



Restructuring for Cost and Capacity

Insights for Australian Leaders

April 2020

www.bevingtongroup.com

Business Model Design • Process Improvement • Change Management

US, Australia and NZ patents apply to XeP3, Canadian patents pending
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This webinar in context

- ❑ This webinar is part of the **Bevington Resilience** series – designed to help inform organisations on what we know (from research and practice) about how to respond to the **Global Viral Crisis (GVC)**
- ❑ As such, the information in this paper should be seen in the context of the **Balanced Response** recommendation in our first webinar “**A Survival Strategy for Extreme Economic Turbulence**”. The essence of the Balanced Response is as follows
- ❑ It seems that strategies which only focus on **cost cutting**, as opposed to **productivity improvement**, experience **sub-optimal outcomes** as the world normalises
- ❑ Furthermore, those that fail to **invest in capacity for growth** risk being left behind in the recovery
- ❑ The best response is one that combines a **productivity focus** (done with a sense of urgency) with **targeted growth investments**, all whilst keeping an eye on **changing customer needs**
- ❑ We will call this superior approach the “**Balanced Response**”

How to make the most of a restructure

An increasing reality, restructures present tremendous opportunity and incredible risk



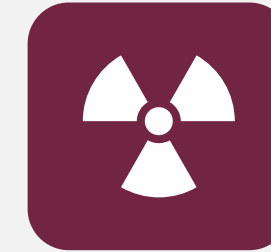
A common reality in the current business climate

With anaemic growth, high competitive intensity and deep uncertainty, organisational restructures seem to be the order of the day



A tremendous opportunity to enhance performance

Restructures can reduce costs, empower employees and reorient the organisation to better match market challenges



An incredibly risky exercise that must be handled with care

Restructures are notoriously difficult to effectively conceptualise and execute. They can lead to low morale, loss of key talent, service failures, brand damage and even OH&S risks

There are many things that can go wrong with restructures



Unclear purpose



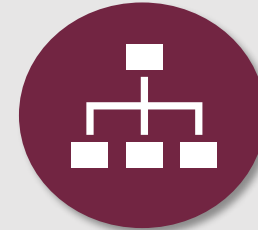
Emotionally damaging process



Reduced organisational loyalty



Poor communication leading to confusion



Unclear rationale for structuring decisions



Unclear role design



Poor or out of date metrics



Decline in customer service



Heightened risk of industrial sabotage



Loss of key personnel



Unclear accountabilities



Failure to follow up restructure with key changes to make it work

... and *more!*

How to make the most of a restructure

Restructures done *wrong*



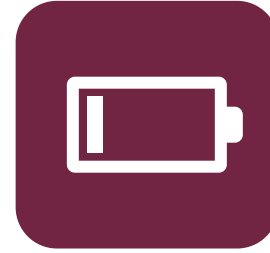
Enhanced
risk

+



Long and clunky
restructures

+



Low employee
morale

+



Customer
service impacted

Restructures done *right*



Enhanced
opportunity

+



Fast and Agile
restructures

+



Inspired and
motivated staff

+



Customer
service improved

Important tips

There are 10 leading restructuring practices

- 

1 Start with your Operating Model
- 

2 Measure the right things
- 

3 Change how you make decisions
- 

4 Prepare well to go faster
- 

5 Know where you are heading
- 

6 Rationalise and focus
- 

7 Design structure to match strategy
- 

8 Remove work, not just people
- 

9 Get the layers right
- 

10 Pace to match the opportunity

1. Start with your Operating Model

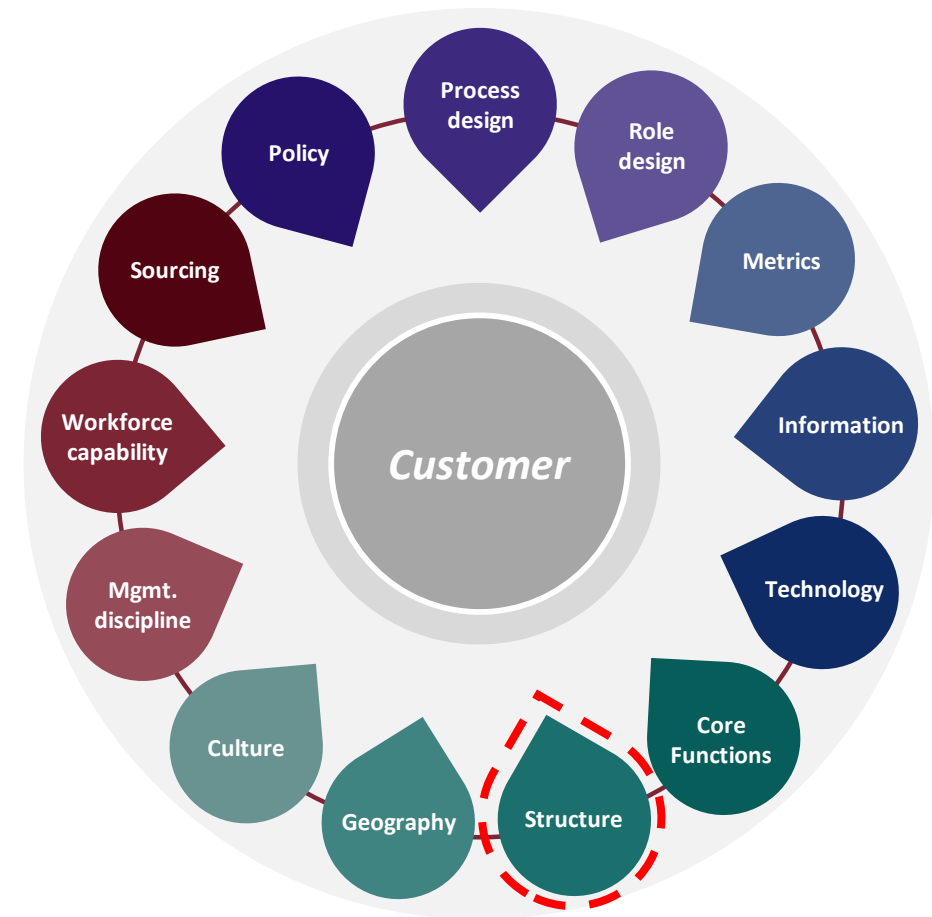
- Diagnosing the issues in the current state Operating Model will help pinpoint structural issues
- Defining the Target Operating Model will provide a holistic view of how the structure needs to support the delivery of value through the organisation
- This allows the structure to strengthen the Operating Model



