

**THE IMPACT OF RESTRUCTURING ON THE
PRODUCTIVITY OF COMPANIES WITH SPECIFIC
REFERENCE TO CLOVER**

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EXECUTIVE SUMMARY

As businesses go through the business and economic cycles, many of them are sooner or later involved in some sort of a restructuring exercise. When the restructuring exercise is done with the intent to accommodate growth, it is usually experienced as exciting and challenging. However, when it is done with the intent to rationalise, individuals' lives are touched in an intense way. People who have been exposed to restructuring will tell you that it is at best a traumatic experience, mainly due to the uncertainty while the process continues.

When restructuring by means of downsizing is done to improve a company's competitiveness, the end result should be an improvement in productivity, thus improving the company's profitability in the medium to longer term.

The purpose of this dissertation is to determine the level of impact of restructuring on the productivity of a recent downsizing exercise at Clover (Pty) Ltd. The effects of the restructuring exercise were also determined.

Having to compete globally, the dairy and food industry in South Africa are much more exposed nowadays than before 1994. The result is that, amongst other issues discussed in the dissertation, the low productivity in South Africa leading to non-competitiveness puts pressure on South African businesses to improve their companies' competitiveness.

In the dissertation, an overview is given on the most common ways of restructuring, namely:

- Downsizing
- Outsourcing
- Divesting some businesses and acquiring others
- Strategic alliances
- Reengineering

The importance of growth while improving productivity is highlighted. At the same time, the importance of the applicable information in a time of uncertainty, and to be able to manage the company through these changing times are emphasized. Aspects that need to be considered are the company culture and how adaptable to change a company's culture is. Equally important are the internal and external forces of change. These forces need to be recognised as early as possible, enabling a company to act pro-actively and thereby staying ahead of the pack. Lastly, the planning process for organisational restructuring needs to be thorough, thereby improving the chances for success.

A company that recently went through a restructuring exercise by means of downsizing and the combination of divisions was targeted in the empirical investigation. From the feedback received it is obvious that the downsizing exercise will be in the back of the minds of the employees for a long time. This emphasizes the importance that, after a company has identified that a downsizing exercise is necessary, it should be planned thoroughly to enable those responsible for the execution of the restructuring exercise to maintain momentum throughout the process. By completing the process with speed and efficiency, a lot of the uncertainty can be countered. In addition, it will ensure that the goals identified with the restructuring exercise are reached. Once the goals have been reached, a much lower cost base, as well as improved productivity, can present the company the opportunity to grow. The growth of a company will provide employment opportunities for many years to come.

The steps recommended to be taken, as well as the discussion, aim to guide the restructuring process, thereby assisting an organisation in the completion of a successful downsizing exercise. Although a company in the dairy industry was used, there are many companies in the South African food industry that face similar situations due to the low productivity in South Africa, contributing to the non-competitiveness of companies to compete with global companies, as well as small companies with a low cost basis that operate regionally.

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CHAPTER 1

1. INTRODUCTION, PROBLEM STATEMENT AND OBJECTIVES

1.1. INTRODUCTION

It seems that many companies tend to restructure not as part of a long-term strategy. On other occasions, the pressures due to poor productivity and high operational costs are such that a company has to address these issues in order to remain competitive. One of the options in addressing such problems is restructuring. This option is usually taken to provide acceptable results in the short term, although it may also be necessary to ensure positive strategic outcomes in the future. A longer term approach would typically include processes of continuous improvement, for example Six Sigma, Total Quality Management, Mission Directed Work teams, etc. According to Chase *et al.* (2004:339) companies need to organise around outcomes, resulting in greater speed, productivity and customer responsiveness.

1.2. HYPOTHESIS

When restructuring occurs without specific goals, the outcomes of the restructuring are more negative than positive. Specific goals in terms of strategy and productivity must be stipulated beforehand and met as a result of the restructuring exercise. A company that goes through a successful restructuring exercise will remain competitive and end up being in a better position in terms of its strategy and productivity goals. This dissertation seeks to establish whether a recent restructuring process by means of a downsizing exercise in a dairy company achieved the required results.

1.3. TERMS OF REFERENCE

1.3.1 Goal

The aim of this dissertation is to determine the effect of corporate restructuring on productivity in the short and long term.

1.3.2 Objectives

The objectives of the study are the following:

- To identify key productivity issues within the dairy industry.
- To determine when restructuring becomes necessary in an ever-changing environment.
- To propose a restructuring plan that ensures continued productivity results, as well as the continuous improvement thereof.
- To determine what the restructuring plan's ideal objective in the improvement in productivity should be.
- To establish if, how and when productivity results prompt a change in the company's strategy and, as a consequence, the need to restructure in order to establish alignment within the company.
- To evaluate the use of work teams on the production floor as a part of the restructuring process.
- To determine the priorities and sequence of areas to focus on in terms of the 20/80 principle, which will have the most significant impact on productivity improvement.

1.4. IMPORTANCE OF STUDY

The statement that structure follows strategy is a well-known phrase, yet companies often fall into the trap of changing the company structure before the strategy has been finalised, resulting in poor productivity results without knowing what the reasons are.

The success of restructuring can be measured by an improvement in productivity. This study aims to identify the key productivity indicators that should be measured, and which will indicate that a successful restructuring process has been completed. Note that the term restructuring in this dissertation does not refer to the restructuring of the business line-up (mergers and acquisitions), but refers to the restructuring of the hierarchy in an organisation.

The duration and magnitude of the restructuring process are equally critical. The outputs thereof can, amongst other critically important measurements (issues), be measured by productivity and quality. Management, to alter the reconstruction process, can use the feedback received from productivity and quality measurements. According to Chase et al. (2004:39) productivity is a relative measure. The approach to productivity comparisons can be made in one of two ways. Firstly, the productivity results can be benchmarked against similar companies in the industry. