Downsizing and right-sizing — why it is needed and how to do it

Dr Tony Miller

The cause of the problem — old organisational design

It was in 1760 that Adam Smith set out the ideas that would shape business and businesses. He made the first designs for how an organisation should look and designed the first organisational structure; it was first used about 1771 by a company called Arkright in Cromford in the UK. This was then adopted as the model for success by other companies worldwide and, surprisingly, this structure for organisations is still very much in evidence today.

Smith was also responsible for the new business titles of supervisor and manager and for the recommendation that the ideal span of management control would be 1:7. This was appropriate in 1760 as the majority of the working workforce was poorly educated; but it is certainly not what we need today. Many organisations continue to adopt this model despite the technological and education revolution and there is still a belief that people require close supervision and must be managed.

These two factors, old organisational design and 1760-style supervision have condemned us to many of the productivity and efficiency problems we have today. So why do so many managers and supervisors still want small ratios of control? The reason is that it is less work for them and requires less skill; but it then begs the business question — what do we pay managers for?

What triggers the need for organisational change?

If organisations were left to organically grow they would simply get bigger and bigger, and as often happens, they would also become less and less efficient. This inefficiency is perpetuated by employees too as it is often not in any employee's interest to come forward and say:

- can we do this with fewer people
- can we do the same work for less money
- can we do more work for less cost?

Managers still seem focused on building empires and want more staff, more resources and more pay with rarely the request "how can I do more?"

So who has responsibility for addressing this challenge? This is clearly 100% a key and strategic HR activity.

What puts downsizing or right-sizing on the agenda?

1. Competitive and economic strategic need.
2. Business process re-engineering (BPR).
3. Technology change.
4. Business maturity as plotted on the Miller/LAND model.
5. The fear of going out of business or being outsourced.

These five triggers are the start of the difficult decision-making process and the answer to the management question — what should we do? Two options which come up as the result of the above are downsizing and right-sizing.

Today's organisational design

There has never before been such a well-educated workforce. Just look at educational standards and the sheer number of people with degrees. So it makes sense to manage differently and to give more responsibility, including for decision-making to teams. Gone are the days when people needed a span of control of 1 to 7; ratios of 1:50 are now common. One of my clients is pushing the boundaries out to 1:200 in one manufacturing company in the Philippines. Flat structures and matrix management change not only the way we work but also the fundamental design of the organisation.

Historic span of control ratios

1760	1:7
1860	1:8
1960	1:10
1990	1:15
1995	1:20
1998	1:30
2008	1:50 >

Figure 1

Three important concepts here:

1. We have the best educated workforce ever — therefore it is right to conclude they need less management and supervision.
2. FACE a new approach to be successful with customers. Today's customers demand FACE (Fast, Accurate,

Cheap and Easy). Customers only want to pay for value-added work. They want a new approach which produces real results — so design out the rest.

3 There is an old saying in psychology — treat people like children and they behave like children; treat people like adults and they behave like adults. Today's leadership principles are all based on the latter assumption. If you over-manage people then you get the worst deal — too many managers and a vacuum and uncertainty about what your employees do. This uncertainty just encourages staff to pass all their problems back to the managers. So yes it is back to 1760 unless you are building a new company and you have the insight and ability to do something different. Google for instance was designed from the start to get the best from the type of people it was going to employ. For the rest of us in an existing and established organisation we have little choice but to re-design what we already have using either downsizing or right-sizing.

What is downsizing?

Downsizing is looking at the organisational chart and fundamentally re-shaping the way the business is structured. It should be done to maximise the human resource, innovation and technology to improve the efficiency and effectiveness of the organisation. In the private sector this results in better and more sustainable profits; in the public sector this is about providing best service in the most efficient and timely way.

To downsize means finding out in which layers of the organisation the real work is done. This sounds easy but requires a considerable amount of detective work, for instance using business process mapping, although this can take time. Once you have established where and at what layer real work is done you can set about removing the remaining layers. How much or how many layers you remove will depend on the structural design you are seeking. This can be a symmetric or asymmetric design. See *Figure 2* below.

