



Chartered Institute
of Personnel and
Development

Reorganising for success

A survey of HR's role in change

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Survey report

October 2004

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Executive summary

This survey by the Chartered Institute of Personnel and Development (CIPD) assesses the experience of 594 chief executives, HR directors and directors of other functional areas (finance, information services/information technology (IS/IT), and operations) of reorganisations in which they have recently been closely involved. It follows more than one and a half years after an initial survey established the widening impact of reorganisations and the crucial role of HR professionals within them.

Profiles of reorganisations

This survey gives more definition to the typical profile of reorganisations:

- Reorganisations are more than rationalisations. They typically combine centralisation with (to a lesser extent) decentralisation and the closure of departments with the creation of new ones. Although reorganisations often reduce employee numbers, they frequently also involve the simultaneous hiring of new employees.
- Reorganisations are often wide-ranging, involving substantial changes in 'soft' aspects of organisation, such as culture and leadership styles. However, 'harder' aspects, such as career and reward systems and systems of management accounting and control, are frequently left behind.
- Reorganisations frequently fail to meet their objectives and both customer and employee relationships are prominent but avoidable casualties in the typical reorganisation process.

The key to reorganisation success

The survey identifies six key characteristics typically associated with successful reorganisations. Several of these link directly to the role of HR professionals. Not all reorganisations will be the same, but in general this survey finds that successful reorganisations require:

- **organisation-wide, holistic, change** – successful managers avoid piecemeal approaches to reorganisations, setting them within coherent change programmes that fully recognise the implications for the organisation as a whole. Changes of structures, systems and the 'soft' aspects of the organisation must be aligned carefully with each other and with the aims of the reorganisation. For example, reorganisations aimed at securing good people-related outcomes need to ensure that career and reward systems are not overlooked in the process. Here HR professionals have a key role in championing the people agenda within coherent programmes of change.
- **project management** – successful reorganisations typically draw on project management disciplines. However, more than half of the reorganisations reported here failed to use disciplined project management techniques. Project management skills were lacking in almost a half of all reorganisations.
- **employee involvement** – informing employees is not enough for improved performance. It is real, not symbolic, involvement that leads to better performance. Providing employees with opportunities for feedback and questions without allowing them any real influence can even make things worse. HR professionals have an important responsibility in making sure that employee communications and involvement are substantive rather than a token gesture. Employee involvement, however, must take place in the context of clearly defined milestones and rigorous project management.
- **effective leadership** – the skills of the reorganisation team are critical in successful reorganisations. Key skills are: managing organisational culture; organisational design; project management; and political astuteness. The team must ensure sustained senior management support in terms of resources, organisational politics and the clear setting of objectives. HR professionals are identified by their colleagues as highly valued members of the typical reorganisation team.

- **communication with external stakeholders** – successful reorganisations require extensive communication with external stakeholders, for instance, key customers and shareholders. Many reorganisations fail to keep important external stakeholders informed.
- **internal and external experience** – successful reorganisations rely on teams whose members already have deep experience of reorganisations, both within and outside the particular organisation. HR professionals are often crucial carriers of this

experience, being directly involved in reorganisations more frequently than their peers. However, better results are achieved where these experienced teams also take the trouble to seek additional prior experience elsewhere, both inside their own organisation and externally, particularly from outside their own sector.

Figure 1: Successful organising



The six key characteristics of successful reorganisations point to a prominent role for HR professionals. In particular, they need to:

- Ensure that people issues are comprehensively integrated into overall change programmes.
- Insist that employee involvement is truly substantive.
- Ensure that the necessary reorganisation skills are available to the organisation.
- Participate directly themselves.
- Be ready to seek out a broad range of experience regarding reorganisations, as well as contributing their own deep experience.

Figure 1 summarises the main contributors to successful and unsuccessful reorganisations as found in this report. The combination of HR involvement, sustained top management support, coherent change, substantive employee involvement, effective external communications, project disciplines and an experienced team provide seven steps to successful organising.

Introduction

This is the second survey in the CIPD's research programme on Organising for Success in the Twenty-First Century. It comes at a time when organisation issues have rarely been more prominent. For example, in the course of 2004, authoritative reports have highlighted the role of poor organisational structures in the US intelligence community's failures in anticipating terrorist threats; in the editorial and managerial mistakes involved in the BBC's reporting of the Government's case for the Iraq war; and in the lack of internal accountability and control that led to the departure of Royal Dutch/Shell chief executive, Sir Phil Watts. Organisational design clearly matters.

This report focuses on the skills and processes involved in undertaking such organisational design activities. This is a crucial role for many HR professionals. Their involvement goes beyond just looking after the repercussions of major reorganisations, dealing with the redundancies, transfers and retraining that follow. This survey, and the last, confirm both that HR professionals can play a central role right from the start of reorganisations and that the more they get involved, the better the performance outcomes are.

The research programme

The last survey established that people-centred reorganisation processes are critical to successful reorganisations. This survey comes nearly two years later, both to validate the earlier findings and to deepen our understanding of three crucial issues:

- the typical tools, skills and competencies required to participate effectively in reorganisation processes

- the ways in which managers learn to perform reorganisations better, drawing on experience from within and outside their own organisation
- the precise role HR professionals play alongside other managerial groups in reorganisations.

These three issues arise from the earlier survey and the 11 case studies of ongoing reorganisations that we are also undertaking as part of the Organising for Success research programme.

We report more fully on these case studies in our forthcoming Executive Briefing (*HR: Making change happen*), but we highlight here several important findings that are relevant to the survey results that follow:

- Across large and small organisations, and in both private and public sectors, there is a fairly standard set of reorganising tools that must be mastered, but success comes from artfully selecting and adapting these tools according to the specifics of the situation.

- Reorganisations are highly demanding and politically charged, prompting managers too often to fall back on tried-and-trusted techniques, rather than searching for new and better ways of managing the reorganisation process.
- The role of HR professionals in reorganisations is complex and challenging to conventional definitions of professional identity and even to the recent distinctions made between 'strategic' and 'operational' HR.

The cases, therefore, add important detail and nuance to the broad patterns that we report here.

Survey methodology

This survey was developed in close co-operation with senior HR professionals through a series of consultation group meetings, interviews and field-testing. It drew on and developed aspects of the first survey and was informed by the emerging issues from the 11 in-depth case studies of reorganisations. The survey covered private and public sector organisations, small and large. In order to understand the role of HR professionals in the light of other management groups, the questionnaire was sent not only to HR directors, but also to chief executives, senior finance managers, senior operations managers and senior information technology managers.

The survey questionnaire was sent out in May 2004. We received 594 usable responses, with a response rate of 15%. Chief executives account for 36% of the respondents, HR directors for 38% and other senior managers (finance, operations and IT) 26%. Because of differences in response rates, 63% of the responses were from the public sector and 37% from private sector organisations. More details of the sample can be found on page 46.

This Survey Report extends key findings from the 2002 CIPD survey, published in the CIPD's *Reorganising for Success: CEO and HR managers' perceptions*. Links between the first and second survey are highlighted in this report. The report also draws on the additional written comments of respondents to the questionnaire.

The survey was conducted on behalf of the CIPD by Richard Whittington, Professor of Strategic Management at the Saïd Business School, University of Oxford, Dr Michael Mayer of the University of Edinburgh and Dr Anne Smith of the Open University.

The report is the fourth publication in the CIPD's Organising for Success in the Twenty-First Century programme. Earlier publications include:

- *Organising for Success in the Twenty-First Century: A starting point for change*
- *Reorganising for Success: CEO and HR managers' perceptions*
- *HR and reorganisation: Managing the challenge of change.*

An Executive Briefing on the case study findings (*HR: Making change happen*) will be available at the end of 2004 and a final Research Report will be published in the spring of 2005.

For more details of publications and events associated with this research, please contact Vanessa Robinson, Adviser, Organisation and Resourcing, at the CIPD (v.robinson@cipd.co.uk) or Richard Whittington (Richard.Whittington@sbs.ox.ac.uk). Research programme details can also be found at www.cipd.co.uk/research and www.sbs.ox.ac.uk/whittington

What do reorganisations involve?

- Reorganisations typically involve complex structural changes, combining centralisation with decentralisation and the closure of departments with the simultaneous creation of new ones.
- Reorganisations typically entail the hiring of new employees and the development of new skills, not just employment cutbacks.
- Reorganisations typically go beyond structural changes to include substantial changes in culture and leadership styles.

This section introduces the scope of change involved in reorganisations. It starts by considering structural changes, and then addresses impacts on employment levels and profiles. The section then considers repercussions for both the 'softer' dimensions of culture and leadership styles and the 'harder' characteristics of managerial and organisational systems of control, careers and reward. Finally, the section explores the extent of innovation involved in reorganisations, both in terms of what they achieve and how they are managed.

Local reorganisations with widespread impacts

'The reorganisation was the centralisation and change in direction of an HR department. Therefore, although only involving 55 staff directly, the impacts were [seen] in the approach to people management across the whole organisation' (respondent)

Structural changes

Simultaneous centralisation and decentralisation

'The reorganisation involved the merger of revenue and benefit services to deliver a more customer-focused service. It involved centralising back office process and devolving customer service centres. We introduced hot-desking, flexible working, homeworking ...' (respondent)

Reorganisations involve complex patterns of structural change (Figure 2). As in the quote above, from one of our respondents, structural change is often associated with both the creation and closure of departments and other organisational units. Despite the popular rhetoric celebrating the benefits of decentralisation, only a quarter of the reorganisations reported here were substantially decentralising. Indeed, centralisation was seen as critical in 44% of cases. The effects of reorganisation also extend across organisational boundaries. Almost two-thirds of reorganisations are associated with extensive changes through mergers and acquisitions

or through the development of relationships and linkages with other organisations.

Impact on employment

Link to first survey

The effects on employment patterns identified in the two surveys are almost identical, including the finding that about two-thirds of reorganisations are associated with the hiring of new employees. This suggests a relatively stable pattern of the impact of reorganisations on employment in the current climate.