One of the causes for failure is the tendency for management to believe that it's only about structure – when structure is actually connected to the rest of the Operating Model

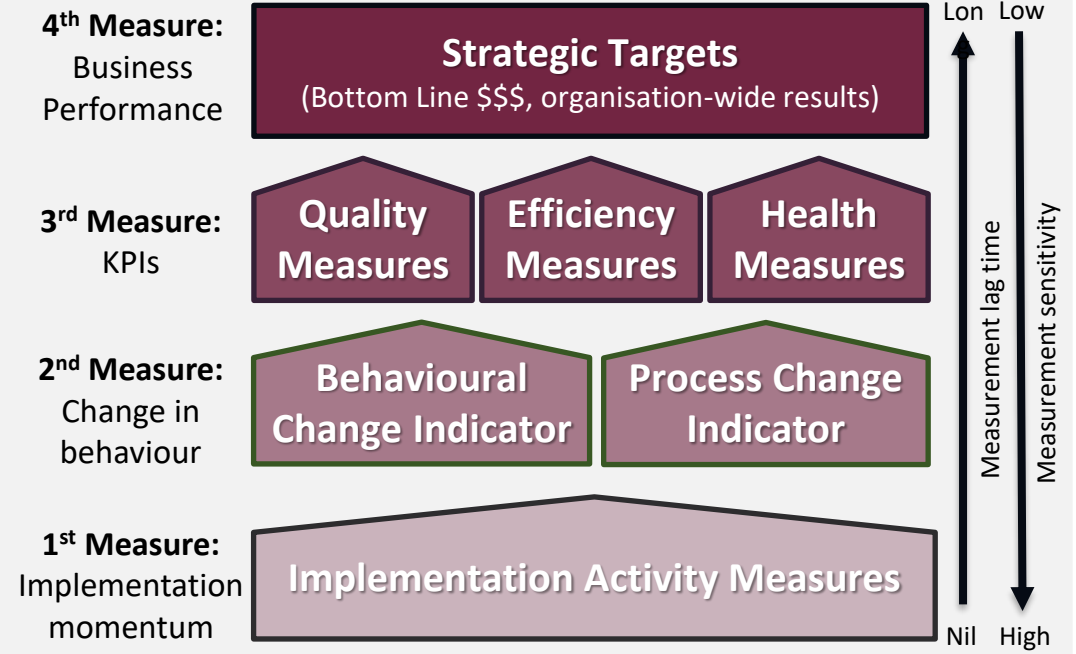
What is a Business Operating Model?

- A **Business Operating Model** is the combination of processes, roles, skills, structures, assets and technologies that allow any organisation to deliver on its service or product promises
- It is how the business **delivers value**