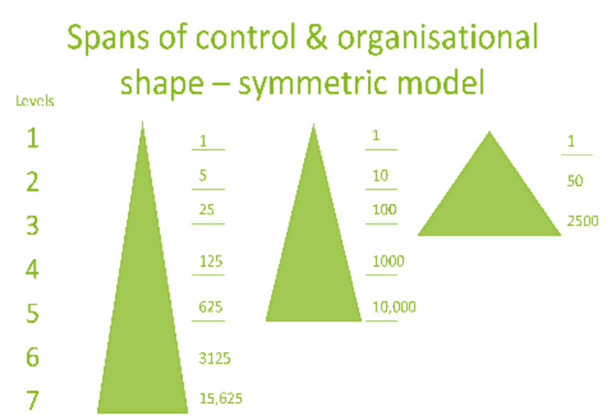

Figure 2

Downsizing decisions can be driven by business process re-engineering, by mathematically determining how many layers you need in the re-profiled organisation, working out supervisory ratios or by introducing team working as the vehicle for change. So you have a number of tools at your disposal. We have already explored how to do business process re-engineering in a previous article (*Developing HR Strategy,* Issue 10, 2006).

You might not want a complete balance of reporting lines so you can make the decision referring back to *Figure 1*.

Here we can see a UK company with its existing structure in its Operations Division (*Figure 3* below). As a result of downsizing the shape of the organisation changed dramatically, as did productivity, which went up by 28%.

