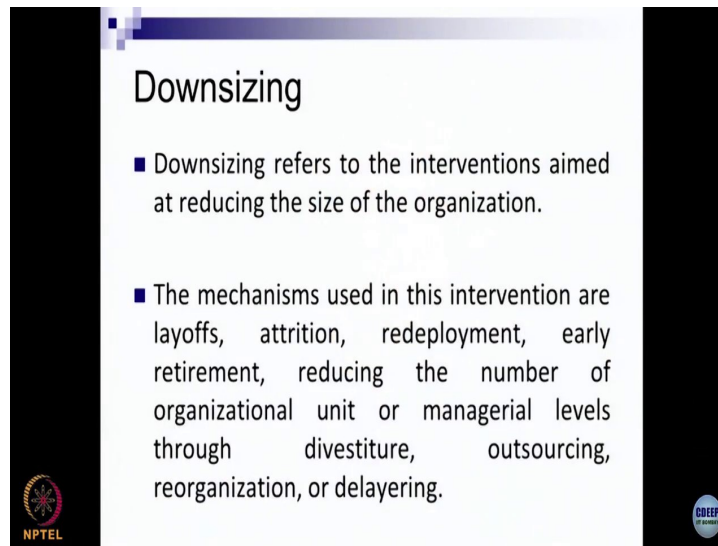


Organization Development and Change in 21st Century
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Lecture – 19
Change in the Organization Design

In this session, we are going to look at downsizing and reengineering as OD intervention.
What is the meaning of downsizing?

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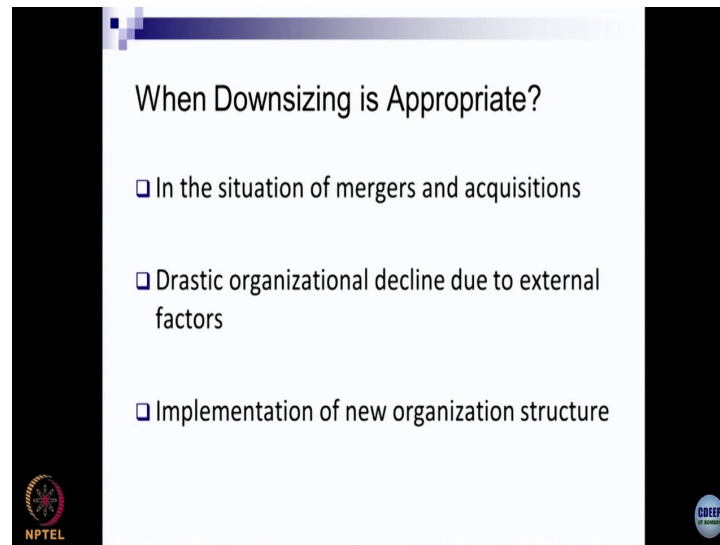
Downsizing

- Downsizing refers to the interventions aimed at reducing the size of the organization.
- The mechanisms used in this intervention are layoffs, attrition, redeployment, early retirement, reducing the number of organizational unit or managerial levels through divestiture, outsourcing, reorganization, or layering.

Downsizing refers to the interventions aimed at reducing the size of the organization. Multiple mechanisms are used in downsizing. They can be individual focused mechanisms like layoffs, attrition, redeployment of manpower from one function to another function or one part of the organization to another part of organization, early retirement etc.

These mechanisms of downsizing can be at the organizational level and organization-focused such as reducing the number of organizational units or reducing the managerial levels and that can be done through divestiture, outsourcing, reorganization or layering.

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When is downsizing appropriate? It is appropriate in a situation of mergers and acquisitions. Generally, mergers and acquisitions are done with the hope and intention of building the synergy in the two organizations, but that synergy cannot be built without removing the waste.

So, in general in a mergers and acquisition situation, organization redesign is done, a streamlining of the processes is done, repetition or duplication of the processes and duplication of the resource deployment is reduced or attempts are made to eliminate it. In these kinds of processes, with these objectives, downsizing is generally required. So, this is one situation where downsizing is appropriate.