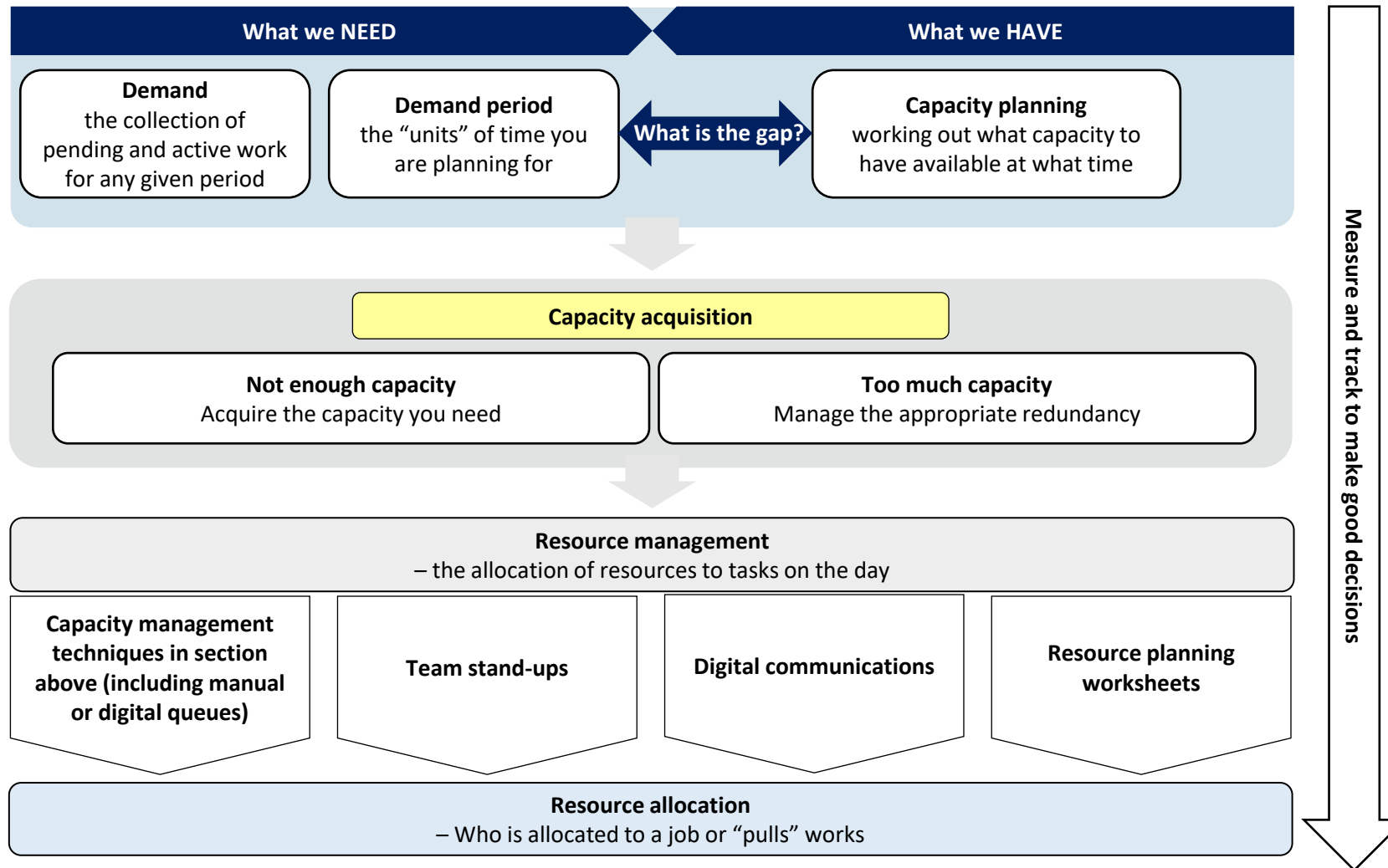


2. Measure the right things

- A logical set of measures allows organisations to connect strategy with execution
- Both leading and lagging indicators should be used
- Leading indicators will demonstrate the impact of changes much quicker than lagging indicators, enabling proactive action to correct the course



One type of measurement system is particularly important in a crisis – for addressing capacity and the changes needed



Most of the proven ways to address constraints rely on you “seeing” where the problem is

□ The means of “seeing” where the problem resides include:



Interviewing system participants for clues. Amazingly this is often not done – remember the people working in the system can tell you a lot if you ask them the right questions



Observations. E.g. Specially trained personnel make observations on patient movements and mark-down times for certain activities



Digital observations. Like “observations” but basically using data recorded on video



System data. E.g. When a patient is marked as free to move from ED to ward



Tracking devices. Not popular but very handy in knowing where people are physically



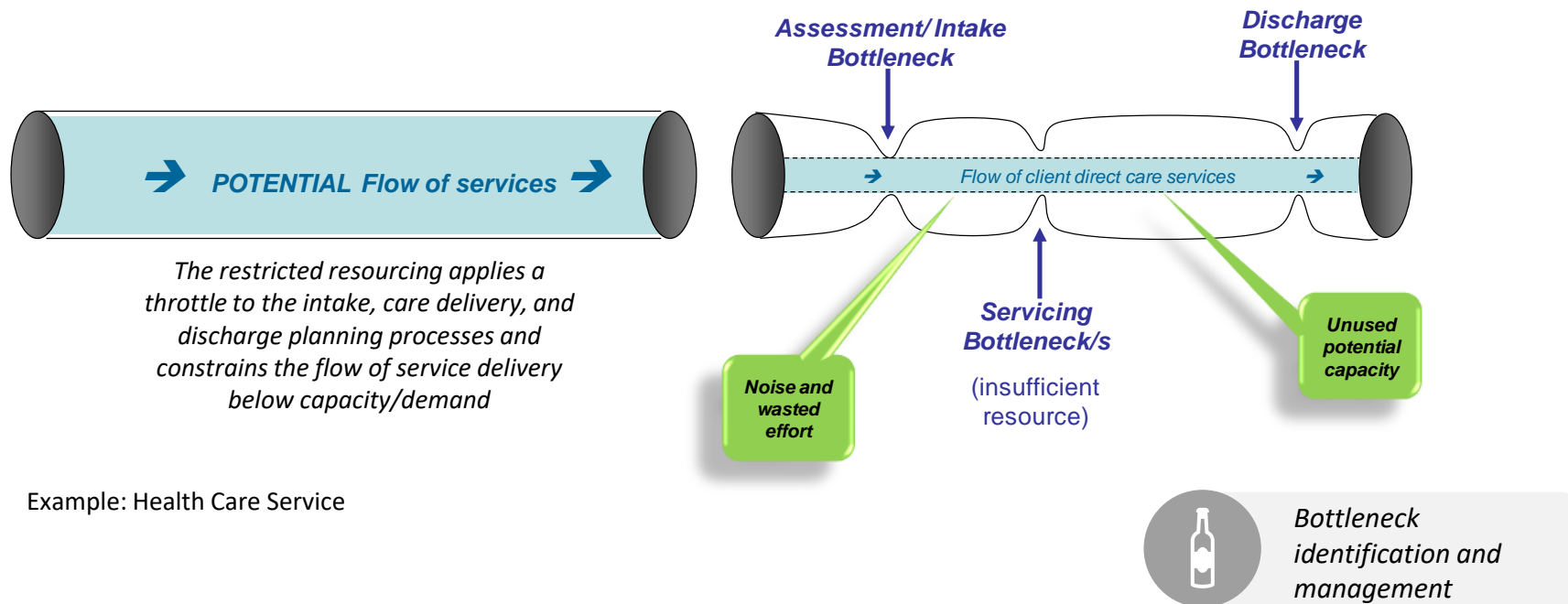
Finding backlogs. Either on systems, on paper or by interview find where there is a queue waiting to move to the next stage – YOU HAVE JUST FOUND A BOTTLENECK