Before

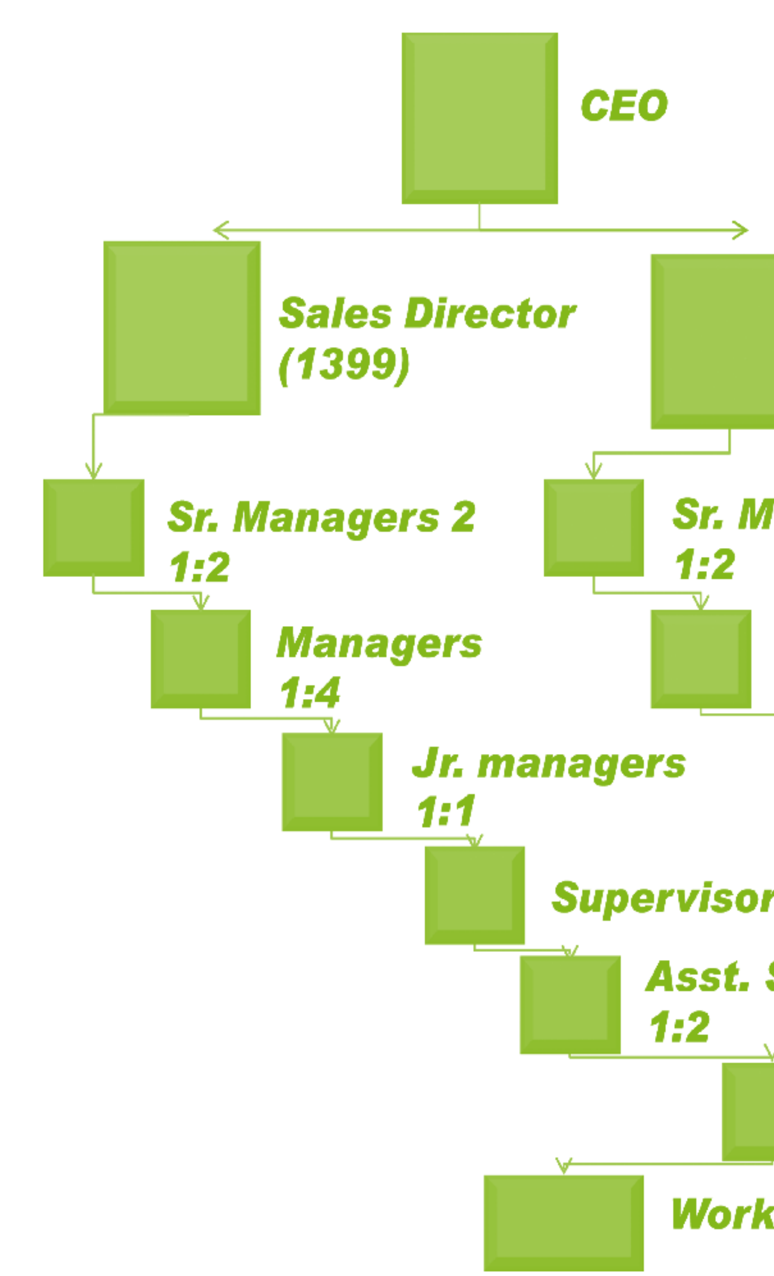

Figure 3

After — asymmetric downsizing ratios

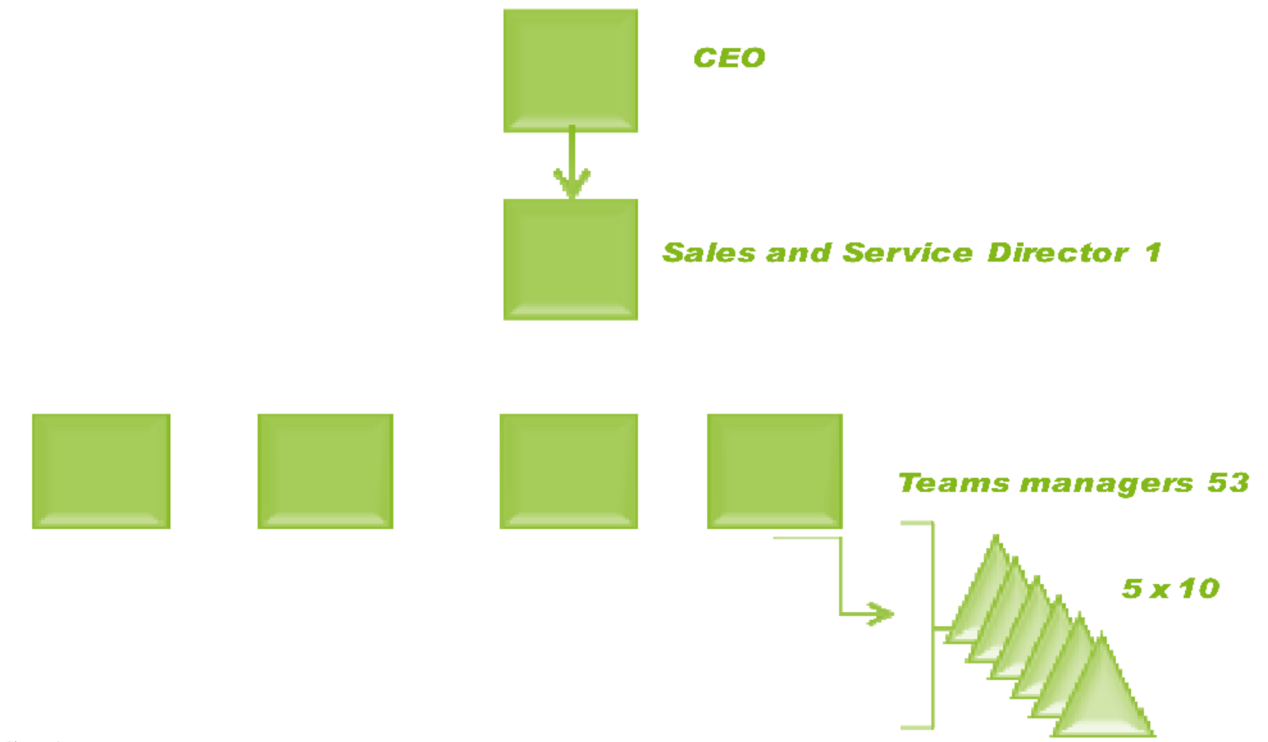

Figure 4

Team-working and using self-managing teams is another tool to aid in downsizing. Depending on how far you want to go then you can establish an organisational design which becomes team-based. Empowered teams and self-managed teams give between 15–20% improvements in productivity normally with a relatively unchanged headcount.