When there is a drastic decline in the market share or the market access because of the external factors: In the very first session of this course, we talked about the transient nature of the competitive advantage. Things, services, processes which are the source of competitive advantage at one point of time may not remain a source of competitive advantage at another point of time.

In this kind of a dynamic environment, organizations at times lose out on the market share or the customer preference changes, and they need to shift to the new kind of services products or new ways of delivery. In such situations, downsizing becomes inevitable.

Due to great advances in technology particularly related to the IT, robotics, automation, machine learning, many business operations can be changed, many business processes can be redesigned and redefined. Because of these possibilities, competition is increasing. If one organization does not use the benefit of these new emerging technology, another organization may anyway use it and as a result, this organization which does not upskill itself or does not adapt the new technological advancement, may lose out at the market place.

So, organizations at times have to create new organizational structure because of the change in technology, because of the change in regulation or the regulatory environment. In such situations as well, sometime downsizing is necessary.

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Downsizing Tactics		
Tactic	Characteristics	Examples
Workforce Reduction	<ul style="list-style-type: none"> Reduces headcount Short-term focus Fosters transition 	<ul style="list-style-type: none"> Attrition Retirement/buyout Layoffs
Organization Redesign	<ul style="list-style-type: none"> Changes organization Medium-term focus Fosters transition & transformation 	<ul style="list-style-type: none"> Eliminate functions, layers, products Merge units Redesign tasks
Systemic	<ul style="list-style-type: none"> Changes culture Long-term focus Fosters transformation 	<ul style="list-style-type: none"> Change responsibilities Foster continuous improvement Downsizing is normal

If we look at downsizing, it is of different types. There are different tactics and associated characteristics and examples of downsizing. This is again drawn from the Cummings and Worley's book and this model was proposed by Cameron, Mishra and one more author in a reputed journal.

So, workforce reduction is first tactic of downsizing. In workforce reduction, the simple reduction of the headcount is done. Workforce reduction in absence of other tactics is a short term and, but it is quick to give results. If you are aiming at cost reduction in a quickest possible time, workforce reduction is the first mechanism people try.

The example of the workforce reduction is attrition meaning asking people to leave the organization in a legal way. There are some regulatory requirements to be fulfilled before you ask any permanent employee of the organization or even a temporary employee of the organization to leave. So, by fulfilling those requirements people can be asked to leave that is attrition. People can be asked to take the early retirement. Simply asking people to leave and stopping the work is called layoff.

Another type of downsizing strategy tactic is organization redesign. Organization redesign is generally done with medium term focus. When you not only look at how many people, how many head counts can be reduced but you also look at possibility of changing the organization and fostering the transition and transformation by not just asking people to leave, but rearranging the work and redesigning the organization – this approach is taken.

In the redesign of the organization where you aim at transition and transformation generally, the organizations eliminate the functions, sometime club two functions or sometime reduce the process complexities related to different functions. They eliminate the hierarchical levels or sometime even the product lines which are not related to their core work.

Organizations also aim at and try to merge the different units in the organization redesign process. Redesigning the task is also one of the ways of organization redesign. So, you can see that organization redesign looks at the organization design in an overall way and here the approach is to first try to implement the changes at the level of design and the processes instead of straightaway asking people to leave.

Third process is systemic tactic or systemic approach - systematic changes are aimed at changing the culture.

If market requirements have changed, if the customer taste has changed, if the technology is transforming the way of doing business and if you want people to respond to the need of the customers or the dynamic environment then, culture needs to be changed and through that process, organization can respond to the emerging challenges that is one way, that is the characteristic of a systematic design.

Systemic design is generally long term focused and it fosters not only transition, it also fosters transformation. So, the focus of the systemic downsizing technique is more on capability building. It is more on preparing people to take on the challenges of the emerging reality or the dynamic market situation.

In this kind of systemic approach, generally organizations change the responsibilities of the people, they change the role of the people and train them to deliver that new role. In this situation, with this approach, organizations also foster continuous improvement. They look at the different avenues of upgrading their services, upgrading their processes, creating better customer experience and that is the continuous improvement process which is aimed at through changing the culture.