See the flow

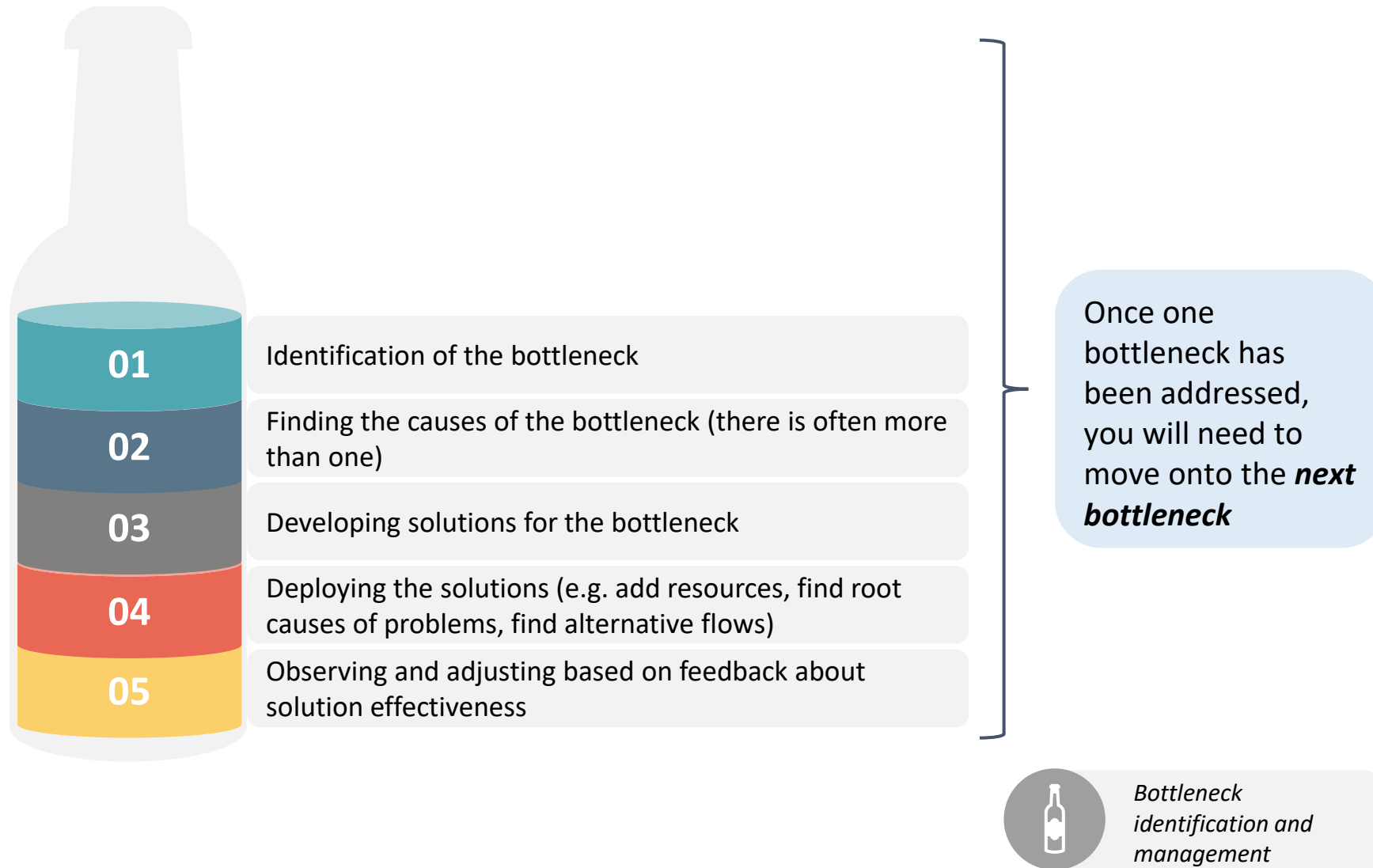
Capacity management is important to understand in good service and workflow design – e.g. using the measures to find the bottlenecks

- ❑ According to The Theory of Constraints, a system can only go as fast as its slowest point
- ❑ This implies that we need to find “**bottlenecks**” – or the points in a flow where movement slows down
- ❑ We should all be familiar with “bottlenecks” from our driving experiences, points in a traffic system where the road is narrower and causes a back-up in traffic. In Queuing theory this is a **backlog**