Types of teams and appropriate ratio

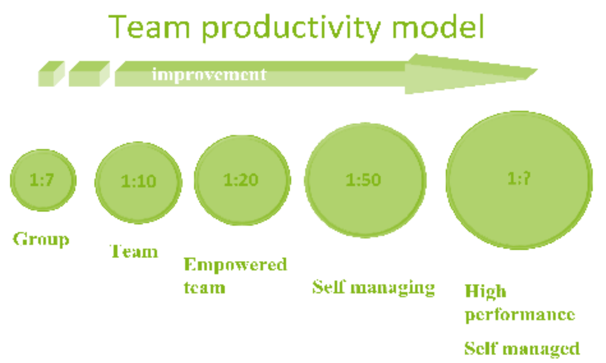

Figure 5

You need to decide the ratio based on your business and on how brave you want to be. Once you pass by the stage of empowered teams there is very little need for managers — they are best replaced with team or department leaders, but in sufficiently smaller numbers. When doing this exercise be wary of people pressurising you to have leaders and deputies in the team — you really do not need them; my motto is always to do an ironing board design — flat and simple.

It is also a good policy not to chase the numbers of staff; getting the design right is the key issue and the numbers needed tend then to become self evident.

Downsizing in one form or another has been done by most Fortune 100 companies. Recent examples in both the public and private sector are very interesting.

- BA removed 450 managers (2009/10) with no detrimental impact at all on operational efficiency.
- Essex County Council (2010) removed 272 managers in a downsizing exercise and reported on BBC national news that it would have no detrimental impact at all on front-line services.
- The finance company in our earlier example achieved a 28% improvement in productivity.
- Finet Holdings saw productivity rocket by 50%.
- In IBM finance, downsizing in one area alone, coupled with business process re-engineering saw a 95% reduction in cycle time and a 100% improvement in productivity.

Downsizing is not easy, but the responsibility to identify when and why it is needed is, as I mentioned before, a key HR activity. It should be done preferably by a seasoned consultant who has had previous hands-on experience of being successful.

Right-sizing

It is easy to recruit — but difficult to shed anyone. Current employment law is so restrictive for an employer that common-sense decisions about how many people you need in the organisation often get swept under the carpet with a note "too difficult to do". One thing that has been abundantly clear during the economic downturn is that most companies employ too many people. Every day we read articles about organisations reducing their workforce by 10–20%, with little, if any, adverse impact on their operation.

Whereas downsizing is a complex and a difficult activity, right-sizing is much easier to do and almost risk-free if carried out sensibly. It can be instigated and carried out by any competent HR department.

So what is it? Right-sizing does not involve any major restructuring, nor the need to have consultants or invest heavily in IT. It is a real DIY way of making serious efficiency improvements at very little, if any, cost.

There are two approaches to right-sizing; the first is by applying some simple mathematics to get to the point of determining exactly how many people you need to maintain the business operation at its current level. To do this we need to establish the prime working days in the organisation (see *Developing HR Strategy*, Issue 32, May 2010). Let us say this is 261 working days per employee — in other words each employee is at the workplace for 261 days a year — working. Multiply that by the total number of employees and you arrive at the total days available to do work in one year. Let us call this *Maximum people days*. If the work is being done in this amount of days, all is well and we have the right number of people. But we must subtract holidays, sickness, training days, etc to give a more accurate picture of how many people are needed (*Figure 6*). In addition, as people improve their skills and ability to do the work, so fewer people will be required providing you have a reasonably stable organisation.