Third example is downsizing, in this process of systematic change but that downsizing is not a knee jerk reaction, but it is result of a long term perspective not a immediate response to the market challenge and in this process that downsizing is also done in a very responsible way towards people who are subjected to this change.

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The Downsizing Process

- Clarify the organization's strategy
- Assess downsizing options and make relevant choices like workforce reduction, organization redesign or systemic redesign
- Implement the changes with top down approach, in specific areas of inefficiency and high cost and the actions linked to organization strategy

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What is the appropriate process for downsizing? First and foremost, thing is to clarify the organizations strategy. What is organization strategy? Organization strategy is the pathway to achieve long term objective that must be clarified - what we want to achieve must be understood, recognized, and articulated and in that context, downsizing process must be started.

Second step is to assess the downsizing options and make relevant choices like workforce reduction, organization redesign or a systemic redesign. If strategy is clarified, organization need to look at the different options available for downsizing. If it is not a knee jerk reaction, they need to look at organization design and system and culture as the first point of change instead of directly asking people to leave the organization. So, that is the generally the next step in a proper downsizing process.

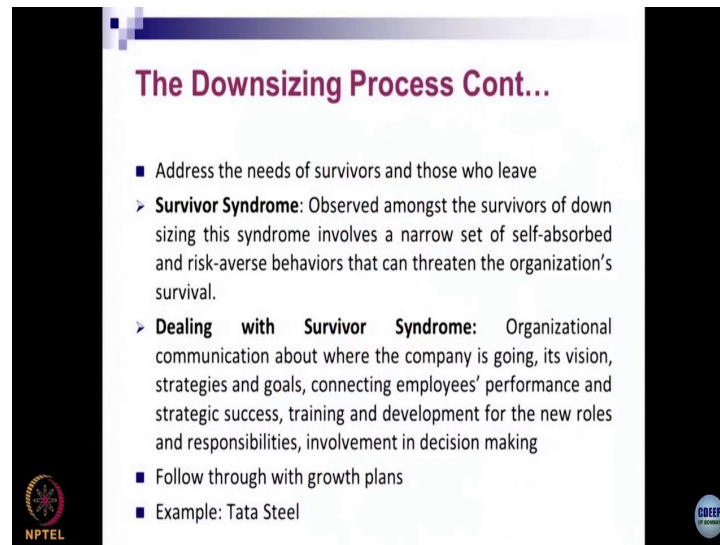
Third is implementing the changes with the top down approach. If you want people to behave differently, if you want people to be more value adding to the system, then that must be communicated from the top of the organization. So, that is why it should be a top down approach. Downsizing should be viewed as a process which is affecting the top management and middle management as well as the frontline management.

If in downsizing, specific areas of inefficiency or high cost are not identified, then that will not be considered as a conscious downsizing process or an appropriate downsizing process. Employees of the organization - those who are asked to leave, those who are subjected to the layoffs or the retrenchment - if they see that some of the areas of the high inefficiency are even not being touched, then they will lose trust in the process of the downsizing.

Even people who are left in the organization, who are not being asked to leave and if they also see that some of the specific areas of inefficiency are not being tackled before downsizing in the other areas which were less inefficient or more value adding, that will put people down and that will reduce the trust of the employees in the management and in the organization.

So, no specific area of inefficiency, or high cost should be left before asking people to leave or before initiating the downsizing process. The process as it is emanating from the very first step must be linked with the organizational strategy. So, at each stage it must be clarified how the downsizing process, or the step is important or inevitable to implement the organization strategy.

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The Downsizing Process Cont...

- Address the needs of survivors and those who leave
- **Survivor Syndrome:** Observed amongst the survivors of downsizing this syndrome involves a narrow set of self-absorbed and risk-averse behaviors that can threaten the organization's survival.
- **Dealing with Survivor Syndrome:** Organizational communication about where the company is going, its vision, strategies and goals, connecting employees' performance and strategic success, training and development for the new roles and responsibilities, involvement in decision making
- Follow through with growth plans
- Example: Tata Steel

NPTel logo is visible in the bottom left corner of the slide, and a small circular logo is in the bottom right corner.