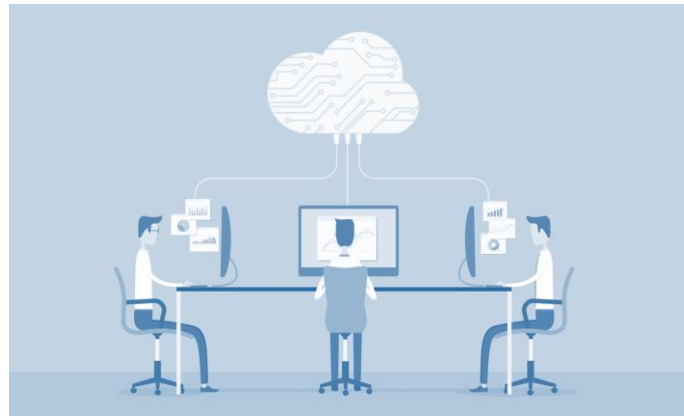
Example: Health Care Service

All good activity for managing bottlenecks and capacity constraints starts with some degree of measurement



But it's not just bottlenecks – resource levelling is another key consideration

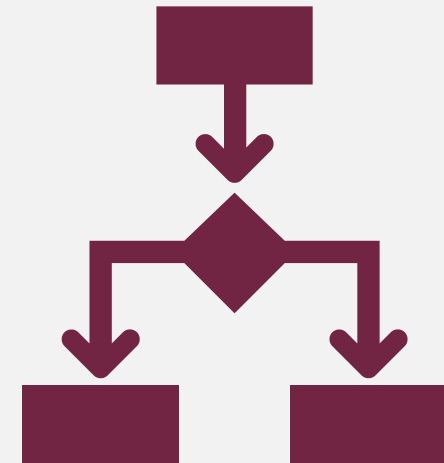
- ❑ The challenge is that different teams (or individuals) can end up with **ineffective or inefficient workloads** (either too much or too little)
- ❑ In fast changing circumstances it can be extremely difficult to “allocate” work appropriately as **volumes and rates of flow** will change
- ❑ Rates of flow to different teams will be affected by “case complexity”, available resources at prior “work stations” and by team competencies in prior workstations
- ❑ So, the best approach is to **try and build a fully or partially self-managing system**



Resource levelling

3. Change how you make decisions

- When decision-making is slow, hierarchical and overly complex, profit opportunities can become lost
- Modern approaches accelerate inefficient decision-making systems and help to deliver a variety of benefits
- Simplifying decision rights is key to delivering sustainable, long-term changes



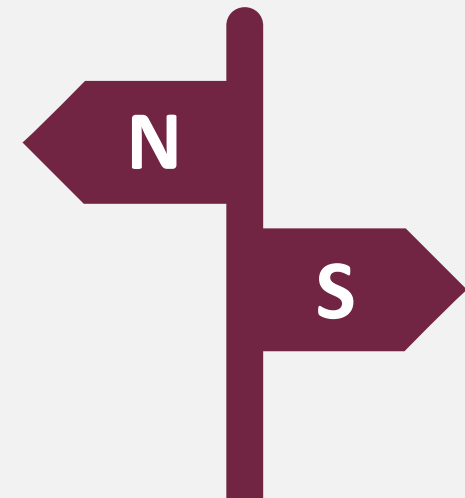
4. Prepare well in order to go faster

- Classic restructures go through organisations layer-by-layer and take several months to complete
- Modern restructures entail more preparation at the beginning, but allow for faster execution



5. Know where you are heading

- Create a theme that helps to guide and inspire staff during the restructure
- Review and re-design the elements of the operating model to achieve your strategic objectives
- A defined purpose and direction will emerge



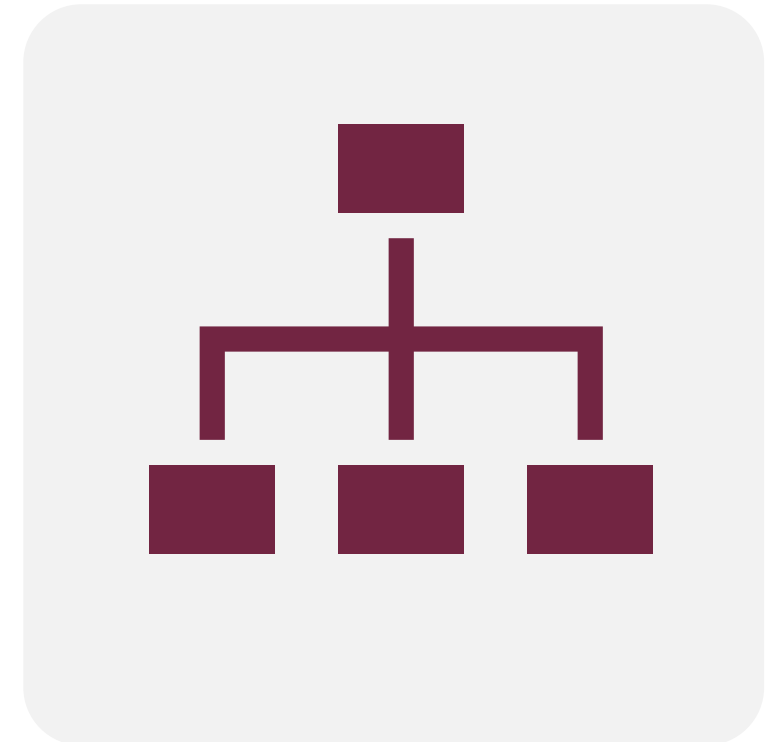
6. Rationalise and focus

- Restructures help people understand what not to do, which allows them to focus on the right things to do
- The target structure should provide a rationalisation of decision rights and functional capabilities
- The target structure should be appropriate to deliver on the strategy



