded assumptions or any existing processes or activities.
- However there are competing views:

'clean sheet' versus 'existing slate'

While it is possible to design using a 'clean sheet', implementation must take account of the 'existing slate'.

“BPR involves a *radical redesign* of business processes”

Hammer and Champy (*Reengineering the Corporation)*

- They argue that to be successful BPR must entail a rapid and wholesale transformation rather than an incremental piecemeal change.

- Again there are competing views:

‘organisation-wide process reengineering

versus

Piecemeal, incremental process improvement’

Process reengineering typically involves seven steps

1. Process mapping
2. Identifying processes for reengineering
3. Understanding the selected process
4. Defining key performance objectives
5. Designing new processes
6. Testing
7. Implementation

1. Process mapping

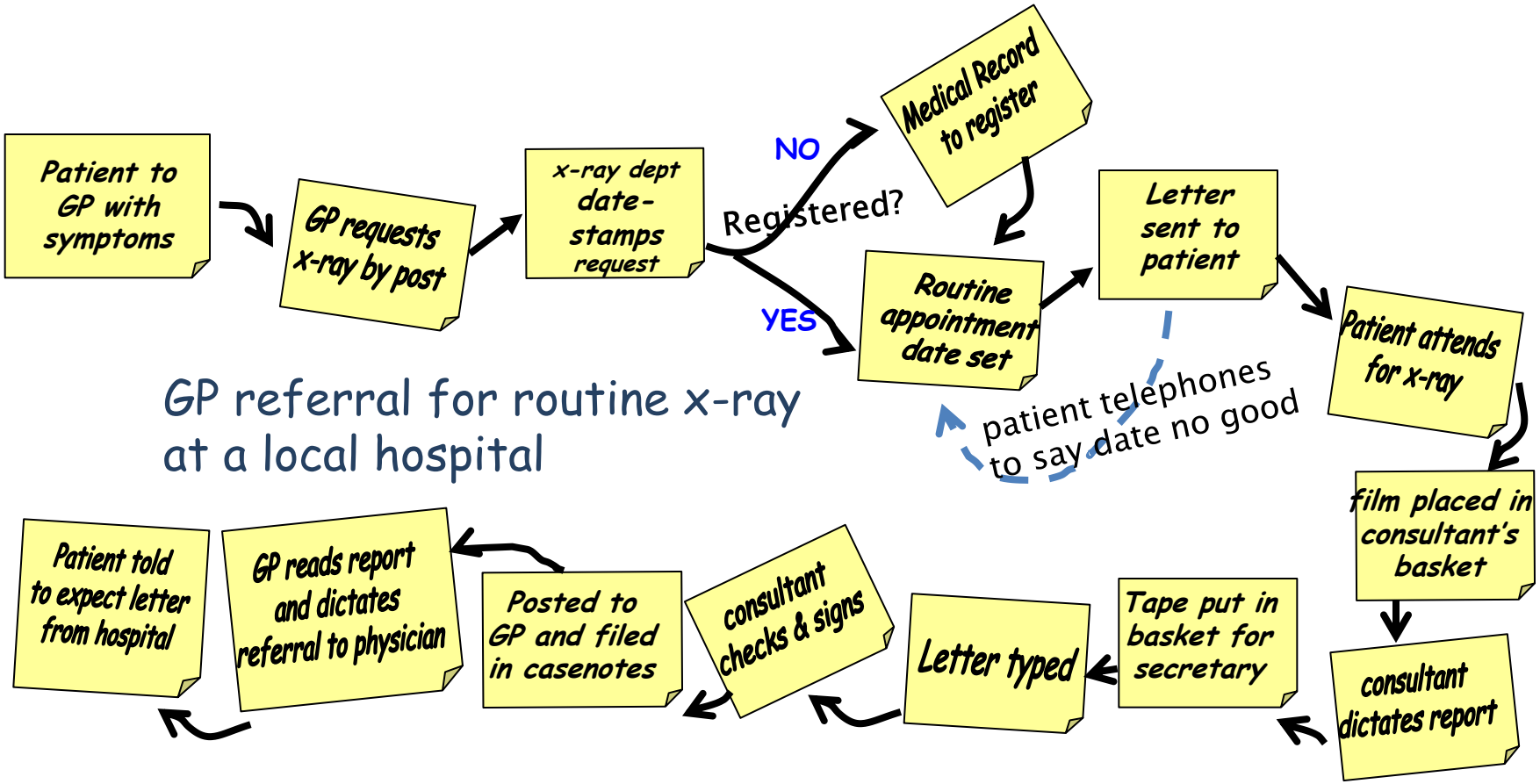
- Process maps show how work flows through an organisation
- Examples:
  - Order fulfilment (Order to payment, including intermediate steps such as manufacturing)
  - Product development (concept to prototype)
  - Hospital patient stay (admission to discharge)
- BPR starts with mapping the main processes that contribute to the organisation fulfilling its purpose.