Next step is addressing the need of survivors and those who leave. Shareholders invest some part of their wealth in the organization, but employees invest a large portion of their competency and the time to the organization. When we ask them to leave, it is a much more shocking experience for them in comparison to the shareholder who might hold some percentage of share and that might lose little value in the market fluctuation.

So, organizations need to and have to take care of the employees of the organization and they need to take care of not only the employees who had to leave the organization also the need of the employees who are left in the organization. Here, one concept is very important. This concept is called survivor syndrome.

Survivor syndrome is observed among the survivors of the downsizing and this syndrome involves a narrow set of self absorbed and risk averse behavior that can threaten the organizations survival.

That simply means those who are left in the organization after the downsizing, they are more concerned about who are going to be asked to leave the organization next, they are more concerned about which is the next part of the organization which is subjected to the downsizing and they think less about the requirement of the organization, they think less about the organizational objectives and fulfilling those objectives and they are more self centered and care more about the next step of downsizing.

So, because of this lack of focus on the organization performance and strategy and more focus on the set of the self absorbed behavior and the risk averse behavior, the outcome of the downsizing is not met. The purpose like cost saving or better streamlining of the process cannot be achieved by the people who are with the organization but suffering from survivor syndrome.

So, the survivor syndrome must be dealt with. How can it be dealt with? There are different ways of dealing with the survivor syndrome. First is organizational communication about where the company is going.

Talking about the vision, strategy, and goal of the company with the survivors. They need to be communicated that now their actions are going to be the source of the organization capability, to implement the strategy and to achieve the goals. So, that is the kind of communication that must be established by the top management with the survivors in the organization.

Second is connecting employee's performance and strategic success. The survivors need to focus on their performance and not on their defense mechanism, not on their sick insecurity arose out of the situation where they looked at many of their colleagues being asked to leave the organization. To deal with that, they must be communicated, and their performance must be formally linked with the strategic success and they must be trained and developed for the new roles and responsibilities.

Generally, after downsizing the role get enriched for the survivors. But if that role is enriched, people will not be able to enact properly in that role, people will not be able to hold that role without proper training and development. So, for downsizing to be successful, the survivors of the in the process must be trained and developed properly for the new roles and responsibilities.

And last, but not the least senior management of the organization need to involve the survivors in the decision-making process. That is one way of enhancing their engagement and shifting their focus from the defense and the self absorbed and risk averse behavior towards more organization strategy and goal focused behavior.

Follow through with the growth plans is the next and last step of the downsizing. Many a time organization reap the benefit of quickly reducing the head counts and saving the cost in that process, but they are not able to follow through the growth plans.

So, growth plans must be followed through with the proper communication with the survivors, proper communication with the employees from the middle to the lowest level lowest rung of the organization and that ensures that downsizing process yields the expected results.

There are lot of research studies which suggest that more than 70 percent of the downsizing OD interventions do not give desired result. In fact, about half of them are outright failure; that means, they are just not proved to be effective to either sustain the organization, enhance the organization performance or even survival in the marketplace.

So, when we look at that such a high failure rate of the downsizing as a OD intervention, we find that although downsizing is done, but all the steps are not followed and in absence of the of these steps and these precautions, downsizing cannot give that desired business result.

Here I would like to give one example of Tata Steel. In the 80's, Tata Steel found that they are one of the very inefficient steel producers and in the early 90's and the late 80's, the top management of the Tata Steel and the Tata group traveled across the world and observed some of the most efficient steel producing plants in the world.