While debates about reorganisation typically focus on the negative impact on employment, the results of this survey suggest a more complex picture (Figure 3). Typical reorganisations involve changes in employment profiles, rather than simple 'downsizing'. Nevertheless, with 81% of reorganisations being associated with the departure of employees through redundancies or early retirement, it's clear that cutting numbers is an important objective. In a notable minority (10%) of reorganisations, involuntary redundancies affect 21%

Figure 2: Structural change

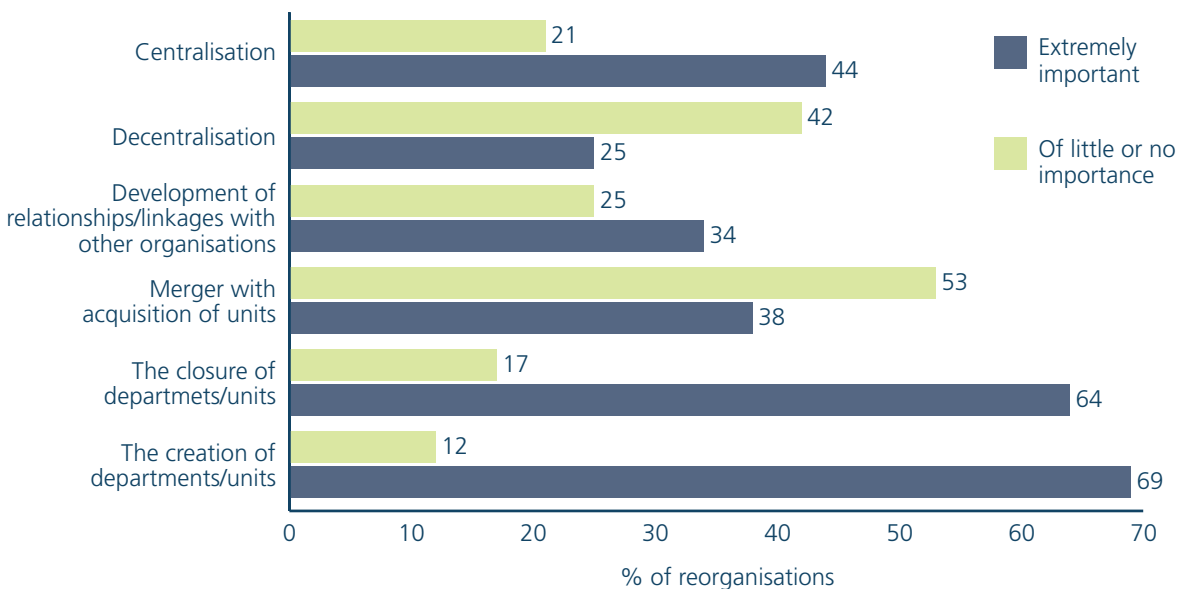
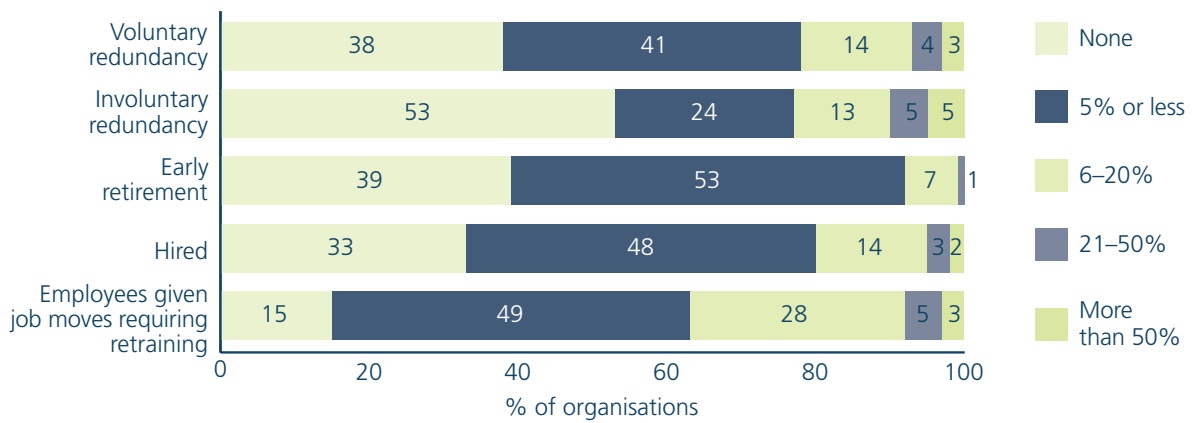


Figure 3: The impact of reorganisation on employment patterns



or more of employees. At the same time, however, two-thirds of reorganisations lead to the hiring of new employees, pointing to changes in the overall profile of skills and capabilities as an important element of the process. This aspect is underlined further by the 85% of reorganisations in which at least 5% of employees are given job moves requiring retraining.

Organisation-wide change

Changing culture, structure and systems

'[It] had been an organisation with an old-fashioned [...] culture, which needed to become a proactive IT-based, customer-service-focused organisation instead, to survive and grow.'
(respondent)

The 'hard' mechanisms of people management and motivation, in contrast, often remain relatively stable. While there is some substantial change in career structures (39%), reward systems are altered substantially in barely more than a quarter of reorganisations (26%) and are changed 'a little' or 'not at all' in more than a third (35%). As discussed later, failure to make parallel changes in career and reward structures has damaging effects on reorganisation outcomes.

Reorganisation means more than just changes in formal structures. It typically links not only to substantial alterations in organisational and managerial systems and processes, but to potentially far-reaching changes to culture and behaviour as well. As seen in Figure 4, most reorganisations are associated with substantial changes in both culture and leadership styles.

The nature of the products and/or services offered by the organisation is changed only 'a little' or 'not at all' in 41% of reorganisations (Figure 5). The business processes underpinning the formation of these products/services, however, are transformed substantially in almost a half (47%) of all cases.

Figure 4: Change in people-related factors

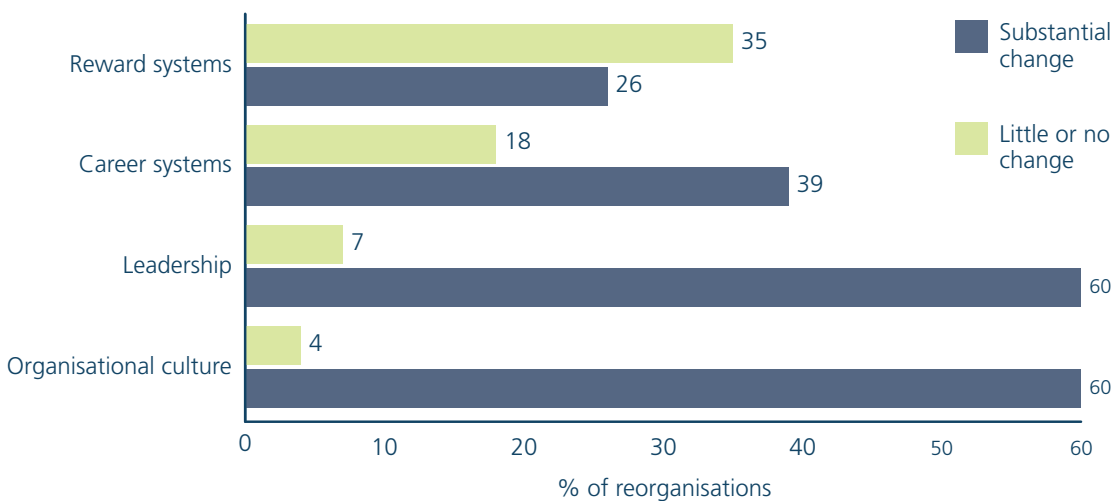
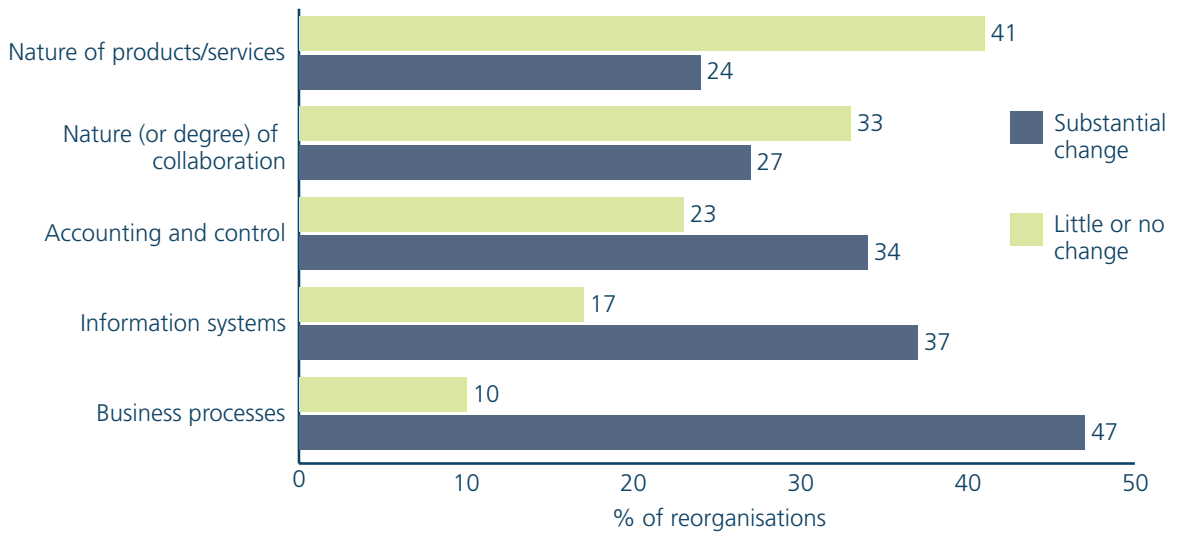


Figure 5: Wider organisational changes

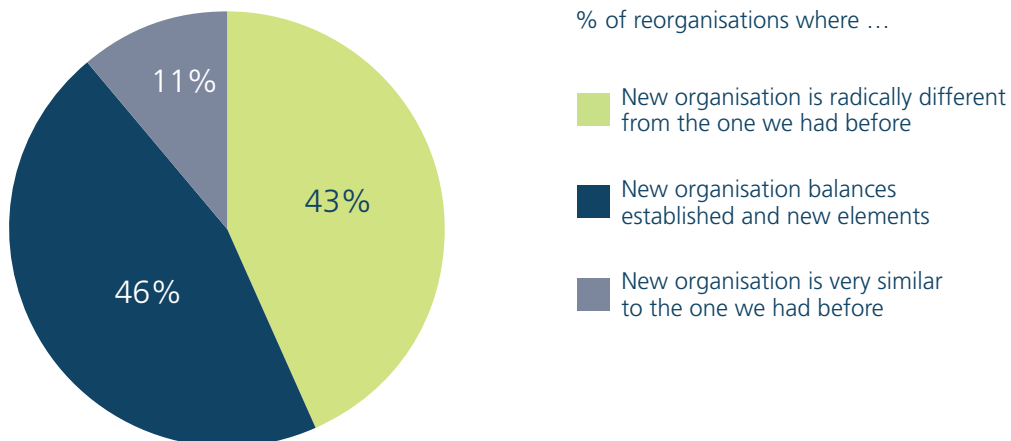


New organisations, old ways of reorganising

Many of the reorganisations reported here involved significantly different organisation designs, but the process by which they were achieved was often less radical. Figure 6 shows the extent of organisational innovation. For 43% of respondents, the new organisation was so novel that it could be judged as 'radically different' from the one that was in place

before, while only 11% felt that the organisation remained very similar to the previous design. For most (46%), the new organisational design offers a balance of new and established characteristics.