2. Identifying processes for reengineering

Criteria for choosing which processes to reengineer:

1. Dysfunction (which processes are in deepest trouble?)
2. Importance (which have greatest impact on customers?)
3. Feasibility (which are most susceptible to successful redesign?)

3. Understanding the selected process



GP referral for routine x-ray at a local hospital

3. Understanding the selected process

Mapping for understanding can involve identifying:

- Number of steps in the process
- Number of hand-offs
- Task time
- Wait time
- Dead time when nothing happens
- Steps that fail to yield any value
- Blockages

4. Defining key performance objectives

Key performance objectives are based on what the customer requires from the process

5. Designing new processes

"Redesign is the most nakedly creative part of the entire reengineering process. More than any other, it demands imagination, inductive thinking, and a touch of craziness." (Hammer and Champy)

6. Testing / piloting

Testing involves implementing a proposed process improvement on a small scale (or for a limited time) to see if it works in practice.

7. Implementation

If the test is successful the redesigned process can be rolled out across the organisation.

Great care may need to be exercised, especially with this step, because BPR can be highly politicized and often involves jurisdictional disputes when managers are required to let go of activities or decisions they value.

Restructuring & Individual Change: Redundancy

- Recession/austerity has caused waves in both public and private sectors
- Public sector cutbacks – more on way

Conclusion to Restructuring

- Ever present today
- Process can be deeply unrewarding for the initiators and recipients
- Task and people issues need careful consideration
- Turbulence is inevitable and unavoidable
- Must be managed as change must be led

Restructuring for strategic gain

Mergers and acquisitions

https://youtu.be/j8D6TXxL13I

Activity

Why do organisations engage in merger and acquisition activity?

https://youtu.be/tRzYdCJl3mg

Growth

- Quick way of growing
- Avoids pain of internally generated growth

BUT

There are risks and challenges

-can management run a larger company?

Synergy

- More successful together than apart
- Growth in revenues/ new or better products
- Cost reductions via economies of scale
- Cheaper finance
- Better governance
- Better management? More profits? Success?

Diversification

- Growing business outside the traditional industry/sector
- Develop a portfolio of products

Examples?

Integration for economic gain

- Horizontal integration
- Acquire a competitor – why?
- Public sector – cost savings / partnerships

- Vertical integration:
- Dependable supply
- Lower costs
- Improved competitive position

Pressure to do a deal, any deal

- Do something with the $ rather than return it to investors
- Apple Inc
- ‘Wacky Races’ syndrome

https://youtu.be/ihY7F0fruR4

Types of combination

Mergers, acquisitions,

joint ventures, strategic alliances

In terms of “relatedness” combinations can be:

