



## 9<sup>TH</sup> INTERNATIONAL ASECU CONFERENCE ON “SYSTEMIC ECONOMIC CRISIS: CURRENT ISSUES AND PERSPECTIVES”

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### **SOCIALLY RESPONSIBLE ORGANIZATIONAL RESTRUCTURING**

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#### **Abstract**

*One of the utmost challenging contemporary issues of modern companies nowadays refers to creating an organizational structure that would enable them at the same time initializing and managing profound organizational changes, on one hand, and obtaining a sustainable, but dynamic, fundamental organizational element for preventing frequent organizational crises, analyzed from their internal and external economic consequences, on the other hand.*

*It is evident that the organizational restructuring is at the same time organizational object and subject, which highly influences towards the managerial effectiveness and efficiency. Ethical dimensions in the process of organizational restructuring are not only a short-term oriented, but predominantly a basis for a thorough analyses of the potential implications of every single managerial decision.*

*It is increasingly important to detail in this scientific work that, in creating the socially responsible restructuring, managers should not only focus on the processes of downsizing, strategic reorientation and the virtue of avoiding, rather than managing the organizational conflicts, but also to determine the overall potential of the ethical context of the restructured organization, aimed at establishing an accountable behavior.*

**Key Words:** *Social responsibility, organizational restructuring, downsizing, accountable behavior, strategic reorientation, ICE Directive*

#### **1. Introduction**

Today's modern organizational forms possess an intensive necessity of integrating the system of organizational flexibility with the prevalent concept of managing the organizational influence of the external and internal changes, in order to obtain a stimulating concept for the advancement in the employees skills and capabilities, on one hand, and continuous organizational reframing of the processes and the behavior, on the other hand.



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It is evident that various modification of changes within the organizational scheme lead to different potential for a future planned organizational growth, a dimension which would create a distinction among the enterprises, while striving to accommodate the ethical aspects of the structural changes to the ongoing challenge for a strategic reorientation, particularly through an accountable form of organizational behavior.

Organizational restructuring in essence, places the managerial attention to a permanent and systematic shift in the perception to the employees as a cost which has to be reduced, and creating an integral attitude towards the investment value of the multidimensional effects which derives from the development of the organizational human resources. At the same time, ethical tendencies in the managerial treatment towards the employees should build a solid foundations for timely obtained information for the scope, direction and extent to which the quality of the work force would be treated as the focal part of the competitive advantage, not the supporting one.

### 2. Managing the process of organizational restructuring

The theoretical determination of the organizational restructuring<sup>1</sup> refers to any major reconfiguration of internal administrative structure that is associated with an intentional management change program. Fundamentally, the organizational modality of the restructuring is one of the, so called, ‘triple segment restructuring’ (Bowman, Singh, Useem & Bhadury, 1999), existing along with the financial and the portfolio varieties of restructuring, whereas:

- ✚ The portfolio restructuring is aimed at ‘reconfiguration of the firm’s main lines of business through acquisitions and divestures’ (Bowman and Singh, 1990) with the final orientation of preventing the process of ‘dilution of the most prevalent assets of a certain enterprise’ (Hoskisson and Hitt, 1994) and,
- ✚ The financial restructuring refers to a process of not evolving of the strategic organizational orientation and alteration between the ownership, managerial and capital structure of the company, usually when ‘private firm is in a process of being undertaken in public ownership, in order to attract sufficient financial capital to sustain high-growth ventures’ (Florin et al. 2003)

Fundamentally taken, even though the organizational restructuring may involve an immense amount of work force reduction, manifested in the forms of downsizing, layoffs, delaying, redundancy, part-time work orientation etc., it predominantly refers to recomposing the amount and structure of the employees versus the phase in the life cycle in

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<sup>1</sup> McKinley William and Scherer Georg Andreas (2000): Some Anticipated Consequence of Organizational Restructuring, *Academy of Management Review*, Vol.25, No.4, p.736



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which the organization occurs to be. Therefore, it is directly connected and dependant from the planned process of changes, not to the incidental or occasional one.