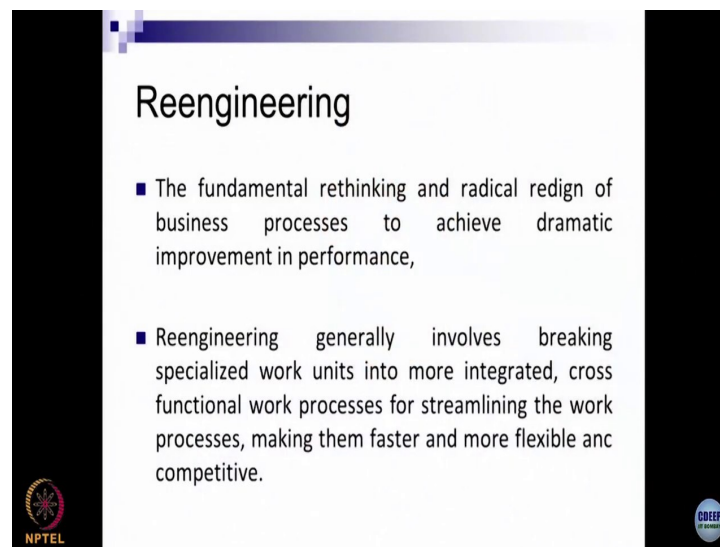
They came back, they communicated this to their union members, employees and managers in the Tata Steel that if we continue to be as inefficient as we are, we cannot survive in the marketplace and we cannot retain our market share. That was the time of start of the liberalization and globalization, and Indian market was getting opened up. The urgency of transformation was communicated across the organization.

Many facilities which were available to the Tata Steel employees were taken back. For example, in Tata Steel, family members of the employees were also supposed to get employment, once they have requisite qualification -- that facility was rolled back. Likewise, many other things were rolled back, many employees were asked to leave as well.

But this whole process was done so systematically, in such a fair and honest way with proper communication from the top management that in spite of more than 1000 people being retrenched or asked to leave, there was not a single lawsuit or industrial unrest in that organization.

So, it is not impossible to carry out downsizing in a humane way for the business strategic purposes, but we need to take care of some of the things which we discussed in the downsizing process.

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The slide is titled "Reengineering" in a large, bold, black font. Below the title, there are two bullet points, each preceded by a small blue square. The first bullet point reads: "The fundamental rethinking and radical redign of business processes to achieve dramatic improvement in performance,". The second bullet point reads: "Reengineering generally involves breaking specialized work units into more integrated, cross functional work processes for streamlining the work processes, making them faster and more flexible and competitive." The slide has a white background with a blue gradient bar at the top. On the left side, there is a small logo for NPTEL (National Programme on Technology Enhanced Learning) and on the right side, there is a small logo for CDDEP (Center for Distance Education and Professional Development).

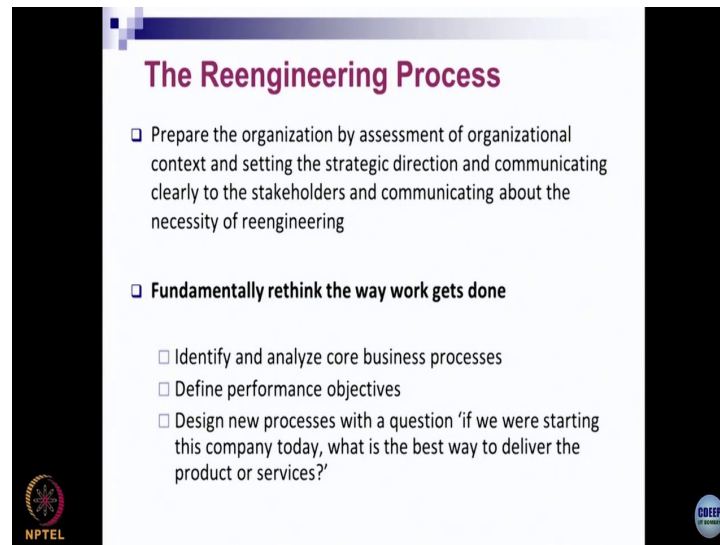
Reengineering

- The fundamental rethinking and radical redign of business processes to achieve dramatic improvement in performance,
- Reengineering generally involves breaking specialized work units into more integrated, cross functional work processes for streamlining the work processes, making them faster and more flexible and competitive.

Next OD intervention related to the organization design is called reengineering. Reengineering is the fundamental rethinking and radical redesign of the business processes to achieve the dramatic improvement in the performance.

Reengineering generally involves breaking specialized work units into integrated, cross functional work processes, for streamlining the work processes and making them faster and more flexible and competitive. Reengineering in nutshell is about reviewing and redesigning the processes as if you are starting the processes afresh today.