Figure 6: Innovation in organisational design



While often innovative in terms of final designs, the way in which reorganisations are conducted is more strongly influenced by established practices, with organisations drawing on their typically considerable experience (Figure 7).

Only about a quarter (28%) of respondents report that the processes and procedures followed in organisational change constituted a radical departure from what was done previously (Figure 8).

Nevertheless, almost a half (49%) of organisations are seeking to improve the success of reorganisation by 'constantly looking for better ways' to manage the process. Of course, this finding also means that just over half of organisations do not place such emphasis on generating improvements. For most, then, managing reorganisation means following the norm. Only 10% are seen as radically different from their peers in the industry/sector in their approach to reorganisation.

Figure 7: Experience of reorganisation

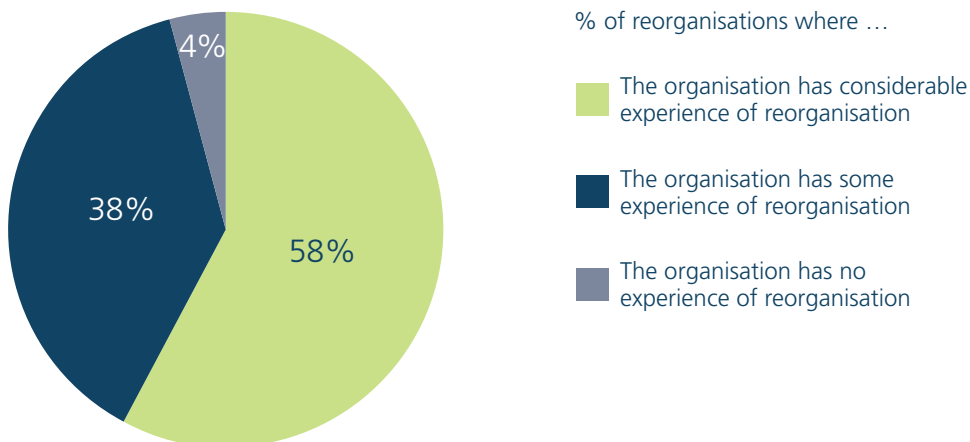
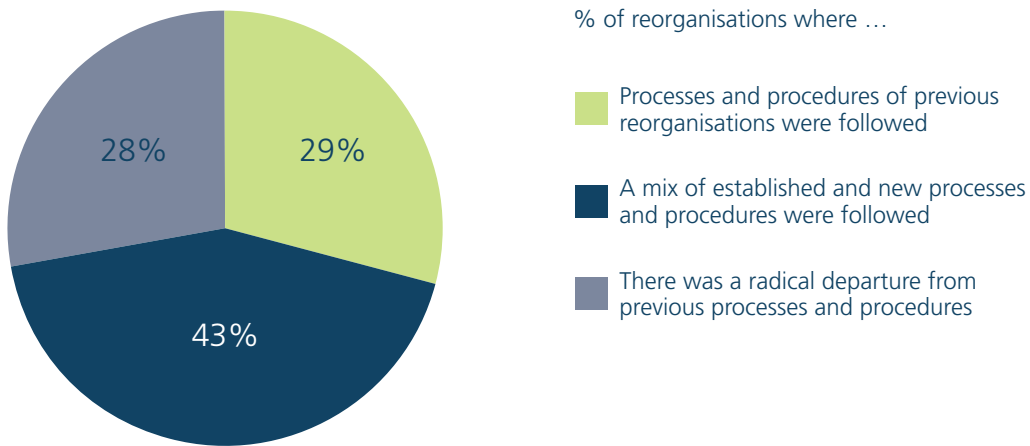


Figure 8: Innovation in the management of the reorganisation process



Implications

- Reorganisations should be approached in a comprehensive and holistic way, with the wider implications for the organisation comprehensively considered up front.
- Critical elements of the HR agenda, such as career and reward systems, are often neglected in reorganisations. HR professionals must ensure that this agenda is effectively championed.
- Even in reorganisations involving heavy redundancies, HR professionals should anticipate the need for hiring and training.

What do reorganisations achieve?

- **A majority of reorganisations fail to deliver significant improvements in performance. About one-third of reorganisations fail to generate any improvements in financial and competitive success measures.**
- **Employee-related issues emerge as the most problematical aspect of reorganisations, with staff complaints and turnover particularly likely to be increased.**
- **Many reorganisations fail to generate improvements in the way the organisation relates to its customers/service users.**

As we'll see in the rest of this report (and particularly in 'Comparing successful and unsuccessful reorganisations – what is the difference?', page 38), there are substantial differences in the way successful and less successful reorganisations are managed. To capture the extent of success, or otherwise, of reorganisations, we identified three broad dimensions of performance (financial and competitive outcomes, outcomes relating to external stakeholders, and employee-related outcomes), all measured by two or three indicators each. For each indicator, respondents indicated the extent to which they believed that performance improved or worsened following reorganisation. While most respondents felt that their reorganisations generated at least some measure of success, there was a high variability in outcomes. More substantial improvements are usually limited to between a third and a half of reorganisations. Given the typically substantial investments of time and

financial resources associated with such undertakings, there clearly is much scope for improvement.

Link to first survey

While the first survey didn't use the more precise performance indicators presented here, the broad results are closely in line with each other ie about 40% of reorganisations do not lead to improvements in factors associated with organisational competitiveness, effectiveness and efficiency, whereas people-related factors fail to improve in around 60% of reorganisations.

Financial and competitive outcomes

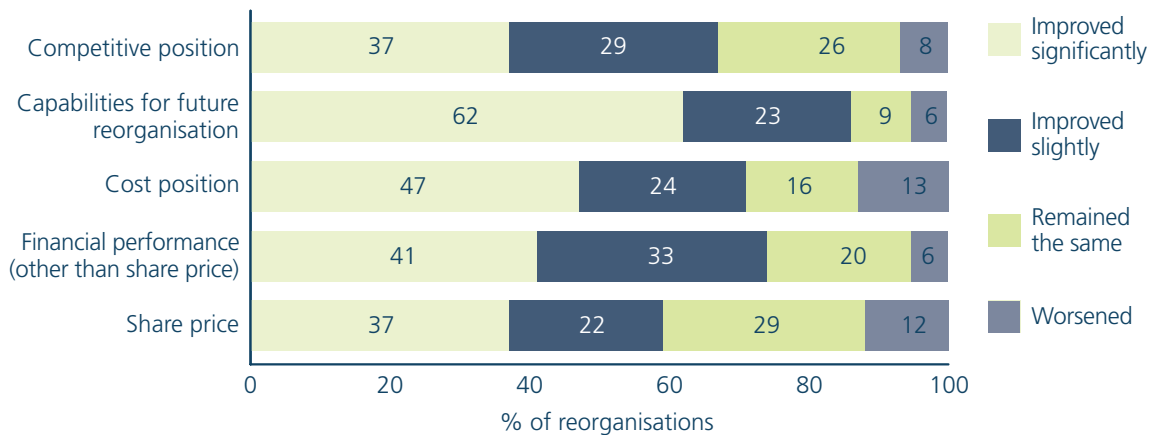
Vicious circles of reorganising

'The organisation went from most efficient to least efficient – [it] hasn't got the skills in place to deliver and is still reorganising.' (respondent)

The respondent's comment above highlights the dangers of failed reorganisations, but happily most reorganisations reported here were less calamitous. Figure 9 summarises the financial and competitive outcomes of reorganisations, as perceived by respondents. Significant improvements in financial performance were realised in 41% of reorganisations.

Slightly fewer (37%) lead to improvements in share-price performance (this may be partially due to the greater difficulty in tracing the effect of organisational change on share-price movement). Overall, reorganisations are more successful in improving cost positions (47%). Current reorganisations are particularly successful in terms of their positive impact on organisational flexibility and adaptability, as reflected in the capabilities for future reorganisation, with 62% of reorganisations resulting in notable improvements here. Nevertheless, competitive positions, which of course need to take account of changes in and by other organisations, are improved to a substantial extent in only 37% of cases.

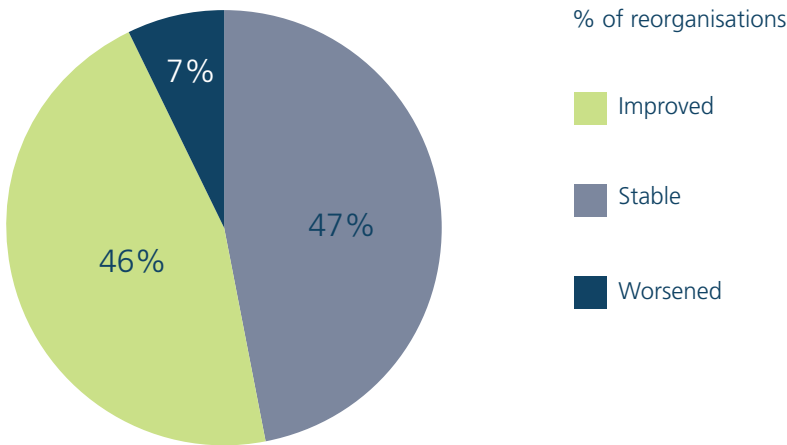
Figure 9: Financial and competitive positions



A different perspective on success was gained by asking respondents to judge the organisation's profitability (or appropriate equivalent measures for the public sector) relative to others in the sector both before and after the reorganisation. Figure 10 identifies the differences between these two assessments to identify changes in relative profitability. Here we find improvements in just under half (46%)

of reorganisations. Only rarely is relative profitability reported to decline (7%).