In propulsive determination of the work features in ‘modern occupational environments’ (Nelson, Cooper and Jackson, 1995), individuals which face various manifestation of organizational restructuring, often perceive the driving process of the restructuring as one that is accompanied with an immense insecurity, feeling of being redundant, not obtaining a clear connection with of the changes in the business plans with the vulnerability which influences to the employee stress. As a result, the consequences may not be only physical, but far more emotional, arise from the increased importance of the role stressors, including the ambiguities, conflict of interests and increased workloads, with a vivid necessity for the managers to introduce the concept of organizational rationalization.

The process of managing the organizational restructuring is fundamentally focused on, in accordance with the dominant opinion of the experts in the field of managing the organizational behavior, structural detailing of the following restructuring dimensions:

1. Clear categorization of the *organizational restructuring transactions*, which in fact refers to ‘embrace a range of organizational developments – leveraged buy-outs, management buy-outs and buy ins, leveraged recapitalizations and cash-outs, employee stock ownership plans etc. – which involve simultaneous changes in the ownership, financial structure and incentive systems of firms’ (Thomson and Right, 1995) and
2. Determination of the processes of *sense-making, cognition and change* which occur while the organizational restructuring, in order to move the relationships between the managers and the subordinates towards a system of interacting, in order to give sense to the ongoing organizational changes. It is aimed at a clear understanding of the sense-making as a ‘conversation and narrative process through which people create and maintain an inter-subjective world’ (Brown, 2000), so that all the employees form a cognitive scheme and sub-schemata, as a basis for perceiving, understanding and future interpretations of the effects from the organizational restructuring process.

Essential dimension of managing the organizational restructuring, in fact, lies in the managerial attempt to intervene and enhance the real, not only the nominal potential for the development of the individual, group/team and organizational capabilities and skills, leveraging it to business implications of the transactions and to the advances in psycho-social restructuring attainment. Therefore, it is of an utmost importance to sub-divide both restructuring dimension, in order to manage their cost-benefit flow, as following:



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1. *Organizational restructuring transactions*, consist of the following restructuring transactions<sup>2</sup>:
  - ✓ Mergers and acquisitions;
  - ✓ Downsizing and downscoping;
  - ✓ Ownership transactions;
  - ✓ Divisionalisation and internationalization, whereas
2. *Sense-making, cognition and change* initially comprise of and is measured by the existence of the following essential behavioral segments:
  - ✓ Cognitive order (McKinley and Scherer, 2000)
  - ✓ Social support, feedback, occupational groups & positive and negative affect (Swanson and Power, 2001)
  - ✓ CSR motives for changes (including the organizational restructuring), such as ‘instrumental, relational and moral (Aguilera, Ripp, Williams and Ganapathi, 2007)

The integration and simultaneous usage of both above detailed restructuring dimensions is effected through a creation of mutually acceptable measuring merits of the organizational restructuring, both for the managers and for the employees, enabled through the negotiating change process, on one hand, and by respecting the organization cultural and development constraints for excessive restructuring, on the other hand.

In this context, the managerial support of the organizational restructuring varies during the process, in terms that at the beginning the focus is on the control and coordination, whereas, at the end, dominant management actions rely on empowerment and integration, which enable at the same time strategically to reorient the organization and to manifest a socially responsible and accountable organizational behavior, in order to create and further develop a unique organizational meaning of the organizational restructuring, as a whole.

### **2.2. Financial and ethical responsibility at the organizational restructuring**

The concept of measuring the implications of the organizational restructuring implies to detailing the reasons for an extensive favoring of the prevalent meaning of ‘reusing the employees’, rather than constant decentralization, frequent outsourcing or non-meaningful delaying restructuring models.

