

Company background

The example company (The Company) is a manufacturing organization, a subsidiary of a global SME headquartered in Europe. The group serves large companies of a certain industry (not named in order to keep confidentiality) with highly specialized packaging materials. The group's strategy is the high focus on the special needs of one specific industry, which results in core competitive advantages such as production know-how, high product quality and smooth customer experience. The Company is one of the 9 global industrial sites of the group.

The company has been established 12 years ago in the suburbs of Shanghai to serve the Group's Clients in the quickly growing Chinese market. Thanks to global key accounts, business grew fast, and the Company quickly became profitable. Things were going well, until the competitive pressure started to erode profits. Clients wanted a wider range of products, but smaller individual batches, and at a lower cost. Raw material prices were increasing; labor cost was increasing; while sales prices were shrinking, causing the company making losses. Two previous Plant Directors have already failed to make the turnaround and got fired. Now it is the third Plant Director, who is hired with the mission of making the turnaround. Failing to make profits in the last three years made the owners cautious about further investment, so the turnaround should be achieved with a low budget.

Company structure: the Company is led by a Plant Director, who has 8 Directors report to him directly: Directors of HR, Finance, QC, Production, Supply Chain, Technology, Engineering and Sales. There are 20 Middle Managers under them. The total workforce is 850 people.

Why is the Company in crisis?

Based on the industry and economic factors, the Company still should be profitable. Why is it in the red then? According to the HRD who has been hired one year ago, it was caused by bad leadership, by top management complacency, neglecting continuous improvement and development for many years. Realizing the ineffectiveness of top management, the owners made a major personnel change one year ago, replacing not only the Plant Director, but also most of the Directors. The new Management Team – the Plant Director and the Directors – agree that change is needed, and it is needed now.

Plans for the turnaround

The Management Team discussed about and decided the following changes:

- The Company will move into a nearby smaller facility;
- The workforce will be reduced to 600 (250 people will be laid off);
- Workers will be trained to handle more positions (products and machines), so that they could be deployed more efficiently;
- Business processes will be streamlined; there will be more detailed new KPIs introduced; P/L will be calculated for each production batch, and managers will be hold accountable for them;
- Currently, overtime fee is a “standard employee benefit”, regardless of the actual need for overtime. This practice will be changed: overtime pay will be reduced to the necessary minimal.

Current situation and challenges

According to the HRD, there are major roadblocks standing in the way of successful transition:

- The Management Team has consensus about the direction, but the new business processes and the future organizational structure have not been clarified and worked out in details, and it is not sure whether they will be able to come up with a convincing solution.
- The Middle Managers are not supporting the change. It seems they don't want to understand the new direction. They are passive in the meetings, and skeptic or opposing one-on-one. They started as workers in the company for 10-12 years ago, and have been gradually promoted to become managers. According to the observations of the HRD, many of them show very low managerial and leadership competencies. Many of them show little capability for independent thinking and decision making in general, and don't have much influencing power with their staff members. Some of them may lack the potential to adapt to their expanded future managerial roles.
- The Plant Director and the Directors are all task focused people with low "people" awareness and communication skills. They underestimate the resistance of the people. They don't recognize the competency gap of the Middle Managers. They don't think much about the communication strategy and the human aspects of change management.
- The morale is already very low in the entire company. The planned changes would put higher demands on the workers, while their income would decrease, or in best case equal their current income. This will very likely further undermine their motivation and productivity.

ZADACI ZA ANALIZU

- Imajući u vidu Koterov model vođenja promena, skicirajte plan akcije za svaku od 8 faza.
- Šta su prioritetni zadaci za odeljenje ljudskih resursa?

Step 1: Create a Sense of Urgency:

There is a good sense of urgency on the Management Team level: they understand that they may get fired if they cannot produce results, and maybe even the entire Company may get closed if it doesn't work out. They were hired to make a turnaround, and they are motivated to do so. However, there is a major division line between them and the Middle Managers: there is no urgency and buy-in at the Middle Managers level and below.

When I empathize with the Middle Managers and the base line employees, I can understand their feelings. They probably see themselves working for a prosperous global WFOE, with headquarters in a rich country; they probably see themselves as the poor and good people, while the Company and the Management Team are the "rich capitalists and their agents". They also have seen Plant Directors and Directors coming and going in the recent years, trying reforms that have been faded away and got forgotten, so probably this is what they expect this time as well.

My suggestion is to prepare a communication plan, which utilizes many channels, very frequent communication, broad participation, and where at some stage, the Plant Director should directly and honestly tell the people about the business reality of the situation; with respect to their efforts and loyalty, but sharing the brutal facts to them without sugarcoating the challenges; and introduce the new vision and some specific plans to them, in an authentic and attractive way that generates trust and hope. The communication and especially this speech has to be carefully crafted, just like an "Obama speech". Besides telling the facts, it should touch people's heart, connecting to the shared values of the people, awakening the energies and greatness that is slumbering in each individual.