7. Design structure to match strategy

- Organisations are designed using “Pivots” – *the alignment to the customer value stream*
- When the Pivots don’t match the strategy, customer service is reduced, and costs are increased
- Restructures help get the Pivots right



8. Remove work, not just people

- If you are removing personnel, then it is also important to remove unnecessary work
- Modern process re-engineering techniques can be used to remove “waste” work
- Employees can better focus their time on core activities



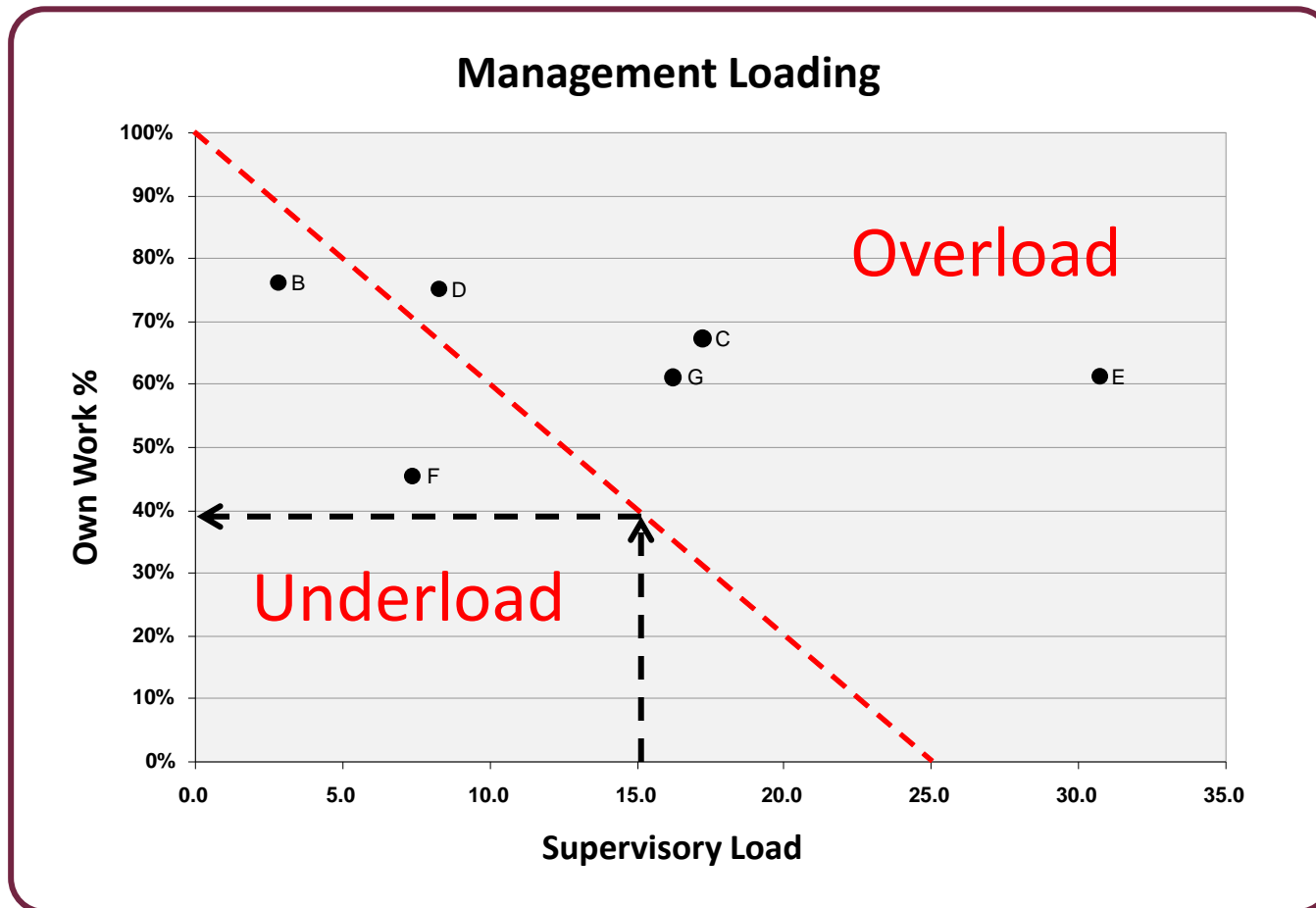
9. Get the layers right, but not simplistically

- It is important to balance own work with supervisory load
- The correct number of direct reports that a manager should have depends on several factors
- Modern tools and principles can be used to guide leadership on these decisions



Watch out for simplified spans and layers

Management Loading



- Management loading analysis is a powerful tool that objectively assesses the impact of staff loading due staff competency and span of control against the manager's own work loading
- Individual managers are mapped on the management loading chart

10. Pace to match the opportunity

- Restructures should be paced according to the timelines of the critical opportunities identified
- The “leapfrog” strategy can be used to take out costs before implementing changes and then using the cost savings to fund new changes



The Leapfrog approach can be used to take out costs before making any changes

Leapfrog approach

- Sometimes it is rational to take out some costs before all the changes are in place
- ... as long as we actually do the work (in the near future)!
- When costs are reduced before changes are made, this is known as a **Leapfrog**
- The Leapfrog approach aims to overcome the continuous improvement paradox