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<sup>2</sup> Pursey Heugens and Hans Schenk (February 2004): Rethinking Corporate Restructuring, *Journal of Public Affairs*, Vol.4, No.1, pp 90-94



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In fact, the implications of the organizational restructuring must initially be stated in financial merits, through the following costs analyses of the layoff concept, as one of the most frequently applied downsizing restructuring techniques:

**Table 1                      Direct and indirect costs of layoffs**

Direct costs	Indirect costs
<b>Separated payment lists for instantly layoff</b>	Costs of seeking and employing new people
<b>Previous not effected holidays and work absense owing to sickness</b>	Low morale and uncertainty of the remained employees
<b>Additional pay-off settling</b>	Tax increase of the non employed
<b>Assiatance in seeking new employment</b>	Lack of personnel when the economy grows, training and additional training
<b>Remitting pension and premia</b>	Possible law sues by the layoff individual
<b>Costs for administrative calculation</b>	Increased uncertainty, reduced productivity
<b>Costs of reemploying of the layoff individuals</b>	Lost of organizational memories and trust in the management

*Source: Adopted according to Cascio W.Wayne(2003): Responsible Restructuring: Creative and Profitable Alternatives to Layoffs, Berett-Koehler Publisher Inc., Denver,p.24*

It is evident from the above detailed comparison that the financial effects of the organization would be at least equal, and more often positive, if instead of the layoffs, managers concentrate to the possibilities for fluctuating work, part-time employment, socio-technical work design, multi-functional complementary teams etc., through which the employees are treated as the central resource for developing the capabilities and skills. Instead, the overall analyses of the organizational restructuring would be entirely incomplete if the ethical constraints of this process are not thoroughly incorporated.



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It is of an urgent necessity for the organization and its managers to manifest reliability and accountability, while restructuring takes place. Both of them prove very limited inter-influential dependence with the structural forms of organizational changes, in terms that changes during the organizational restructuring are at the same time perceived as object and subject, owing to the fact that for a continuous reliability and accountability, especially at the organizational performances, changes have to be not so frequent and deep in intensity and vice versa.

The framework for a socially responsible restructuring lies in the analyses of the applicative approach for achieving the concept of ‘taking responsibility for social consequences of business actions’, which include the organizational restructuring, (Johnson and Greening, 1999), arising from the UN’s Global Compact Agreement and furthermore the detailed accountable initiatives, such as SA 8000 and AA 1000. Analyzed from the managerial point of view, the restructuring should always overlap the justice perceptions of the employees to the potential of the intentional business actions which lead to a higher profit, an organizational dimension that varies from the employees believing that in determining the sources for an organizational restructuring, the managers should pay a special attention to moral and social responsibilities of the specified organization.

The intermediary organizational concept which specifies the degree of responsibility of managers at restructuring is integrated within the model of corporate citizenship<sup>3</sup>, determined as the legitimacy level of responsibility from how society grants legitimacy and power to business. In order to increase the organizational potential for achieving the needed level of the organizational justice, managers should preferably concentrate to the following, in my opinion the most sufficient needs for a harmonization, areas of socially responsible behavior in organizations:

- ✚ *Organizational justice with the organizational fairness*, through their structural dimensions, such as procedural, distributive and interactive one, both on individual, group/team and organizational level
- ✚ *Cognitive order with the moral identity and socially disclosed employee advancement*
- ✚ *Focus on the short-term financial incentives with the profound long-term orientation for a developed and integrated organizational culture*, which relies on respecting the employees values, attitudes, beliefs, norms, behavioral standards etc., i.e. parallel attention to internal and external determinants of the organizational restructuring.