Step 2: Creating the Guiding Coalition:

The Management Team has naturally formed already as the Guiding Coalition. However, in my view this is not sufficient to communicate to so many people and to push forward the change projects. There should be more cross-level teams including Middle Managers, supervisors and base level employees to work on the change projects. This would help employees feeling more control, ownership and engagement in the change. As a practical step, the HRD should work with the Directors and Middle Managers to identify the KOLs (Key Opinion Leaders) in the Company. Involving them would not only help the change process, but also could serve as a recognition and development benefit, which would be beneficial for retaining them.

Step 3: Developing a Change Vision

In my opinion, the current change objectives are reactive and problem solving in their nature. They are probably the right things to do, but they do not offer much appealing goals to the people. The word "profitability" doesn't inspire most employees, for them it doesn't answer the question "Why does it worth doing all of this?". I suggest using creative ways that incorporate employees individual needs and aspirations to describe the vision and the "feel" of the Company after the transition, and to design some material long-term incentives to share the future success with the people.

Step 4: Communicating the Vision for Buy-in

We mentioned the communication plan at "Step 1: Create a sense of urgency". I just would like to add one more point: the Management Team needs to model the expected behaviors. When the leaders call people to make sacrifices, the leaders themselves should make very tangible and visible sacrifices as well, for example giving up their bonus and some part of their benefit package for a while; giving up some of their vacations and weekends, and so on. Lay-offs should be considered on each level. Workload, contribution, efficiency, competencies, potential should be objectively assessed at all levels and all positions, and the same rigor and principles should be applied to

everyone. By “walk the talk”, the Management Team can send out a strong message that things are really different now.

Step 5: Empowering Broad-Based Action

The Management Team plans Business Process Reengineering, organizational structure and work role changes, more agile and flexible workforce deployment, and introducing a new set of KPIs. The HRD is also considering an Assessment Center to the Middle Managers, and set Individual Development Plans for them (this is how I and my company got involved, as a potential vendor to design and deliver this AC). In my view, their plans seem to be the right actions for transforming the “hardware” of the organization. Besides their plans, suggestions from my side: consider using external consultants for business process improvement, and also for training program design and delivery. Another idea for the longer term could be considering the use of IT solutions for increasing efficiency (ERP, CRM and work flow management, document management systems) and for knowledge management (capturing the know-how, position requirements and training materials in multimedia formats and provide internal eLearning solutions).

Step 6: Generating Short-term Wins

The Company expects short-term wins from moving and lay-off. My suggestion is to start introducing the new set of KPI's and measurement for each product batch P/L as soon as possible. These KPI's can serve as the compass for the change, and provide not only direction, but also measurement of the progress. According to bestseller author Jim Collins⁴, the companies that made the “Good to Great” transition, did not have problem to get the people on board, because the results spoke for themselves, and convinced the skeptics better than any speech. Finding and focusing on the right KPIs (Collins called them “economic denominators”) played critical roles in the success of those companies.

Step 7: Don't Let Up! (Build on the change)

According to Kotter, it is critical not to stop after the initial results, but rather turn up the intensity of change, start more projects, and drive the changes deeper. One way of doing that could be building platforms for continuous improvement, to prevent the helter-skelter of long time stability – big change process, following the suggestions of McKinsey consultants Gary Hamel and Michele Zanini³. A simple start could be setting up cross-functional and cross-job-level teams to work out improvement projects; organize cross-departmental collaboration workshops; set up a suggestion box with relevant incentive system that works; and in the future, run regular Organizational Effectiveness or Engagement Surveys, followed by improvement actions.

Step 8: Incorporating Changes into the Culture

My suggestion is to celebrate each milestone achieved on the journey, make people feel proud of the results, and cherish the culture of team (fighting together, winning together), flexible, agile, successful, dynamic. Make these adjectives become part of the collective identity and culture DNA. Include these keywords in various communication channels: company values, competency models, orientation and Learning & Development programs, brochures, web site, office decoration.

Another suggestion is transforming the Company into a learning organization: make every Manager a mentor, a coach and a trainer, let them organize regular workshops and sharing sessions to their teams and to cross-departmental teams. Creating a positive learning environment can bring higher intrinsic motivation and engagement, improved efficiency, improved agility, stronger leadership and stronger talent pool, to keep the positive momentum of the Company on the long term.

Key HRM tasks to support the change

Implementing the above listed suggestions requires years of work from HR. Besides the obvious HR tasks of laying off, training and redeploying people, HR also needs to take the lead and be the expert in planning and coordinating employee communication activities; cross-functional team building; culture building efforts; and HR should coordinate and manage the organization restructuring.

In my view, the most urgent and important task of the HRD is to convince and mobilize the Plant Director and key Directors to make a comprehensive change management plan which is considering the people factor as well. Besides the “technical solutions”, the plan needs to focus on the vision and the communication aspects. HR needs to be one of the key drivers of designing and implementing such change management plan.