- Horizontal
- Vertical
- Concentric
- Conglomerate

Acquisition success depends on

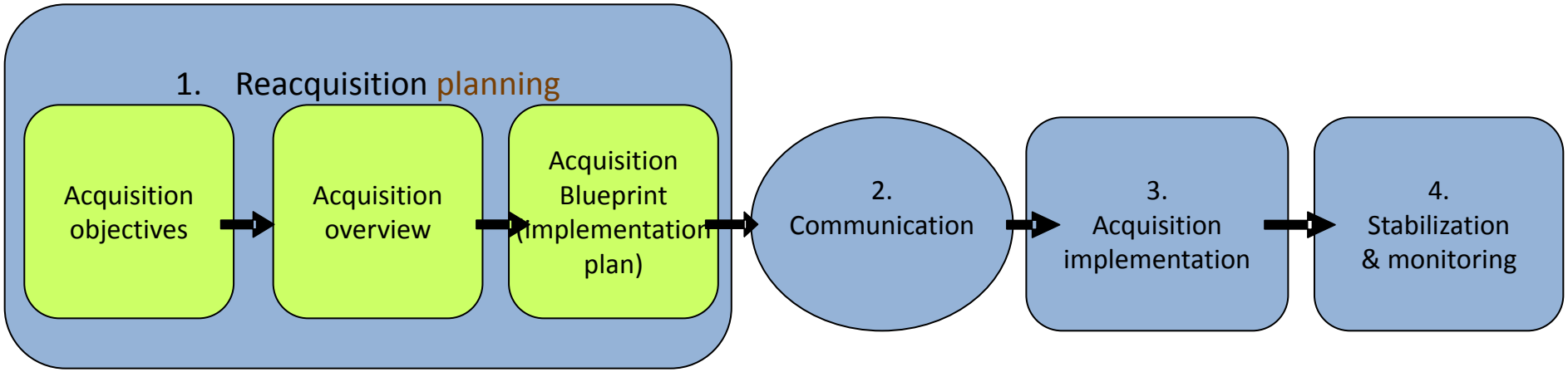
strategic fit

&

organisation fit

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

The acquisition process



Based on Hubbard, N. (1999)

Acquisition objectives & strategic fit

Value creation can be based on:

- Financial synergies
- Market penetration
- Market entry
- Market protection
- Product extension
- Technical expertise
- Vertical expansion
- Access to resources
- Operational synergies
- Managerial expertise
- Economies of scale

Acquisitions can fail because the buy-team misjudge the added value or overestimate the extent to which potential added value will be captured. Value capture often depends on the quality of **organisation fit.**

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Assessing organisation fit

A number of factors often deflect attention away from organisation fit. These include the:

- Range and complexity of the issues that have to be investigated,
- pressure to complete the due diligence review as quickly as possible,
- relative ease of assessing strategic rather than organisation fit, and
- mindset of the buy-team.

Acquisition overview & degree of integration

Degree of integration chosen

Reason for acquisition	Financial controls	Change with controls	Functional integration	Total integration
Financial synergies	LIKELY	POSSIBLE	UNLIKELY	UNLIKELY
Market Entry	LIKELY	POSSIBLE	UNLIKELY	UNLIKELY
Vertical integration	POSSIBLE	LIKELY	POSSIBLE	UNLIKELY
Asset Potential	POSSIBLE	LIKELY	POSSIBLE	UNLIKELY
Market penetration	POSSIBLE	POSSIBLE	LIKELY	POSSIBLE
Economies of scale	UNLIKELY	UNLIKELY	POSSIBLE	LIKELY

Figure 22.1 Acquisition objective and required degree of integration

Adapted from Hubbard, N. (1999), *Acquisition: Strategy and Implementation.* p.59

Implementation

Post merger integration tasks

	Coordination	Control	Conflict resolution
Procedural	Design accounting systems and procedures	Design management control systems	Eliminate contradictory rules and procedures Rationalize systems
Physical	Facilitate sharing of resources	Measure and manage the productivity of resources	Allocate resources Redeploy assets
Managerial and Sociocultural	Establish integrator roles Introduce new organisation structures Develop a consistent corporate culture and frame of reference to guide decision making	Design compensation and reward systems Allocate authority and responsibility	Stabilise power sharing Eliminate incompatible frames of reference and conflicting priorities

Adapted from Shrivastava, P. (1986) Postmerger Integration, *Journal of Business Strategy*, 7, 1, p. 67.

Implementation & people synergies

Pressure to deliver quick wins can promote “heavy handed” approaches to integrating the acquired organisation and can lead to resistance to the merger.

Many of the anticipated benefits from acquisitions depend on employees’ commitment and their willingness to work together to deliver high performance.