Figure 10: Changes in relative profitability (or equivalent performance measures) after reorganisation

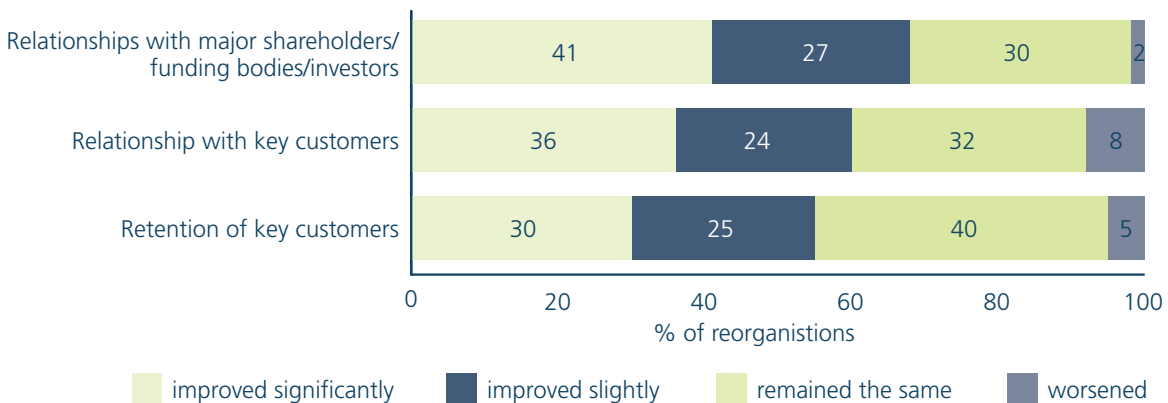


Relationship with external stakeholders

Reorganisations have quite different effects on the way the organisation relates to its external stakeholders (Figure 11). Relationships with external financial stakeholders are improved significantly in 41% of cases, a figure matching the overall improvements in financial performance (other than share price). The positive effects on customers are weaker. The retention of key customers, for example,

is substantially improved in less than a third of reorganisations. The failure to improve customer/service relationships casts doubt over the sustainability of the initial successes reflected in improved financial performance.

Figure 11: Relationships with external stakeholders

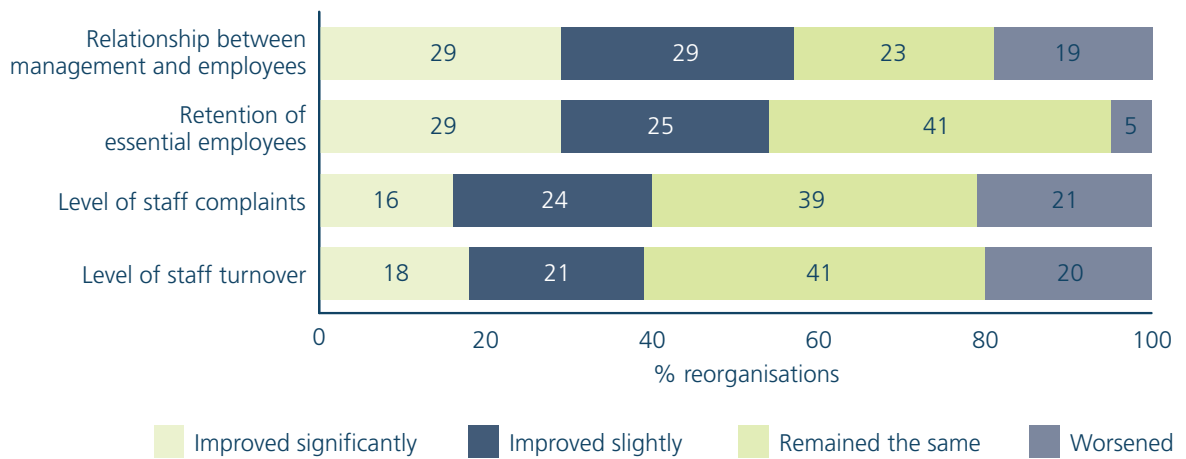


Impact on employees

The impact on employees is often the most problematical outcome of reorganisation. Reorganisations typically fail to generate notable improvements in people-related factors (Figure 12). Only 29% of reorganisations experience significant improvements in the relationship between management and other employees or the

retention of essential employees. Staff complaints, and turnover, worsen in a fifth of reorganisations. As shown in the comparison of successful and unsuccessful reorganisations (page 38), close attention to people issues can have a positive impact on performance.

Figure 12: Changes in people-related factors



Staying in budget and on time

Reorganisations are typically highly complex undertakings requiring significant efforts and commitments in terms of time, resources and money. In judging the success of reorganisation, it's therefore not only their effect on organisational outcomes that's critical, but also their efficiency in terms of the process itself. Important performance dimensions are the extent to which reorganisations remain within defined budgets and are completed within expected timescales. The majority (62%) of respondents did feel that their reorganisation was completed closely within the original timescale and remained closely within budgeted costs. As we'll see in the next section, keeping the reorganisation on time and within budget closely relates to overall success.

Implications

- Reorganisations often do not meet their objectives, and reorganisation team members need to manage expectations carefully.
- HR professionals need to keep people-related issues firmly on the agenda and anticipate unintended effects on staff turnover and relationships.
- Both people and customer issues should be managed actively to ensure that longer-term interests are not sacrificed in pursuit of more quantifiable or immediate reorganisation objectives.

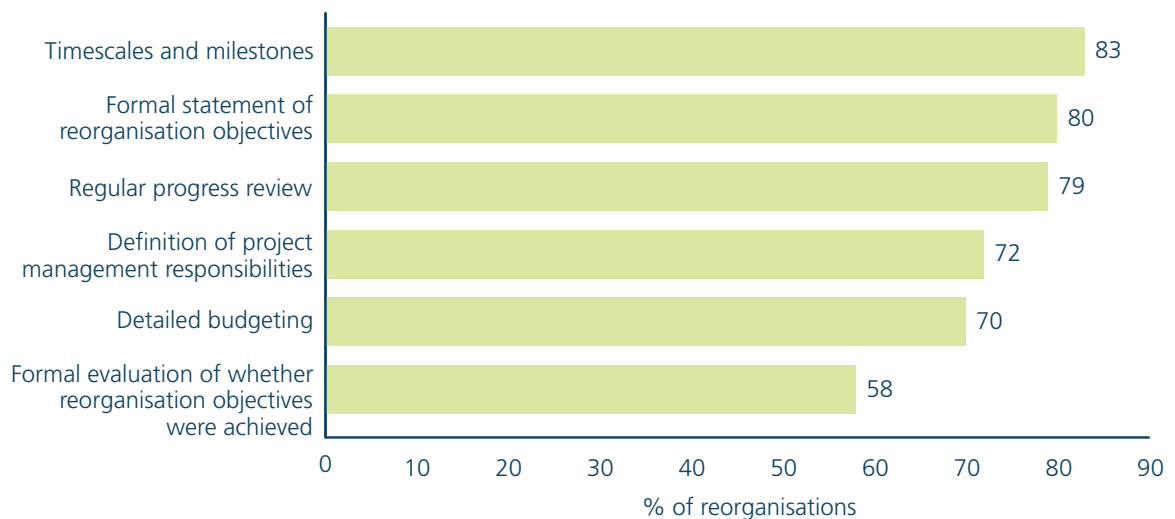
Reorganisations as projects

- **While the use of project management techniques is well established, only 44% of reorganisations are conducted as tightly managed projects.**
- **Overall, reorganisations that are more tightly project managed perform better in terms of improved cost positions and financial outcomes.**

Project and programme management (the integrated management and co-ordination of individual changes and projects) are important for reorganisation success. As seen in Figure 13, project management techniques are widely used. Nevertheless, a substantial minority of reorganisations, around 20%, are managed without clearly defined timescales and milestones. In around 30% no clear definitions of project management responsibilities are established.

And a similar number don't involve detailed budgeting for costs and resources. Only 58% of reorganisations are subjected to a formal evaluation of whether objectives were achieved.

Figure 13: Use of project management techniques



Overall, there are three broad approaches to the management of reorganisation. Just under 44% make extensive use of the full range of project management techniques discussed above, while 16% are managed much more informally. The remaining 40% do employ the full range of project management techniques, but not extensively.

Link to the first survey

The first Organising for Success survey established that project and programme management are crucial in shaping the success of reorganisation. In all, 65% of respondents felt that in future more use should be made of project management techniques.

Projects and performance

Planning and flexibility

'Methodical planning of every aspect of the project prior to taking any action is key to success.' (respondent)

'Don't expect everything to work without some adjustment and don't be afraid to review changes at an early stage to keep the reorganisation on course.' (respondent)

Generally, project management is associated with success, not only in terms of completion in time and on budget, but also by the extent to which cost positions and financial performance are improved. The first respondent quoted above underlines the importance of methodical planning. Further analysis not reported here indicates that

deficiencies in reorganisation project management are particularly common in organisations for which project management is not a normal procedure for all kinds of tasks. In other words, project management can't easily just be grafted on. The effective project management of reorganisations relies on being embedded within a strong project management organisational culture.

Taking the individual project management techniques one by one highlights the importance of careful planning. The most significant effects arise from detailed budgeting, which is linked positively with performance in terms of cost, financial performance and timescales. Similarly, the clear definition of timescales and milestones is linked positively to completion within budgeted cost and within timescale.

The conduct of regular performance reviews, however, is linked negatively to completion on time. One explanation might be that regular performance reviews are imposed when timetables begin to slip. Another explanation might be that regular performance reviews encourage a more open and flexible process. The second respondent's comment (see 'Planning and flexibility' on the left) certainly suggests the value of reviews and adjustment as the project actually begins.

Implications

- Reorganisations should be initiated within disciplined project management structures, though some flexibility may be required as reorganisations get under way.
- Project management skills are widely lacking but to work well they need to be firmly embedded in the organisational culture.

The reorganisation team – roles, skills and support

- **There is substantial scope for improving the skills of reorganisation team members. These are considered inadequate in about a half of reorganisations.**
- **Support by top management is insufficient in about 40% of reorganisations.**
- **Both skilled reorganisation teams and top management support are critical to reorganisation success.**
- **HR professionals frequently play a key role in reorganisations, recognised explicitly by their chief executives.**

This section examines the roles played by various groups of managers (differentiated primarily by functional specialism), before considering the skills of team members and the level and quality of support provided by senior management to the reorganising team. By way of context, we note that most reorganisations (71%) are managed by specifically designated reorganisation teams.

Link to the first survey

In the first survey (which didn't distinguish between different roles of managers on the reorganisation team), HR specialists were represented in 87% of the management teams, slightly lower than the 95% in this survey.

Managerial roles in the reorganisation team

Table 1 indicates the roles taken in the reorganisation team by various groups of managers. General or business unit managers normally occupy leadership roles in reorganisations (73% of cases). While normally not performing a leadership function, HR specialists are seen to play a major role by 61% of respondents – HR is clearly involved in an important way. Table 2, which excludes responses from HR directors, confirms that this recognition is widespread. It's clear that chief executives and the other functional directors consider HR to be playing an important role in the reorganisation team.

Table 1: Roles in the reorganising team (full sample)

	Leadership role (%)	Major but not leadership role (%)	Moderate role (%)	Minor role (%)	No role (%)
General manager	73	19	3	1	4
Internal HR	19	61	13	3	4
Internal consultant	5	18	10	6	61
Internal finance	13	39	27	11	10
Internal IS/IT	5	27	28	17	23
Internal operations	8	36	20	8	28
External consultant	5	21	11	11	52

Table 2: Roles in the reorganising team (excluding HR respondents)

	Leadership role (%)	Major but not leadership role (%)	Moderate role (%)	Minor role (%)	No role (%)
General manager	72	18	3	2	5
Internal HR	12	62	16	5	5
Internal consultant	5	15	9	8	63
Internal finance	15	36	27	11	11
Internal IS/IT	6	23	26	20	25
Internal operations	10	30	21	9	30
External consultant	5	22	11	13	49

Skills

Talk or action?

