Restructuring Best Practices

Very few organizations are immune to reorganizations, restructurings, or reductions in force. The last few years have made that clearer than ever. Best practices are emerging to streamline these processes and reduce stress on the organization and its people during these transformational changes. By adopting a systematic, end-to-end approach to managing workforce restructurings, companies mitigate risk, meet financial objectives, and retain key employees. This white paper details several of these best practices.

Risk Assessment and Management
Change creates risk. The longer it takes, the more it costs, the higher the loss of key people, and the more that reputation can be damaged. Financial, talent, and legal risks are real concerns when an organization undergoes restructuring. Assessing those risks and effectively planning for solutions that address them before communicating a restructuring event will not only help to achieve event objectives, but will create a more positive experience for all involved.

Managing Financial Risk
Do you routinely evaluate the true costs of a reorganization? Are you aware of the impact that administrative errors or delays could have on the organization’s ability to meet objectives? Or, worse, the ability to achieve the cost savings targets established by Wall Street and other stakeholders? Financial overruns happen when planners can’t see the entire picture. For example, it may appear that eliminating an entire organization is the best solution for reducing cost. But when full details emerge including vacation payouts, severance packages, and other costs, the initial plan could prove more costly than the organization can afford and alternative plans need to be explored. Without full transparency into costs, organizations are at risk of significant financial overruns.

Administrative processes also expose organizations to financial risk. In the absence of a technology solution for managing reorganizations and restructuring, organizations throw people at the voluminous tasks of documentation, tracking, and communication. But people aren’t perfect. The mountains of details and long hours quickly overwhelm resources, leading to errors. Even a small mistake, such as an incorrect date, could lead to thousands of dollars in overpayments or costly delays. It's not unusual for employees to continue receiving paychecks long after termination because systems weren’t updated properly. Delays in off-payroll similarly increase cost. A one-week delay in termination costs an average $1,200 per employee, per week. For a termination event affecting 1,000 employees this quickly adds up to $1.2 million in unnecessary salary payments for every week of delay.
The financial risks of a restructuring event are numerous. To mitigate that risk, best-practice leaders are utilizing a system that provides full transparency at every stage of the process. At any point, a system can provide projected costs, progress toward plan, and critical insight into factors that could impact cost, such as voluntary package adoption, benefits for affected employees, handling of protected classes, and how regulatory guidelines such as WARN (Worker Adjustments and Retraining Notification Act) are handled. To manage financial risk effectively, decision-makers need a full end-to-end view, from objectives to outplacement services. Only then can the full reorganization or restructuring process be managed proactively.

Managing Talent Risk
Saba’s Transition Manager platform brings decision-making to the forefront. When you announce a restructuring event, do your best people leave? Do you unintentionally lay off critical talent only to hire those people or similarly skilled individuals back at a higher rate? Losing critical talent is often an unfortunate byproduct of reorganizations and restructurings. In the chaos that ensues once news of an event gets out, people assume their job is at risk and start seeking safety in divisions or companies. The resulting skills drain, often not factored in to the cost analysis, can create a talent void where organizations can least afford it, in the skill sets that are critical to the go-forward plan. The cost to rehire an employee who was erroneously terminated, or to acquire those skills via a consulting arrangement, often tops can top 1.5 times the employee’s salary.

To avoid losing valuable talent, organizations are adopting a coordinated and consistent decision-making process. Ideally, the decision-making process begins by establishing decisonal criteria. Factors for consideration could include ratings on skills that are valued in the go-forward organization, unique qualifications or certifications, experience, or other factors. By weighting the factors, then ranking a population on the agreed approach, planners and managers can fairly and consistently select individuals for termination, making fact-based decisions instead of defaulting to a vague ranking system or broad-brush cuts such as a certain percentage per group. Thorough analysis of skill requirements, skills inventory, and organizational options enables planners to understand the workforce impact of decisions and avoid costly errors.

Collaboration across groups and divisions is also important, but difficult to maintain in a secure, consistent way. It’s rare that organizations are going through universal growth or universal retrenchment. Instead, with the current state of continuous change, one group could be terminating skills that another division is hiring. Visibility across organizations and collaboration on change decisions helps identify synergies and redeploy employees instead of terminating and rehiring. In one example, a large financial institution saved $1.8 million and remained fully SOX compliant through active communications across divisions and proactively redeploying talent.

Managing Legal and Compliance Risk
Has your organization experienced fines or lawsuits because of non-compliance or wrongful termination? If so, are you aware of the resource and financial costs incurred? In some organizations it tops millions of dollars — even when they do the right thing. In one example, a telecom company would “take their checkbook to court” when served with a wrongful termination suit. They paid out millions of dollars not because they didn’t follow correct processes, but because they couldn’t provide the documentation proving they had followed them. Once they implemented a system to track and archive all communications and transactions, their legal defense costs went to zero.

With stakeholders across the organization and in many departments, process governance and compliance during a restructuring is a significant challenge. Many stakeholders are involved, events unfold quickly, and business and compliance rules are very complex — especially when organizational change stems from a merger or acquisition. This all leads to significant financial and legal risk. What’s interesting is that, our clients have found that managing compliance is actually more difficult in smaller events than large ones. Large restructurings are intensely scrutinized...
and very visible. Everyone involved is keenly aware of the requirements and more likely to follow them. However, in smaller reorganizations, corners are cut, steps are skipped, and the organization’s risks increase.

A best practice is to use processes and systems to help govern the restructuring process. The process outlines actions, roles, and necessary approvals in each phase, from setting objectives to processing separations. A technology system supports the process by ensuring that every required step is taken and documented before proceeding to the next step, whether the restructuring involves 1 or 1,000 employees. By applying technology to their existing manual process, a major pharmaceutical company acquiring a similar sized company was able to scale from the volume of regular day-to-day reorganizations to handling massive shifts — all without adding people or assuming additional risk. With processes, along with technology to govern the process, they were able to evaluate and address compliance and diversity risks, improve the HR team’s ability to provide strategic guidance, minimize process deviation, and ensure that employees were treated fairly and consistently, even when managing this high-volume restructuring.

**Taking a Holistic Approach**

The best way to mitigate financial, talent, and legal risks inherent in restructuring is to take a holistic approach to change. Before any event communication occurs, a thorough analysis of all options, costs, and compliance issues helps to guide the direction of the restructuring effort. It enables the organization to protect the key skills desperately needed for the go-forward plan, control costs, and eliminate legal missteps that can end up negating the value created through the restructuring. With a systematic approach in place, organizations are in a better position to commit to Wall Street or stakeholders, and meet those commitments in a timely, positive way.

Saba’s Planning@Work solutions enable organizations to take control of change and restructuring.
Saba delivers a cloud-based Intelligent Talent Management™ solution used by leading organizations worldwide to hire, develop, engage, and inspire their people. Intelligent Talent Management uses machine learning to offer proactive, personalized recommendations on candidates, connections, and content to help your employees and organization lead and succeed.

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