Lessons from research

- 70-80% of acquisitions fail / create no wealth for the acquirer's owners (Selden & Colvin, 2003)
- They destroy wealth
- Overly focused on profits not the balance sheet
- Problems in public sector also (HMRC)

Why?

- NAO – ‘leadership vacuum’ results between the decision makers and implementers

Rules for successful M&As
(Cameron & Green, 2015)

- Communicate constantly
- Get the structure right
- Tackle the cultural issues
- Keep customers on board
- Use a clear overall process

Avoid the 7 Deadly Sins of M&A
(Feldmann & Spratt, 1999)

1. Obsessive list-making
2. Content-free communications
3. Creating a planning circus
4. Barnyard behaviour
5. Preaching vision and values
6. Putting turtles on fence posts
7. Rewarding the wrong behaviours

Managers should manage themselves….

- Get involved
- Get informed
- Get to know people
- Deal with your feelings
- Actively manage your career
- Identify success criteria
- Be positive

Keeping the change on track: monitoring and reviewing change plans

Every plan for change is based on a cause-and-effect hypothesis that needs to be kept under constant review and revised as necessary

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

The service-profit cause-and-effect hypothesis

Based on the service-profit chain it might be hypothesised that reduced revenue growth is caused by low customer satisfaction which, in turn, is the result of poor employee satisfaction and commitment

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

The cause-and-effect hypothesis informs the target for change and choice of intervention

- **Target for change**:

  In this case the immediate target for change might be to improve employee satisfaction and commitment

- **Choice of intervention**:

  Redesign jobs to provide employees with greater autonomy, challenge and sense of achievement, and improve customer focus by encouraging employees to voice their views about opportunities and threats that could affect customer satisfaction.

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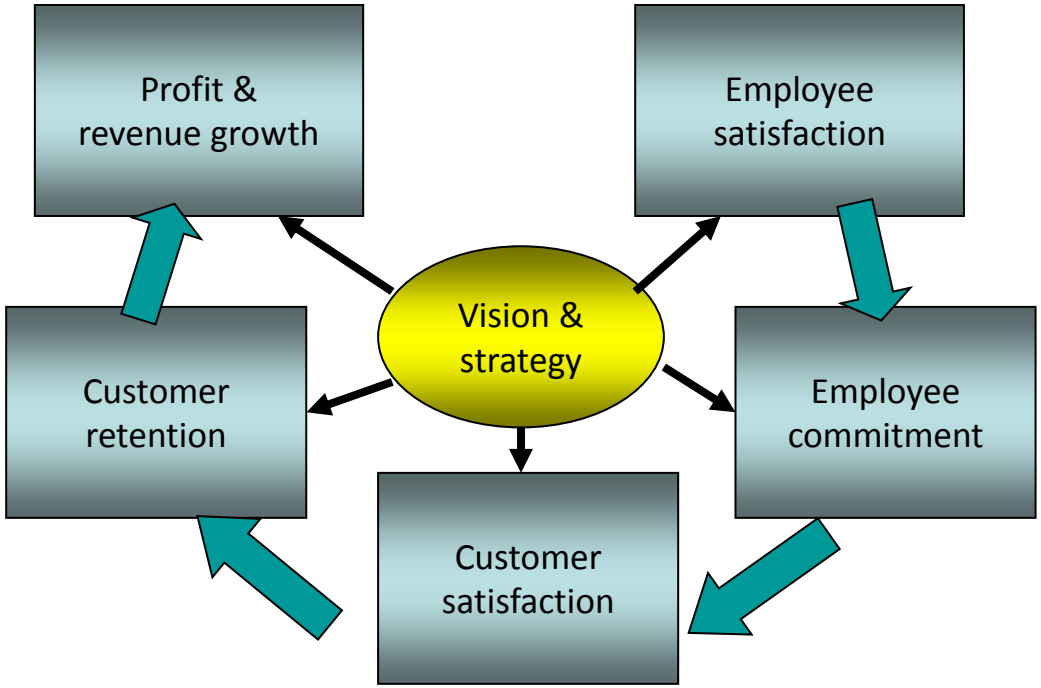
Developing tools to help with monitoring the change plan



Translating the change strategy into a set of operational goals and related measures

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Sustaining change

.