'In this sector many managers are very proficient at talking about change management, but lack the experience and confidence to do it!'
(respondent)

As indicated in Figure 14, a majority of respondents feel that the people management and communication skills of reorganisation team members are major enablers of success in 71% and 68% of cases, respectively. However, as indicated by the respondent quoted (see 'Talk or action?' on the left), there can be significant skills deficits. In particular, skills in managing organisation culture, organisational politics, organisation design and project management can be sources of concern.

Figure 14: The skills of the reorganising team seen as major enablers of success

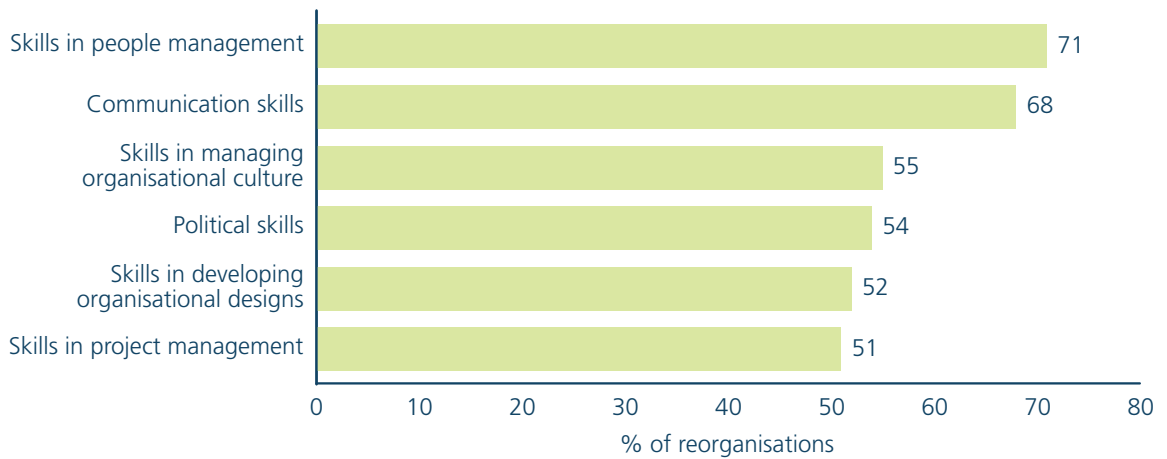
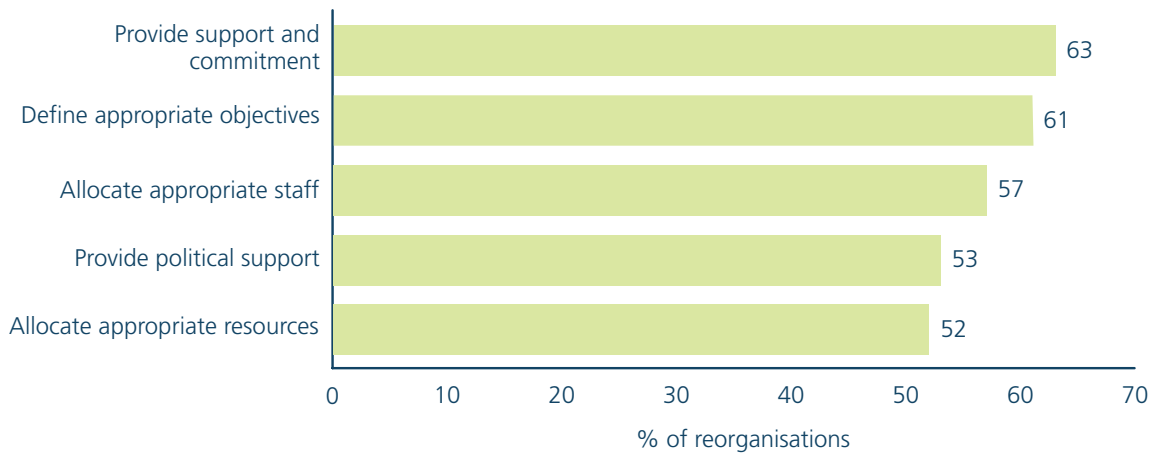


Figure 15: Senior management seen as a major enabler of reorganisation success

Excludes views of chief executives (or equivalent) and senior managers to whom the reorganising team reported to.

Top management support

Link to the first survey

The first survey confirmed the central role of senior management in shaping the conduct and success of reorganisations. The prior experience of senior management was seen as particularly important.

The first respondent's comment on page 26 highlights the importance of political commitment to the reorganisation. This section explores the support provided by senior management to the reorganising team. We asked respondents to rate the senior managers to whom the reorganisation team reported in terms of their willingness and ability to:

- Allocate appropriate resources.
- Allocate appropriate staff.
- Define appropriate objectives.

- Provide political support.
- Provide support and commitment throughout.

In order to minimise the potential for bias, Figure 15 excludes responses from chief executives, unit top managers and other senior managers to whom the reorganisation team reported. The good news is that 63% of respondents find top management support and commitment to be a major enabler of reorganisation success. However, 39% of respondents do not feel that the objectives of the reorganisation are sufficiently defined by top management, something reinforced by the respondent quoted on page 26. Support in terms of appropriate staff (seen as a major enabler by 57% of respondents) and resources (seen positively by 52% of respondents) also often leave scope for improvement. Just as the political skills of organisation team members are often viewed as inadequate, about half of reorganisations have only limited political support from top management.

Reorganisations need commitment and clarity

'We needed political commitment, management buy-in and good communications with employees, customers and partners!!' (respondent)

'Consistency of message and purpose is one of the most important success factors in any change programme. Crystal-clear purpose, understood by all, including "what it means for me", should be made explicit.' (respondent)

Implications

- The make-up of the reorganisation team is critical to success, and careful attention needs to be paid at the outset to ensure appropriate skills and experience exist within this team.
- Reorganisation teams need to manage upwards continuously in order to ensure the consistent political support and clarity of purpose that delivers success.

Employees in reorganisations

- **While employees are typically kept informed about the objectives and progress of reorganisations, very few reorganisations allow employees significant influence on the process.**
- **Real employee influence in reorganisations can improve results, but token involvement is often damaging.**

People, and people management, are central to reorganisation. Reorganisations not only affect employment patterns and relationships, they need committed employees to carry them through. This section starts by examining the role of employees in the reorganisation process. We then assess how various degrees of involvement relate to performance outcomes. Finally, the relationship between reorganisation and changes in employment patterns is investigated.

Link to first survey

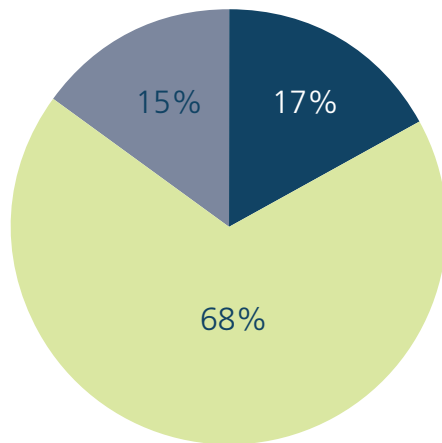
The first survey suggested that many reorganisations are limited, not only in the extent to which employees are able to participate in shaping the change process, but also in the extent to which people are prepared for dealing with the consequences of reorganisation through training and/or coaching. Those 'people-centred' reorganisations in which these practices were given greater priority, however, were linked to better performance.

Reorganising by stealth?

'... with a conservative, change-averse and above all cynical workforce, reorganisation has to lie [and be] called something else and requires low-profile or stealthy leadership.' (respondent)

While this respondent's comment suggests some of the attractions of stealth, it's not a view supported by the findings of this survey, which highlight the benefits of open engagement with employees. The challenges, but also the opportunities, of engaging with employees in the reorganisation process are reflected in our respondents' own views of employees' acceptance of change (Figure 16). Most (68%) see employees as potentially open to change – but they must be brought on board through appropriate policies and practices.

Figure 16: Employees' views of change



- Generally accepting of change
- Differentiated view of change
- Generally resistant to change

Never enough communication

'There's never enough formal communication to fill the void that inevitably attracts rumour and speculation.' (respondent)

'In practice, the very strong advice was to consult to death management, staff and unions.' (respondent)

These quotes from respondents' reinforce the value of communications and consultation. In practice, however, the role of employees in reorganisations ranges from being mere recipients of information to active participants in decision-making. Figure 17 indicates the range of those reorganisations in which

extensive use was made of the various practices surveyed. While employees are kept closely informed in a significant majority of reorganisations, in almost a quarter of cases employees have limited information on what is happening and why. In about a third of reorganisations, employees are not provided with substantial opportunities for feedback and questions. Employees are consulted extensively in 60% of cases, possibly reflecting the early impact of the European Directive on Information and Consultation (2002/14/EC). Substantial involvement in the decision-making process is restricted to 29% of reorganisations.

Involvement and performance

Informing and involving staff

'I think it became evident very early on how much [the] success of the reorganisation depended on involving staff in the process and keeping them informed of developments. This was also appreciated by staff.' (respondent)

Confirming the positive relationship between 'people-centred reorganisation' identified in the first survey, the results of this survey shed further light on the positive effects that involving employees can have on performance outcomes. Broadly speaking, a higher degree of employee-orientation links to better performance in terms of employee-related outcomes (ie the retention of essential employees, improved relations between management and other employees, improved levels of staff turnover and lower levels of staff complaints). Employee-orientation also leads to better financial performance.