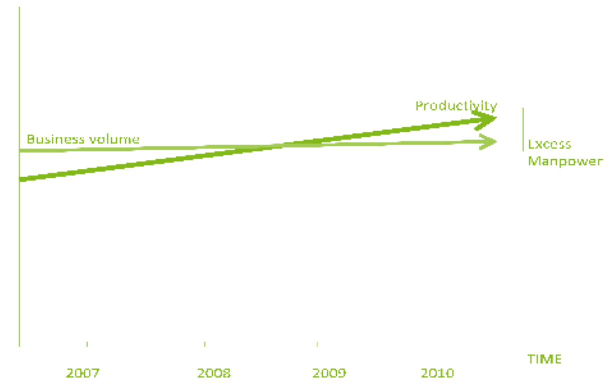

Figure 6

Then you have an additional question — how many hours in a week do people really work? (By this I mean not their contracted hours, but hours that they actually do work). Research completed in 2010 showed that talented people worked 32 hours, average employees 20 hours and poor performers five hours a week. If you have this information you can now make some good and informed assumptions about how many people you actually need. That will get you to the right size, or close to it.

Another method is just to slowly but sensibly reduce the size of the organisation over time, while watching productivity levels. It is unlikely that a reduction of 1– 5% will have any noticeable impact on either quality or production. On the contrary —in my experience reductions of up to 8% normally show an improvement in productivity.

The reduction in numbers to achieve right-sizing can be achieved in so many ways — a freeze on non-essential recruitment, early retirement, voluntary severance, more part-time employees, tighter controls on sickness — all of these are of course HR activities.

Some examples of companies who have right-sized:

Case study 2010 — Paris Pharmaceutical

I had a meeting with the CEO. When I walked into his office he was standing at the window seemingly just staring down at the car park. I asked what he was doing. His reply was, "I'm doing what you advised me to do two years ago".

He had been right-sizing the company by a very crude but simple means. He had observed all of the departmental managers not only starting work late, but also leaving early. This deduction was reached by simply observing their cars in the car park. His office had a perfect view of the place where all the managers parked.

He had stopped all recruitment for these managers and was now observing all of the managers starting work on time and not leaving early. Productivity records were available, the right-sizing could be backed up by improved business profitability and, in general, things had improved significantly.

Case Study — Brawn Racing

After several years of being unsuccessful in Formula One motor racing, Honda's decision was to stop Formula One at the end of December 2008. Honda's engine was built in Japan, but its development and the car's manufacture was at a specialist facility at Brackley in England.

It was a surprise decision brought about mainly by the current financial crisis in the motor industry. Ross Brawn, who was part of the England based team, invested his own money to buy the England part of the operation from Honda and to start from scratch to build a new car for the 2009 season which started in March 2009.

Strapped for cash, and with no sponsor, Brawn went about building the car and the team he needed for the March deadline.

Brawn right-sized the organisation shedding 275 of the 1000 employees. Both the existing racing drivers, Jenson Button and Rubens Barrichello, took a 50% cut in salary due to the team's financial condition.

Far from being demotivated — everyone responded to Brawn's leadership and rallied around him.

In just three months this is what happened:

- The car was built from scratch.
- A new engine supplier was found.
- The car was ready in time for the compulsory qualifying session on Saturday 28 March 2009.
- Virgin became a sponsor.
- On race day, Sunday 30 March 2009, Jenson Button came first, winning the Melbourne Grand Prix.
- Rubens Barrechello came second.
- Ross Brawn's team BRAWN GP was first and second on its debut. It shows what great leaders and a company in the right shape is capable of.
- At the end of the 2009 season Jenson Button became world champion and Brawn GP won the constructor's championship.

Conclusion

- Downsizing and right-sizing are big organisational issues — but do not expect everyone to think they are a good idea.
- Getting the organisation in shape and keeping it that way is a key HR responsibility.
- Use predictive tools like the Miller/LAND organisational forecast model to determine when downsizing is necessary.
- Right-sizing can be done at any time and involves virtually no risk.
- Examine your organisation structure and ask yourself — is this the best way to structure the organisation?
- Be proactive — the best time to do these activities is when the organisation is not in survival mode.

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Points to ponder

- Do you agree with Tony Miller that today's spans of control are too small?
- What is the right size for key parts of your organisation? How does this compare with your current size and what can be done about that?

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