Sustainability

Often change decays and hard won gains evaporate.

Sustaining change involves refreezing behaviour at a new level for as long as it is beneficial to do so.

Not all change should be sustained

It may not be beneficial to sustain change when:

- changes in the wider environment render recently implemented working practices and outcomes obsolete
- maintaining recently implemented practices impede further and more significant developments

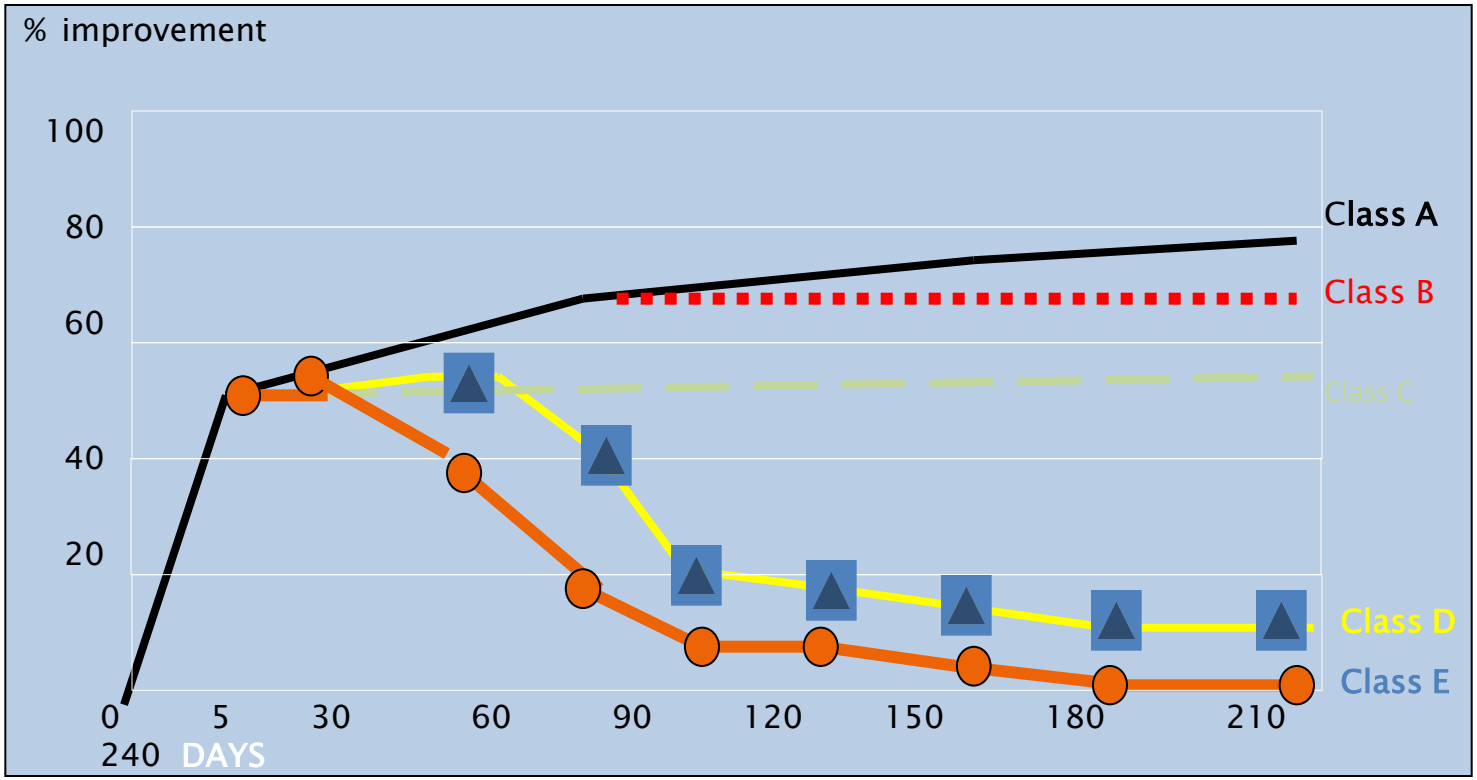
Two aspects of sustainability

- "**stickability**" – the extent to which gains achieved in a particular part of the organisation are held and built upon.
- "**spreadability**" – the extent to which the new methods and processes which led to these gains are applied elsewhere.