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<sup>3</sup> Sundstrom C. Agneta and Akmal S. Hyder (Fall 2008): Local Management Response to Corporate Restructuring, A Case Study of a Company Town, *Business and Society Review*, Vol.113, Issue 3, pp 376-377



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The integration of the social and moral responsibility during the organizational restructuring, would lead to an accountable behavior with a proper considering the propositions for an effective and efficient implementation of the restructuring process, among which, as the most influential nowadays are considered the following ones:

- ❖ The top management would always strive to anticipate the potential consequences of the organizational restructuring from the financial and less from the social side of it
- ❖ It is of an utmost organizational interest to possess a satisfied employee, rather than layoff of the personnel during the times of crises which derives from various structural sources
- ❖ The overall effects from the restructuring would lead to a reinforced behavior, which is the initial precondition for effecting an accountable behavior
- ❖ Organizational restructuring should preferably be undertaken in the increasing stages of the organizational life cycle, rather than in declining ones, meaning that it should be prior to the moment of implementing the organizational changes
- ❖ Very limited scope of restructurings fulfill their goals if it is not accompanied with creating a model for organizational learning, especially through the deuterio learning.

The managerial response to these propositions would create differences in manifesting this process as a wave distribution system, with periods of intensive and frenetic effects and periods of reduced and rather calm process and behavioral organizational implications.

The determination for an accountable behavior at the restructuring also emphasizes that the top management members should make intensive efforts thoroughly, in order to understanding in which external and internal circumstance the restructuring focuses to ensuring the stability of the organizational market position to be defended, and in which the restructuring intents is to stimulate changes in order to solve an existing or future perceived organizational problem or inertia.

### **3.1. Applicative analyses of the public effects of organizational restructuring**

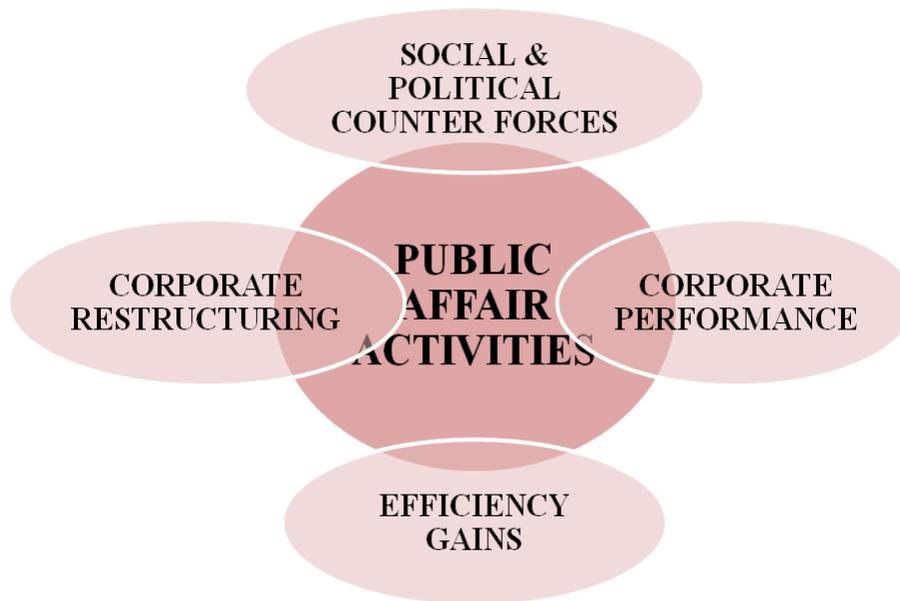
The level of achieving the efficiency gains of the organizational restructuring, is in large scale dependant on the managerial approach through which, the economic and social intentions of this process would be integrated with the imperative of undertaking a public affair activities, which are predominantly oriented towards reducing the resistance of the obstacles for a higher and improved in quality organizational performance.