Remove costs



Make Changes

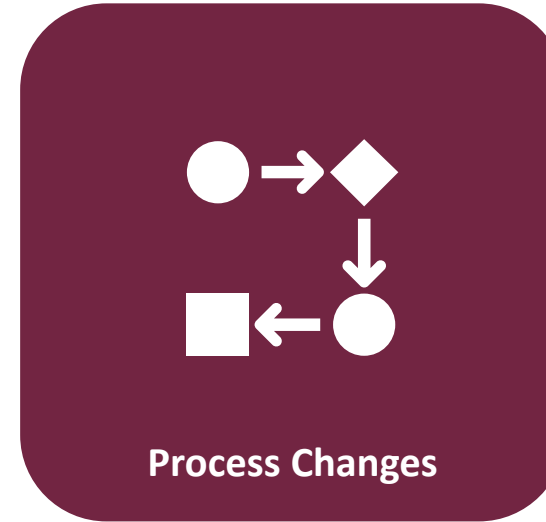
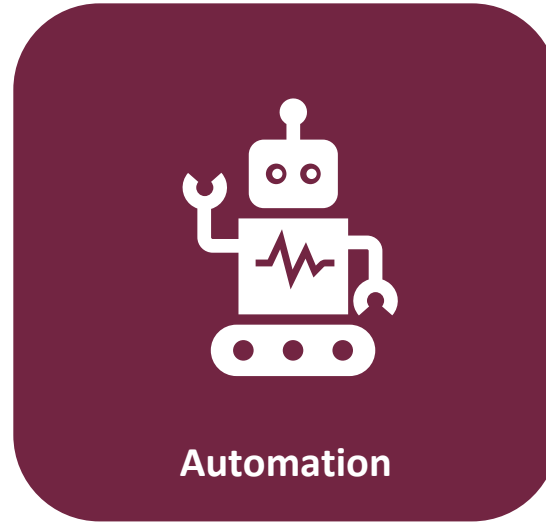


Remove costs



Make Changes

The most common ways to reduce effort include ...



These two
are the
fastest to
deploy!

SMART is a methodology that helps organisations to identify how to reduce costs

SMART methodology

Bottom-up data can be put through the SMART lens to understand which organisational tasks and processes should be part of the future state

- Stop** Stop doing these tasks
- Maintain** Maintain this task at its current level of effort
- Add** Start doing a new task or increase existing task
- Reduce** Do less of this task, e.g. duplication, noise
- Transfer** Do this task in another team

Top-down decision-makers evaluate all activity against its value to the customer and to the future of the organisation

SMART takes automation opportunities into account – which are becoming increasingly important

Automation

- Automation programs are most effective when integrated with other improvement opportunities, e.g. restructures
- Bottom up insights collected from XeP3 can help identify opportunity targets for automation and help determine prioritisation
- This provides the foundation for identification of target processes and helps to calculate the ROI

Application of the Automation Framework



Insight = Used for analysing data to recognise emerging trends/generate insights



Decision Making = Used to enhance decision effectiveness based on a set of rules (or rules that improve)



Operations = Used to process work efficiently, generally applies to repetitive tasks of low complexity



Engagement = Used for communication between user and interface, provide assistance and support

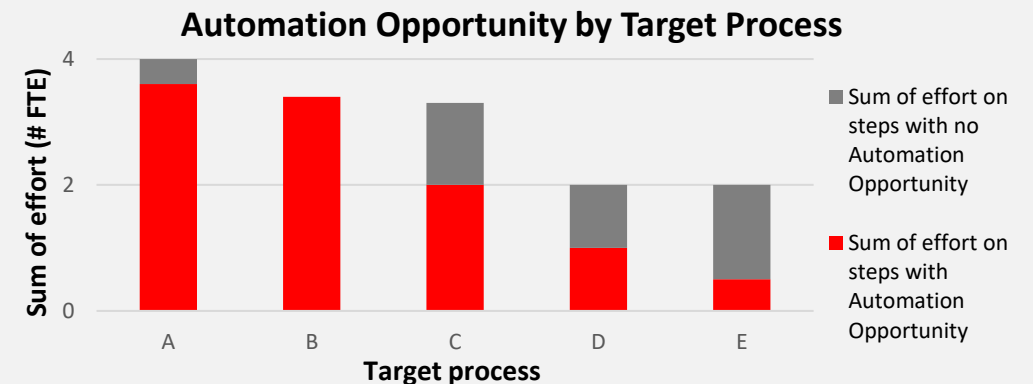


Optimisation = Used for analysing data and determining the best outcome for a given situation



Automation Supported = Activities that can be enhanced by automation (but will remain manual)

Identification of Target Processes



Case studies

Case study – Energy business

The challenge?

The uncertainty in the Australian renewable energy market meant this energy business needed to transform to be able to respond fast. They knew they had operational waste and needed to improve customer service alongside heavy resourcing costs

The approach?

- Top down Operating Model redesign
- Bottom up analysis using Bevington Group's XeP3 methodology
- SMART analysis

The outcomes?

1

Net reduction of 35% of FTE within 8 months

2

Identification and removal of duplicated work

3

50% reduction in reporting effort

4

12% reduction in discretionary effort

5

25% reduction in lower value support activity

Case study – Financial Services business

The challenge?

With new market disruption, the business was not as competitive as it needed to be and faced an existential threat. Inefficient and uncoordinated processes, outdated technology and a high cost base meant performance, and profit, was weak.