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The Reengineering Process

- ❑ Prepare the organization by assessment of organizational context and setting the strategic direction and communicating clearly to the stakeholders and communicating about the necessity of reengineering
- ❑ **Fundamentally rethink the way work gets done**
 - ❑ Identify and analyze core business processes
 - ❑ Define performance objectives
 - ❑ Design new processes with a question 'if we were starting this company today, what is the best way to deliver the product or services?'

NPTEL

CDDEP

Reengineering process starts with preparing the organization, by assessment of the organizational context and setting the strategic direction, communicating it clearly to the stakeholders and communicating about the necessity of reengineering. Then comes the next step which is the heart of reengineering that is; fundamentally rethinking the way work gets done.

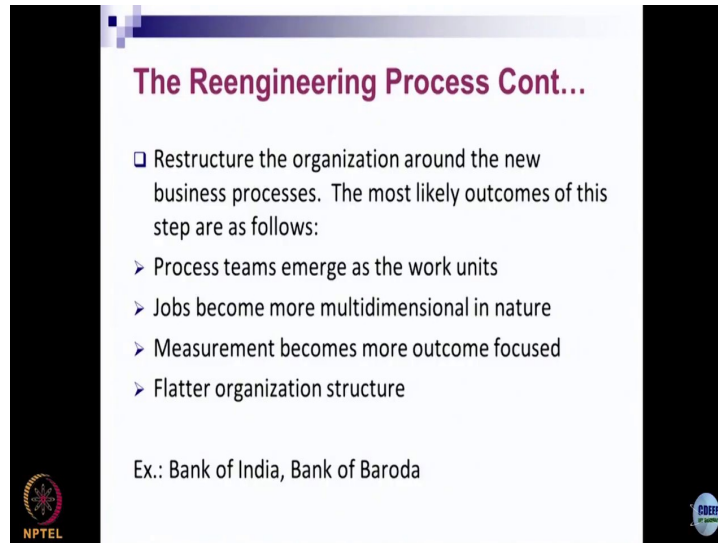
In order to fundamentally rethink the way work gets done, first organization has to identify and analyze the core business process. Apart from the core business processes, other processes can be outsourced or can be just shelved off.

After identifying the core business process, the next step is defining the performance objective what we want to achieve. Generally, reengineering is not done to achieve the 10 percent, 15 percent, 18 percent, 20 percent improvement in the performance. Generally, reengineering aims at 50 percent, 100 percent and even more improvement in the performance and those kind of performance goals and objectives must be well defined in the beginning of the process.

Then comes the third and very critical step, in the context of the core business processes in order to achieve the performance objectives we have identified for ourselves. If we were starting the company today, what is the best way to deliver the product and services.

In order to achieve that kind of performance criteria which is drastically better and greater comparing to what we have been doing till now how my system and processes will look like. So, that is the core question of the reengineering process.

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The Reengineering Process Cont...

- ❑ Restructure the organization around the new business processes. The most likely outcomes of this step are as follows:
 - Process teams emerge as the work units
 - Jobs become more multidimensional in nature
 - Measurement becomes more outcome focused
 - Flatter organization structure

Ex.: Bank of India, Bank of Baroda

The slide features a white background with a purple header bar. It includes a bulleted list with a square icon for the main point and arrow icons for sub-points. Examples are listed at the bottom. Logos for NPTEL and IIT Bombay are visible in the bottom corners.

Then comes the restructuring the organization to achieve that objective. So, restructuring of the organization around the new business processes and most likely, these outcomes of this step are like: process teams emerge as the work units, Jobs become more multi-dimensional in nature. Measurement becomes more outcome focused and we get flatter organization structure at the end of the reengineering process.

There are many examples of successful reengineering process. Two examples can be looked at: one is Bank of India another is Bank of Baroda. Bank of India and Bank of Baroda are the examples of the organization which have gone through the reengineering process between 2003-04 to 2008-10. For example, Bank of Baroda in one of the ranking was beyond 20 out of 25 public sector banks in terms of the customer satisfaction and the financial performances.