Figure 17: Extensive communication with and involvement of employees

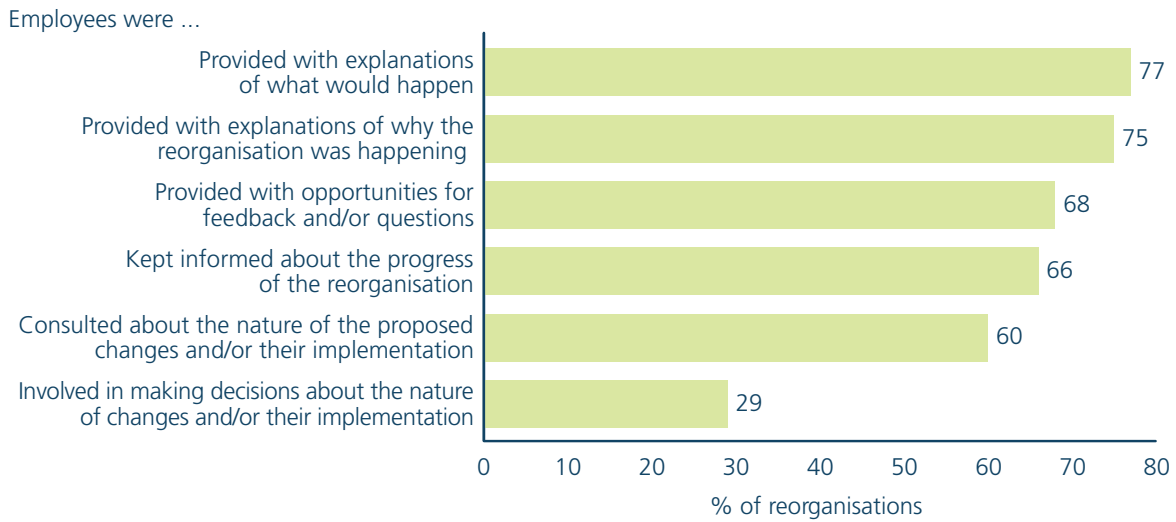
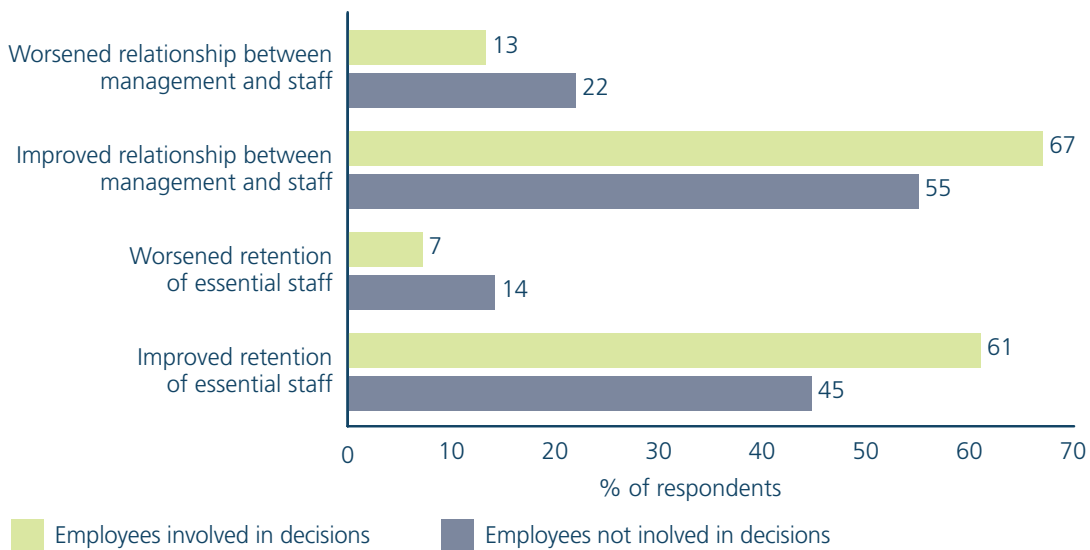


Figure 18: The effect of opportunities for feedback and questions on performance outcomes varies by the extent to which employees are involved in the decisions



The role of employees in the reorganisation process should, however, not be merely symbolic. Put somewhat colloquially, 'a little is not enough ... and may even make things worse'. Figure 18 illustrates this by differentiating between reorganisations in which employees were given opportunities for questions and feedback *and were involved* in decisions about the reorganisation, and those in which employees had opportunities to provide feedback and ask questions *but were not involved* in the decision-making process. Only combining feedback and questions with real involvement generates improvements in employee-related performance outcomes. Where employees are asked for input, but sense that their views and ideas have no impact, positive effects are not forthcoming.

Implications

- Reorganisation teams should not assume that employees will be hostile to change. With the right techniques, employees can be brought on board and often end up as positive supporters.
- Mere information and empty promises of involvement can backfire on reorganisation teams. Employee involvement needs to be substantive if it is to deliver its full benefits.

Learning to reorganise

- **Internal learning, through researching and benchmarking previous experience in other parts of the organisation, leads to the most significant improvements in performance, including stronger financial performance, better cost positions and enhanced capabilities for future change.**
- **Looking outside of the organisation's sector significantly improves the organisation's ability to conduct future reorganisations.**
- **HR professionals are recognised as providing important expertise regarding the management of the reorganisation process.**

Link to first survey

The first survey established that experience developed within the organisation itself is an important aspect of reorganisation practice, but that the experiences of other organisations accessed through external learning often have little direct impact on reorganisations unless they are mediated through the movement of people between organisations. The results here confirm the importance of internal learning, but also highlight the potential benefits for organisations that look outside of their immediate sector.

The survey identified three types of influences on reorganisation practice: model-based learning, reflecting, for example, the application of concepts and models presented in external seminars and/or introduced by external consultants; external experience which relates primarily to the personal experience of managers and other employees gained in other organisations; and internal experience which reflects both the experience of managers and other employees in the organisation itself and learning from previous reorganisations.

Experience counts

The previous survey indicated the importance of 'learning to reorganise'. In this survey we focus in detail on how useful various sources of learning are for the conduct of the reorganisation. Figures 19–22 summarise the findings by indicating the percentage of reorganisations in which the respective source was considered to be more than moderately useful. Learning from experience generated in the organisation itself is considered most useful, particularly the experience of senior management and experiences gained in previous reorganisations (Figure 19). Given that

'Reorganisations as projects' (page 20) suggested a substantial minority of reorganisation projects were subject to no formal evaluations, a good deal of this experience is probably tacit and informal. Learning from experience gained in other organisations (Figure 20) is normally seen as useful only in cases where this is transferred through the movement of people between organisations, whether senior managers (73%) or members of the reorganisation team (63%). However, the experience of other organisations is seen as useful much more frequently (54%) in reorganisations where these were extensively researched. Part of the

Figure 19: Internal experience-based learning sources considered to be more than moderately useful

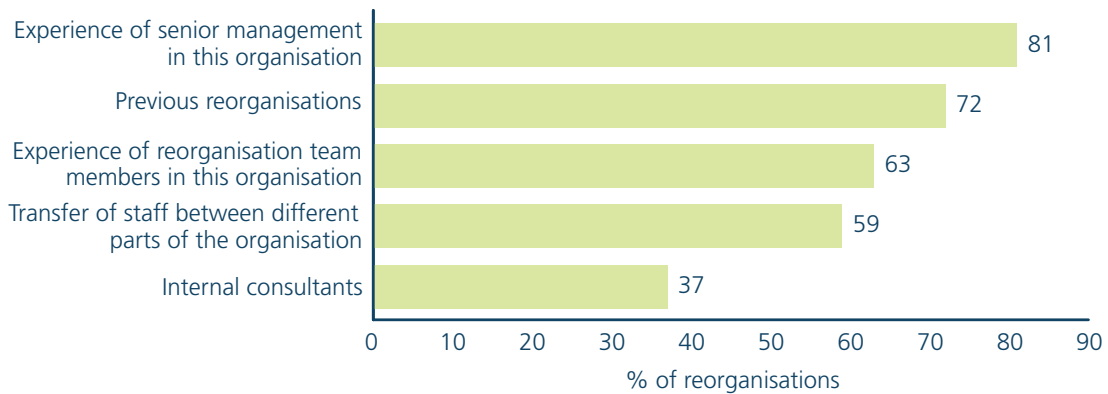
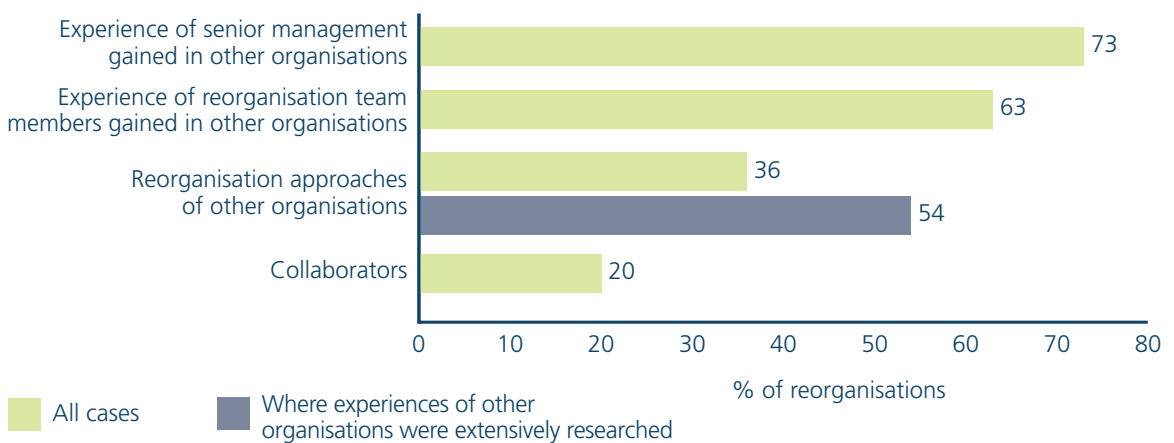


Figure 20: External experience-based learning sources considered to be more than moderately useful



explanation for the low rating of external experience may be that only those organisations that actively seek to learn from this actually discover its value.

Conceptual knowledge is generally considered less useful than learning from experience (Figure 21). The contributions of external consultants are similarly seen as useful by only a third of respondents.

As can be seen in Figure 22, the respondents to this survey generally value the input made by HR specialists into the process and method of reorganisation, though, as will be noted later, the rating by chief executives is slightly lower than the self-perception of the HR respondents to this survey. This slight difference between chief executive and HR perceptions will be further addressed in 'The respondents: roles, perspectives and experience' (page 44).