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As such, the public interpretation of the intended organizational restructuring is essential for all enterprises, with a relatively more intensive accent in large corporations. The system of attaining positive behavioral implications from the organizational restructuring, analyzed in large scale organizations, is the following:

**Figure 1** The critical role of public affairs in corporate restructuring



*Source: Pursey Heugens and Hans Schenk (February 2004): Rethinking Corporate Restructuring, Journal of Public Affairs, Vol.4, No.1, p.93*

The significance of the inter-related preconditions and consequences of the organizational restructuring in the European Union can best be perceived through the adoption of the *European Union Information and Consultation of Employees (ICE) Directive*. It focuses majorly on making maximum efforts to both managers and employees, organized through their Union, to establish a unified approach for understanding paths for solving the serious conditions that arise from the redundancy, restructuring and site closure processes, as the most influential ones.

The initial stimulus for ICE Directive has been the Renault’s precipitate closure of their Vilvoorde plant in Belgium, back in 1997, which resulted in determination of serious law holes for effecting the employee rights. By passing this Directive, the European Union created a legal framework in which the national legislations are expected to transform them



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into a national legal act, through the process of transposition, by also respecting their practice of industrial relations. Within the EU, all member states adopted such legal acts, excluding Italy, Ireland and the UK, which have undertaken a limited proportion of the proposed rights and obligations while organizational restructuring, especially towards the employers of the specified enterprise.

The major implications of the ICE Directive of the European Union are concerned with the following dimensions of the overall restructuring types, through setting out a minimum criteria:

- ✚ Duty on employers to inform and further consult with the employee representatives on economic and employment issues, especially on the potential for respecting the employment rights of all the employees
- ✚ Enhance consultation requirements for decisions likely to lead to substantial changes in working and contracting conditions (although for the dimension of the working time, another Directive has to be consulted – Directive on Working times)
- ✚ Obligation of a mutual consultation with the employee representatives for all dimensions which are concerning the security and overall conditions of their current employment
- ✚ Making the full efforts to creating an influential internal system for external determination of the outcomes of the restructuring, through presenting alternatives to company proposals
- ✚ ‘Information provision for recent and probable development of an undertaking economic situation, situational analyzes for structural and probable development of employment or anticipatory measures, particularly where there are threats for employment’ (Hayes, 2004)

The implication that certain national economies face for limited in scope implementing the recommendations of the ICE Directive, are best observed on the consequences that were created, due to the capacity of the mechanisms for harmonizing the initiatives arising from the spirit of the ICE Directive and the readiness for a socially responsible and accountable behavior by the employers, detailed in the following Table:



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**Table 2 Profiles of Case Companies and Restructuring Effects**

<b>Company</b>	<b>Bargaining arrangement /Recognition</b>	<b>Union Density</b>	<b>ICE Initiatives/ Name of IC Body</b>	<b>Restructuring /Redundancy</b>
<b>Peugeot – Citroen</b>	Full CB	95%	No/n/a	Closure of Ryton/2300 redundancies
<b>GM- Vauxhall</b>	Full CB	95%	No/n/a	Termination of shift, 1000 redundancies
<b>Prudential</b>	Mixed – Full CB-No CB	56% unionized sites	PEA/ Employee Forum	Closure of Belfast and Bristol sites
<b>Aviva</b>	Limited Recognition /CB	30%	Employee Forum/Your Forum	Organization-wide restructuring
<b>Marconi</b>	Full CB	30%	PEA/Forum	Crises, takeover, 800 redundancies
<b>Rolls Royce</b>	Full CB	100% (manual), 70% (non manual)	PEA/UK Information and Consultation Council	No specific initiative ongoing restructuring

*Source: Adopted according to Taylor Phil, Baldry Chris, Dunford Andy and Stewart Paul (Winter 2009): An umbrella full of holes: Corporate Restructuring, Redundancy and the Effectiveness of ICE Regulations, Industry Relations, Vol.64, Issue 1, p.33*

It is evident that failing to enforce the spirit of the Ice Directive, especially the information and consultation criteria, resulted in serious negative consequences towards redundancy and downsizing effects of the organizational restructuring process, evidenced in companies in the UK.



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### 4. Conclusion

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