But these banks have implemented the core banking solution which is based on the IT solutions, based on the core banking solution which is information technology based they redefine their processes and systems, they redefined their reward and recognition mechanism, they trained the leadership and as a result of that, the number of branches

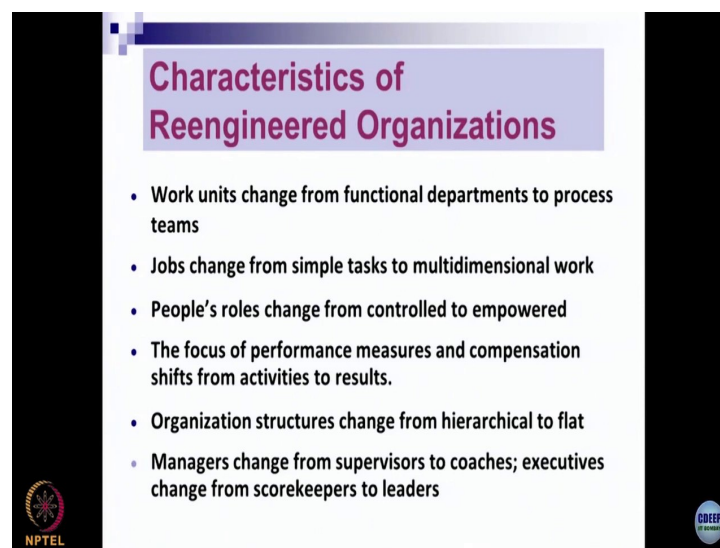
increased very significantly for example, in the Bank of India case, from the from about 3000 branches within 3 years the number of branches increased to 5000.

The number of services being offered by these banks increased manifold. In fact, in the home loan in 1 year, Bank of Baroda surpass the pioneer player of the home loan in India HDFC. So, in 1 year they performed so well on the home loan. So, in that way they increase the product and services, they streamline their operations, they made the IT enabled services as the integral part of the banking experience for their customers and all that happened in 5 to 8 years.

This these are the great examples of reengineering process. There are many other examples you can study after this session like that transformation took place in Mahindra and Mahindra in their agribusiness sector, in their emergence of Mahindra and Mahindra as a car manufacturer these are the examples of very successful reengineering.

What are the characteristic of the reengineered organization that is what we look at, but I encourage the participant to look at the stories which are available widely available on the internet about reengineering stories of the Infosys, of the ICICI bank, of the Bank of Baroda, of Mahindra and Mahindra group etcetera.

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Characteristics of Reengineered Organizations

- Work units change from functional departments to process teams
- Jobs change from simple tasks to multidimensional work
- People's roles change from controlled to empowered
- The focus of performance measures and compensation shifts from activities to results.
- Organization structures change from hierarchical to flat
- Managers change from supervisors to coaches; executives change from scorekeepers to leaders

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The characteristic of the reengineered organization is that work unit change from the functional department to the process teams. More and more process teams emerge at the

end of the reengineering process. Jobs change from the simple tasks to the multi dimensional work. You have people left in the organization who are not very specialized, and they are capable of doing multiple tasks in the organization in order to satisfy the customers expectation.

Peoples' role changes from controlled to empowered. Since, the decision making generally becomes more democratic in the reengineered organization people are empowered, they are trained to make better decisions and to make decisions. The focus of performance measures and compensation shift from activities to result. You not only look at the initiative, you not only look at the behavior and activities, but organization also look at the results as a performance measure.

Organization structure changes from hierarchical to the flat organization. The number of layers generally reduces after reengineering. The strength of bureaucracy also decreases, and more flexibility emerges in the reengineered organization. Managers change from supervisors to coaches, they no longer hope to operate in a command and control manner, they need to work as executives, and executives change from scorekeepers to the leaders for their team.

So, you can see reengineered organization and the reengineering as an OD intervention is not only a technical intervention. This is a lot related to the human process interventions. We cannot hope that we will change the technology and the people will start behaving differently, we can change the technology, we have to change the process in the reengineering OD intervention, but people have to be trained to not only operate on new technology, but to behave differently.

In order to make people an organizational members, leaders and employees to behave differently they need to be given training not only on the behavior, but about changing their attitude towards themselves, towards their role, towards their organization, towards their customer and towards their co-workers and team members.