Figure 21: Model-based learning sources considered to be more than moderately useful

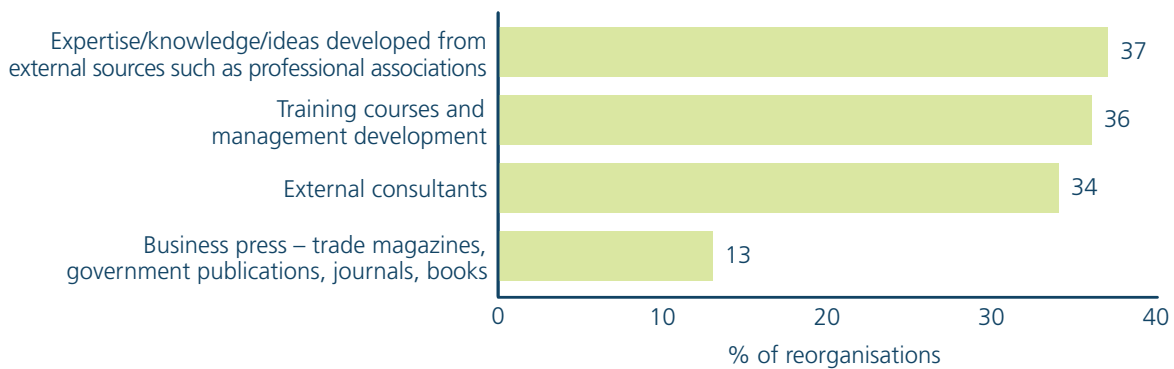


Figure 22: Learning from functional specialists considered to be more than moderately useful (with regard to the process and method of reorganisation)



Searching for best value

'The reorganisation involved following a central government requirement to conduct Best Value Reviews of the whole organisation over a five-year period.' (respondent)

used learning practice is the examination of the experiences in different parts of the same organisation, which is conducted extensively in 42% of reorganisations. The only other activity that is conducted 'extensively' more often than 'not at all' is the examination of the experiences of other organisations within the same sector. The overall pattern of responses suggests that efforts to learn rarely extend beyond the organisation's own sector.

Respondents were asked to indicate the research and benchmarking activities undertaken as part of the reorganisation. As seen in Figure 23, the most widely

Figure 23: Research and benchmarking – what is done for learning



Learning and performance

Having established the type of activities used to develop knowledge for reorganisation, we now can investigate how these relate to performance. The overall pattern of results suggests that internal learning leads to the most significant improvements in performance outcomes, including a stronger financial performance, better cost positions and enhanced capabilities for future change. Researching and benchmarking within the same sector is not associated with performance improvements. Looking outside of the organisation's sector, however, also improves the organisation's capacity to undertake further reorganisations in the future.

Implications

- Reorganisation teams should do more to investigate the experience of reorganisations both in their own organisation and externally before embarking on a reorganisation.
- Organisations should do more to codify and exchange previous internal experience of reorganisations, in particular by doing more formal end-of-project reviews and evaluations.

Communication with external stakeholders

- **In many reorganisations, communication with external stakeholders, particularly with collaborators and suppliers, remains limited.**
- **Reorganisations accompanied by more extensive communication with external stakeholders are linked to better performance outcomes.**

In 'What do reorganisations achieve?' (page 15), we noted the failure of 40% of reorganisations to improve the relationships with customers/service users. Here we consider the involvement of external stakeholders in the reorganisation process and ask if differences in this respect are associated with differences in performance outcomes.

These quotes from respondents reflect different approaches to external stakeholders. Even so, communication with collaborators, suppliers and distributors is surprisingly limited (Figure 24), particularly given the fact that in more than a third of reorganisations the development of relationships with other organisations is seen as extremely important. Financial stakeholders clearly get priority.

Visible and invisible reorganisations

'A key learning point has been to improve communication with the public. Use the media to keep the pot boiling and publicise milestones eg new premises, operational successes etc.'
(respondent)

'Our aim was to make it invisible to customers.'
(respondent)

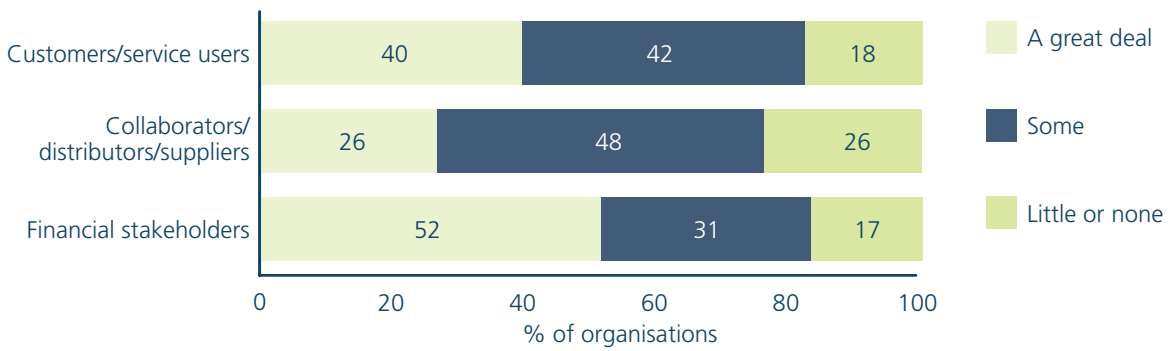
Communications and performance

Communication pays. More extensive communication with a particular external stakeholder group not only relates positively to improved relationships with that group, but also has wider positive associations. Reorganisations involving greater emphasis on communication with external stakeholders lead to better financial performance. More extensive communication with financial stakeholders is also associated with improved share-price performance after reorganisation.

Implication

- Reorganisation teams can easily become focused on internal issues in reorganisations. Reorganisation teams should also actively manage key external stakeholders.

Figure 24: Communication with external stakeholders



Comparing successful and unsuccessful reorganisations – what is the difference?

- **There are systematic differences between successful and unsuccessful reorganisations, relating both to the characteristics of the reorganisation team and its context and to the process by which the reorganisation is managed itself.**
- **While there are common characteristics to reorganisations, these differ according to the extent to which financial performance, cost structures or people-related issues are prioritised.**

Throughout this report we've identified how specific characteristics of a reorganisation are linked to success. Now we take an alternative perspective and directly compare the characteristics of the most successful and the most unsuccessful reorganisations, as reported by our respondents.

Differences between successful and unsuccessful reorganisations

Across all performance dimensions there are six common characteristics distinguishing the most successful and unsuccessful reorganisations. The first three relate to the reorganisation team and their organisational context:

- Successful reorganisations are characterised by higher skill levels of the reorganisation management team members, particularly with regard to political and communication skills.
- Successful reorganisations are characterised by greater levels of support by senior management, particularly political support.

- Successful reorganisations often take place in organisations with greater previous experience of reorganising.

The following three points relate to the way the reorganisation is managed:

- Successful reorganisations typically have more substantial involvement of employees. Such involvement goes beyond the dissemination of information to include more extensive consultation.
- Successful reorganisations are characterised by more extensive changes in complementary aspects of the organisation (specific dimensions are indicated below).
- Successful reorganisations (in terms of their impact on dimensions such as financial and competitive outcomes as well as people-related performance indicators) are normally also completed on time and within budget. Put differently, there is a close association between the efficient management of the reorganisation process and the improvements in organisational performance they generate.

Improving financial performance

Reorganisations particularly successful in improving financial performance have the following characteristics:

- they involve more substantial simultaneous changes in business processes
- the reorganisation teams have particularly high levels of political and communication skills
- they enjoy high levels of political support from top management
- they draw on high levels of reorganisation experience within their own organisation.

Improving cost structures

In addition to the general points outlined above, reorganisations that are most successful in improving cost structures have the following characteristics:

- they have finance specialists playing either major and/or leadership roles in the reorganisation team
- they involve centralisation initiatives
- they undertake greater parallel changes in IS/IT systems
- they place greater emphasis on communication with key financial stakeholders
- they make more extensive use of benchmarking between different parts of the organisation
- they are *conservative* in their reorganisation process ie processes and procedures used in previous reorganisations are followed

- They are *innovative* in terms of the organisation design itself ie the new organisation is substantially different from the old.

Improving people-related performance outcomes

In addition to the general points outlined above, reorganisations most successful in improving people-related outcomes have the following characteristics:

- they involve more substantial changes in career and reward systems, organisational culture and leadership styles
- they also make more parallel changes in IS/IT, accounting and control systems
- they are *innovative* in their reorganisation processes ie processes and procedures used in previous reorganisations are set aside
- they make less use of external consultants, but more use of internal consultants
- the experiences of other organisations in the sector are researched more extensively, as are the experiences in other parts of the organisation.

Implication

- Although there are some common differentiators between highly successful and highly unsuccessful reorganisations, the precise mix of characteristics varies according to objectives. Reorganisation teams should not assume there is a standard formula for success, but should tailor their actions carefully to reorganisation objectives.

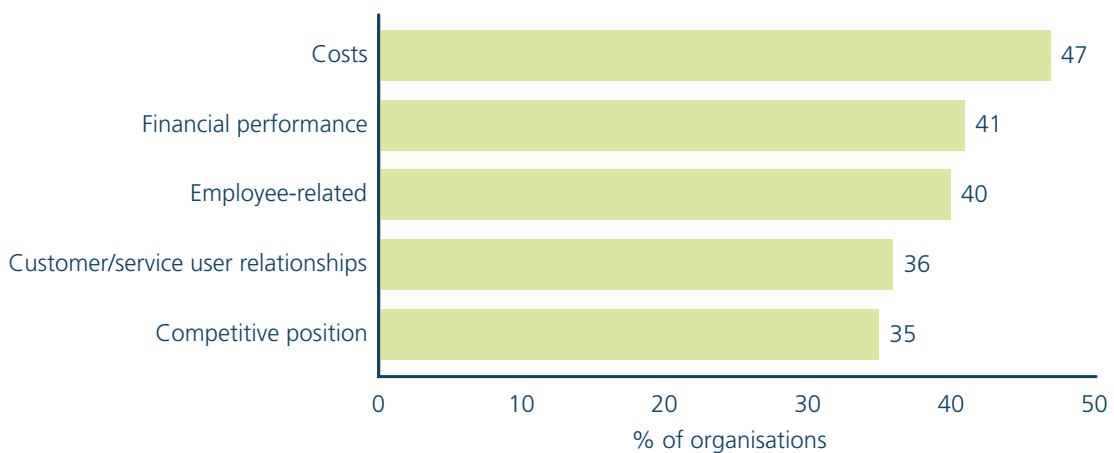
Characteristics of the organisations

Changes before the reorganisation

The reorganisations described in this survey typically followed events such as declining performance or changes in top management. Figure 25 indicates the

proportion of organisations in which the respective performance dimensions worsened in the 12 months before the reorganisation.