Holding on to gains at cell level (stickability)

Bateman and David (2002: 520) report five levels of sustainability at cell level, ranging from

- realising but failing to hold on to gains (**class E**) to
- maintaining the new way of working and applying the tools and techniques learnt to new problems as they arise (**Class A**)



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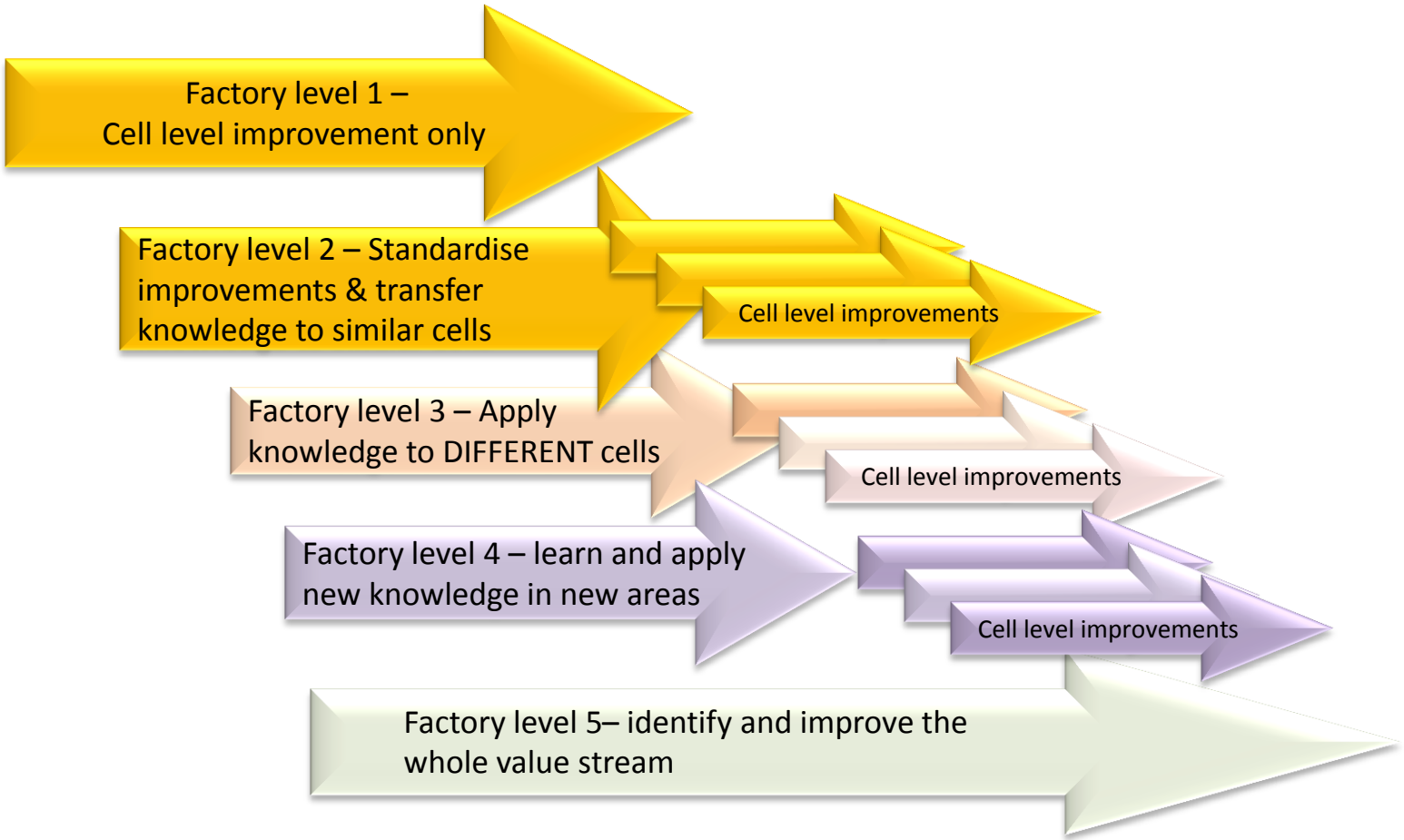
Spreading change across the factory (spread)