The approach?

- Top down Operating Model redesign
- Bottom up analysis using Bevington Group's XeP3 methodology
- SMART analysis

The outcomes?

1

Revenue rose 5% (year on year)

2

Profit rose 21% (year on year)

3

Increased share price (significant)

4

Reduced non-operational expenses

5

Increased Net Loyalty Score

But... what if you don't have much time?

The challenge is now speed – very few organisations would have time on their side now

It used to be that you had months to do the thinking about a new Operating Model, and months to plan a restructure.
That now seems like a luxury.

In order to go faster you will need to do the following

1

Set up an **Agile Executive Team (AET)** to consider the key elements of the Business Model and Operating Model.
This is *rarely more than 6 people* at the core

2

Establish a **vigorous drumbeat**. If you are bleeding cash right now we recommend **3 hours every 3 days at a minimum**.
This is tough if you are also managing a crisis (which you are), but you won't get the job done without the investment

3

You will need a **support team** to take the actions necessary between the meetings. This is likely to be a **mixed internal and expert external team**

4

The meeting drumbeat should run based on **hypothesis and challenge**. In other words the support team puts forward the propositions to be challenged. The AET therefore has something to push against ... and **the whole thing goes faster**

5

The AET must **present to the broader executive** and get feedback at key points

While operating at pace, there are some fundamental elements to keep in focus

- We generally recommend that leadership is open to staff in terms of their consideration set
 - They will know they are not going to be immune from significant change
-
- Whatever you do, design for the future you expect to see post-GVC
 - This should be consistent with the “Balanced Response” hypothesis underpinning the entire “Bevington Resilience” series
-
- This may actually be an opportunity to make a series of decisions that were politically just too hard pre-GVC
 - Don’t take the pain of this crisis without a long-term benefit

The following are the standard steps we would start with when Scoping – but, warning, they invariably change for the individual circumstances of each business



Week 1 Scoping

- Set objectives, determine AET and support team, decide on data requirements, agree drumbeat and book meetings
- Usually you also prepare for the next stage



Week 2 Business Model

- Determine what changes in your business model (you are not yet at the operating model)
- This fundamentally goes to what customer service needs you will continue, start up, or stop
- It goes to how you make money and with what partners
- It goes to the capabilities you will need



Week 3 Operating Model (Part 1)

- Agree your operating model principles by each element of the operating model. Divide them up into levels so you understand which are Core, Primary and Preferred
- Design value streams and functions for core businesses
- Design the metrics and targets you need



Week 4 Operating Model (Part 2)

- Complete the other elements of the operating model consistent with the above principles and such that they would make the value streams work
- This is where (amongst other things) you get into structure, decision making rights, staff capabilities, etc.



Week 5 Numbers & Planning

- Now work out the numbers – revenue, costs, staff numbers
- Also, now work out the implementation plan. How big a change is it? How do you execute?



Week 6 Stop – Test – Go

- Stop and really test your thinking before proceeding
- What are the risks? How will you manage for these known risks?
- What have you missed? Do you have any room for error?

Summary and conclusions

There are many things that can go wrong with restructures



Unclear
purpose



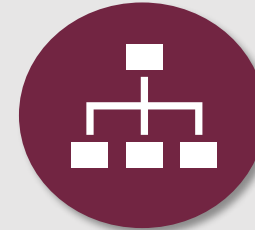
Emotionally
damaging process



Reduced
organisational
loyalty



Poor communication
leading to confusion



Unclear rationale for
structuring decisions



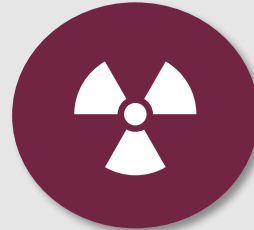
Unclear
role design



Poor or out of date
metrics



Decline in customer
service



Heightened risk of
industrial sabotage



Loss of key
personnel



Unclear
accountabilities



Failure to follow up
restructure with key
changes to make it
work

... and *more!*

Luckily, there are many practices and tools that can help make restructures go right

- 1** 
Start with your Operating Model
- 2** 
Measure the right things
- 3** 
Change how you make decisions
- 4** 
Prepare well to go faster
- 5** 
Know where you are heading
- 6** 
Rationalise and focus
- 7** 
Design structure to match strategy
- 8** 
Remove work, not just people
- 9** 
Get the layers right
- 10** 
Pace to match the opportunity

Contact details and disclaimer

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BUSINESS OPERATING MODEL DESIGN



- 1. Operating Model Design**
 - Create an aspirational view of how the enterprise will deliver against future expectations
- 2. Restructuring and Role Design**
 - Create structures and roles that sustainably deliver value

PROCESS IMPROVEMENT



- 3. Strategic Lean Process Improvement**
 - Concurrently transform end-to-end processes, structures, roles and systems
 - Design radical changes aligned to customer outcomes and business strategy
- 4. Tactical Lean Process Improvement**
 - Deliver incremental lean process improvement
 - Use and teach a proven, client-centric, process improvement methodology

CHANGE MANAGEMENT



- 5. Agile Deployment**
 - Deploy process changes rapidly to address top priority issues
 - Deploy technology solutions with Agile methods
- 6. Change Management**
 - Utilise and teach a structured approach to understanding the impacts of change and transitioning organisations to the future state
- 7. Connect Program**
 - Connect clients to each other
 - Understand and compare solutions from other industries
 - Inspire through knowledge transfer and networking events

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