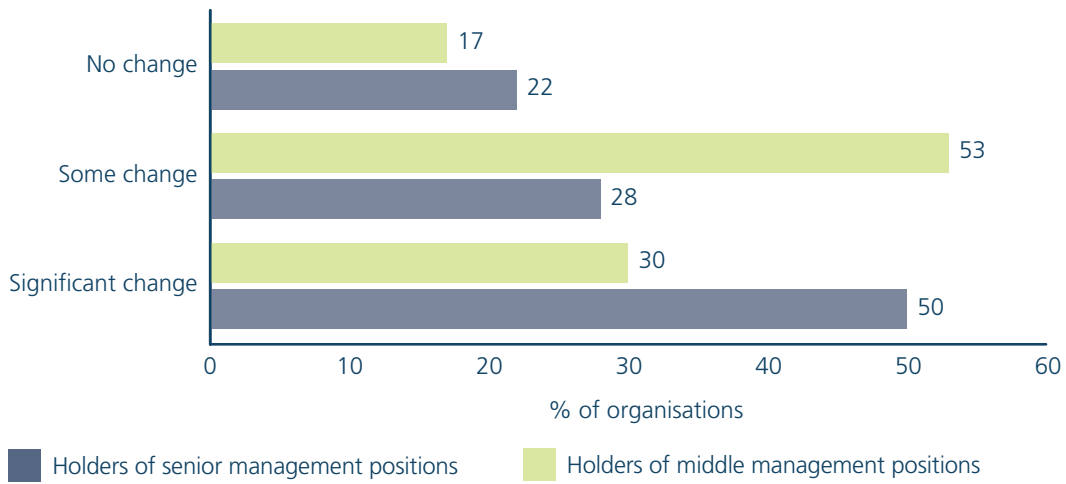
Figure 25: Worsening aspects of performance in the 12 months before the reorganisation



As seen in Figure 26, the 12 months before reorganisation are normally characterised by high levels of instability in managerial positions. Middle management and senior management positions remain unchanged in only 17% and 22%, respectively, of cases. There are notable differences, however, between these two levels of management. Senior managerial positions are subject to substantial change in half of all reorganisations, whereas middle management positions undergo such

extensive change in a more limited 30%. The fluctuation in senior managerial positions is underlined further by the arrival of a new chief executive (or equivalent) in 40% of cases in the 12 months before the reorganisation. Further analysis shows that there is a high degree of correlation between the arrival of a new chief executive and significant changes in other senior managerial positions.

Figure 26: Changes in management positions in the 12 months before the reorganisation



Different contexts, different ways of reorganising? Comparing the public and private sectors

- **Public sector reorganisations involve lower levels of change in managerial systems.**
- **Public sector reorganisations are associated with greater employee involvement and more substantial efforts to research and benchmark other organisations in the sector.**
- **Public sector reorganisations make less use of some project management techniques.**

Reorganisations in the public and private sectors follow broadly similar patterns. There are, however, a limited number of differences both with regard to the content of typical reorganisations and in the way these are conducted. These differences, however, don't alter the key performance relationships discussed elsewhere in this report.

Link to the first survey

The results of the first survey show close parallels in the conduct of reorganisation between the public and private sectors but suggest two areas of difference: public sector organisations are more likely to report greater employee involvement in reorganisations but they make less use of project management techniques.

Differences in types of reorganisation

In the public sector there is greater emphasis on the creation of departments/units (76% of cases compared to 56% in the private sector).

Centralisation is more widespread in the private sector, where centralisation is judged to be extremely important in 51% of reorganisations, compared to 38% in the public sector. The extent of decentralisation, however, is equivalent across both sectors.

Management systems (IT systems, accounting and control systems, reward systems) and business processes are subject to lower levels of change in the public sector. The differences are, however, not extensive.

Differences in the conduct of reorganisation

In line with the different political and regulatory contexts in which the organisations operate, employees are more frequently involved in making decisions about reorganisations in the public sector.

Also reflecting political and regulatory parameters, public sector organisations typically conduct more extensive research and benchmarking of other organisations in the sector as part of the reorganisation process.

Public sector reorganisations tend to rely less heavily on project management techniques such as detailed budgeting, regular progress reviews and clear definitions of timescales and milestones. Other techniques, such as formal statements of objectives and formal reviews are, however, employed to the same extent.

The respondents: roles, perspectives and experience

Current position

In all, 38% of the respondents to this survey were HR directors or equivalent, while 36% were chief executives or equivalent unit heads. The remaining 26% were directors (or equivalent) of other functional areas including finance, IS/IT and operations.

Differences in response profiles

The various groups of respondents generally offered similar patterns of judgement in relation to the conduct of reorganisation. The views of HR respondents and chief executives differed slightly in two ways. First, chief executives identified slightly higher levels of consultation and involvement of employees. Second, their assessment of the usefulness of HR specialists as sources of learning, while positive, was slightly less so than the views provided by the HR directors. The contributions of internal consultants, however, were seen more positively.

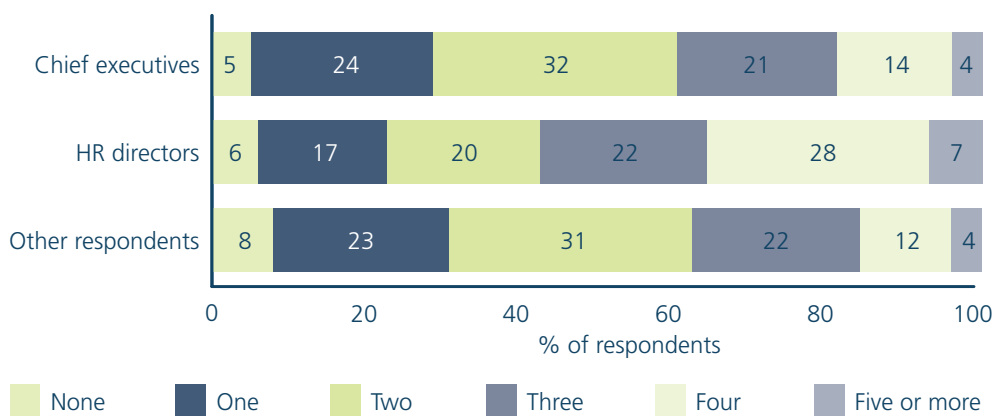
Compared with HR executives, finance executives identified lower levels of learning from external sources and were more sceptical about the people management and communication skills of the members of the reorganisation team. Similarly, they identified lower levels of information about the progress of the reorganisation being provided to the employees.

Experience of reorganisation

The average number of reorganisations in which the respondents had been closely involved in the past five years was two and a half. Put differently, on average, respondents are closely involved in a reorganisation every two years.

As seen in Figure 27, HR professionals in particular are involved in reorganisations. More than a third of the HR respondents were closely involved in four or more reorganisations in the past five years, whereas the equivalent figure for chief executives is 18%, and 16% for the other functional specialists.

Figure 27: Number of reorganisations respondents were closely involved in over the past five years



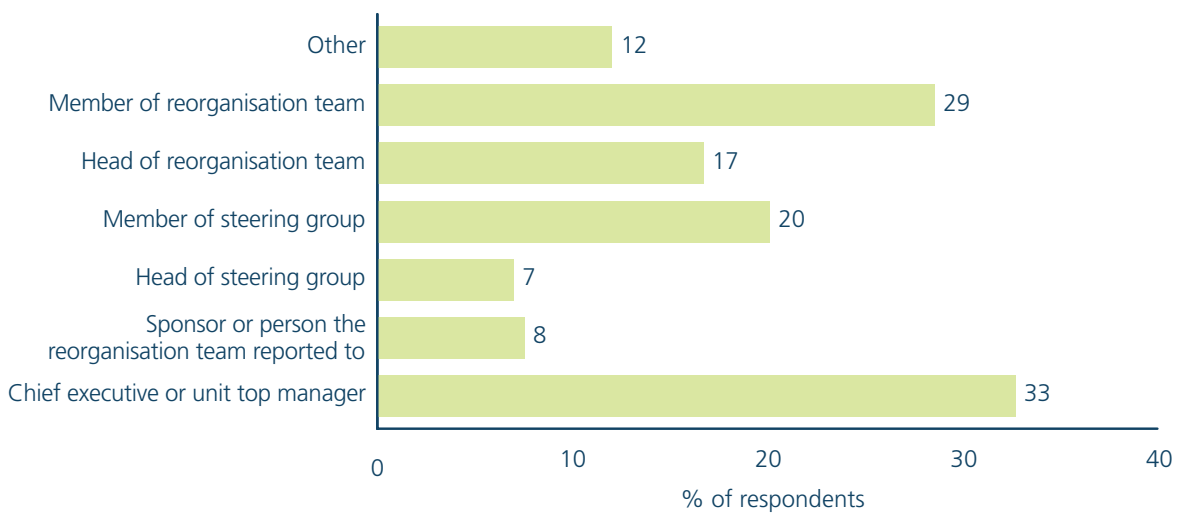
Role in the reorganisation

A third of respondents were chief executives or unit top managers at the time of the reorganisation, with a further 8% being the project sponsor or direct report of the reorganisation team (Figure 28). Exactly one-fifth (20%) were members of the steering group, which was headed by 7% of respondents, and 29% of respondents were members of the reorganisation team

which was headed by 17% of respondents.

A further 12% of respondents played other roles in the reorganisation process. These respondents were mostly personnel or HR managers, though two described themselves as, respectively, 'involved in managing the aftermath' and having 'to deal with the aftermath'. One respondent felt he/she was 'a reorganised employee!'

Figure 28: Roles of respondents in the reorganisations reported in the survey (multiple entries possible)



Sample profile

The survey received 594 usable responses. The sizes of the private and public sector organisations represented in this survey are indicated in Table 3. The public sector organisations are smaller on average, with 51% having 1,000 or fewer employees (almost equivalent to the 46% in the first survey). The number of employees in the reorganised part(s) of the organisation (Table 4) follow similar patterns, with a greater proportion of

public sector reorganisations (27%) affecting units with 100 or fewer employees and a greater proportion (42%) of private sector reorganisations reported here taking place in organisational units of 1,001 or more. The sample breakdown into sectors is provided in Tables 5 and 6.

Table 3: Number of employees in whole organisation (%)

	Private sector	Public sector
Up to 500	15	29
501–1,000	12	22
1,001–5,000	40	28
5,001–10,000	13	11
10,001–50,000	15	10
More than 50,000	5	0

Table 4: Number of employees in part(s) reorganised (%)

	Private sector	Public sector
Up to 100	15	27
101–500	29	30
501–1,000	14	16
1,001–5,000	27	17
5,001–10,000	6	7
10,001–50,000	8	3
More than 50,000	1	0

Table 5: Distribution of private sector organisations (% of private sector sample – totals more than 100% due to multiple responses)

Services (including media, arts and recreation)	40
Financial services	17
Manufacturing including construction, engineering, primary production	37
Retail and wholesale	11

Table 6: Distribution of public sector organisations (% of public sector sample)

Education	41
Local and national government	40
Police, fire and prison services	13
Health service and other public sector	6

Acknowledgements

The CIPD is grateful to all those organisations and individuals who gave their time to take part in this CIPD survey.

Notes

Notes

Notes

The CIPD explores leading-edge people management and development issues at a strategic level. Our aim is to share knowledge to increase learning and understanding. Our purpose is to make people more effective in their jobs and enhance their contribution to the business.

We produce annual surveys on:

- employee absence
- recruitment, retention and turnover
- reward management
- training and development.

Survey reports are available to download from www.cipd.co.uk/surveys

Topical survey reports are also produced on key people management and development issues.

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