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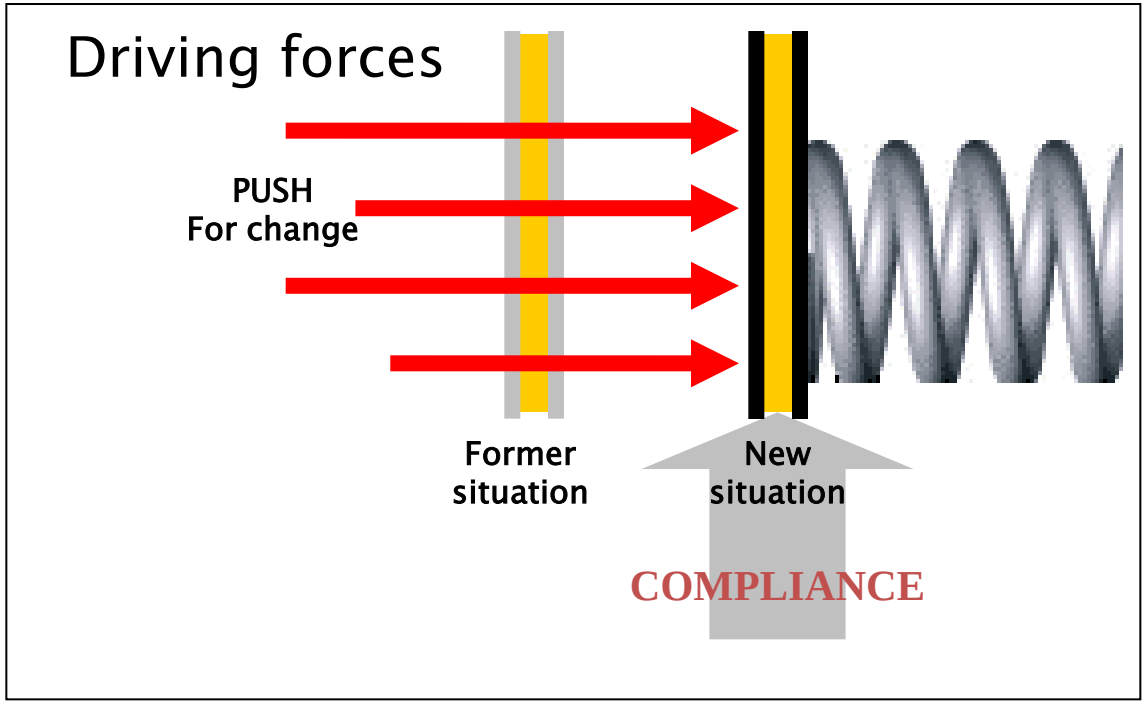
Sustainability can be undermined when:

- Those who initiate the change move on
- Accountability for developments becomes diffused
- Knowledge and experience of new practices is lost through turnover
- Recruits from less dynamic organisations import old habits
- The issues and pressures that triggered the change are no longer visible
- New managers want to drive their own agenda
- Powerful stakeholders are blocking progress
- Pump-priming funds run out
- New priorities divert resources and attention
- Enthusiasm for change falters because of change fatigue

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Acting early to promote sustainability

Pushing hard for change may only gain compliance



Reducing restraining forces can promote ownership and win commitment

John Hayes, The Theory and Practice of Change Management, 3rd Ed. Palgrave 2010

Promoting sustainability later in the change process

- Avoid declaring victory too soon – remain focused
- Provide feedback that draws peoples' attention to how new ways of doing things are making a difference
- Sell benefits and clarify what's in it for all stakeholders
- Beware the 'bicycle effect' where lack of forward momentum leads to a crash – avoid faltering enthusiasm by relaunching with new focus, themes and goals.

Next class:

- Review Assignment Drafts – book now
- General queries