So, reengineering is not only a technical intervention, it is a socio technical intervention where social aspect and personal aspect of the OD is equally important as the technical aspect is all is important.

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Best Practices in Organizational Restructuring

- Focus first on the longer-term strategic aspirations
- Take time to survey the scene
- Be structured about selecting the right blueprint
- Go beyond lines and boxes
- Be rigorous about drafting in talent
- Identify the necessary mind-set shifts—and change those mind-sets
- Establish metrics that measure short- and long- term success
- Make sure business leaders communicate
- Manage the transitional risks

NPTEL

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The best practice in the organization restructuring starts by very clear understanding about the long-term strategic aspirations of the organization. They take time to survey the scene. The exteriority, the context as well as the internal capabilities and the internal design both have to be surveyed for the organization to restructure or to start any restructuring process.

Be structured about selecting the right blueprint. The blueprint must be prepared in taking into account of the strategy and the context of the organization before actually starting the reengineering or the downsizing process.

Organization must need to recognize, they need to go beyond lines and boxes, organization design is not only about the lines and boxes it is also about the relationship, it is also about the shared values and beliefs, it is about the shared perception and relationship amongst the informal relationship amongst the members of the organization. That is called organization culture.

We will talk about the organization culture in the next session, but we need to recognize that organization design is not only about the formal one represented to the box, lines and the circles on the pages. There is lot of there are lot of informal processes involved in the organization design and that must be taken care of in the downsizing in the end reengineering process.

There is a need to be rigorous about drafting the talent. What are the kind of people? What are the competencies required? In order to achieve this strategy and the competency required amongst the survivors, the people who are left who will be left in the organization after the downsizing that clarity must be brought out and articulated before the restructuring process.

There is a need to identify the necessary mindset shift. You may change the technology but if you do not change the mindset of the people, if they keep operating with the previous mindset organization cannot achieve the espoused benefits of the downsizing and reengineering. So, as I mentioned, as it is important to change the technological or the operational processes of the organization, there must be a clear articulation and shift in the mindset of the people as well.

There is importance of establishing the matrix that measure short term as well as the long term success. It is not only about the organizational restructuring matrix; it is also about the people matrix. For the organization restructuring as well, we need to identify the right matrix that we want to achieve.

It is also important to ask - How we want to achieve, and organization need to keep tracking itself whether they have achieved what they thought about as a result of the downsizing process. And along with that they need to redefine the matrix for their talent and direct their talent to achieve those matrices because and those matrix have to be well connected to the strategic success of the organization.

Organizations have to make sure that business leaders keep communicating and walking the talk. If as I said reengineering or downsizing requires organizational members to behave differently and the best way for organization members to behave differently is when they see their business leaders start behaving differently. So, business leaders have to be a role model and they need to be excellent communicator about strategy in the process of the downsizing and the reengineering work.

At each step, they need to not only be fair but they need to communicate how they are fair and the conscious of the process and what they want to achieve through that process for the organization and managing that transitional risk is also equally important in the organization restructuring. The transitional risk is about how the newly designed, a new

structure will be capable of fulfilling its espoused roles and the goals and that transitional risk must be taken care of.

It is particularly relevant in the merger and acquisition case. We will be having a session on the merger and acquisition, where we will talk about financial due diligence. Similar to financial due-diligence, cultural and the organizational due diligence and the process due diligence is also important for any merger and acquisition to be successful and that due diligence is related to transitional risk.

We need to know that what are the transitional requirements, we need to also know what may go wrong; that means, the failure mode analysis and need to make the adjustment in provisions about the culture, process, along with the financials in the restructuring process. So, these are some of the best practices in the organizational restructuring process.

Here we end our session about the organizational restructuring. In this session, we looked at the appropriate processes with some examples about downsizing and reengineering.

In the next session, we will look at the change in the organizational culture. So, organization design has two components: organization structure and organization culture. Till now, we looked at how the design can be changed. In the next session, we will look at what is the nature of organization culture and can organization culture be change and if yes how the organization culture can be changed.

Thank you.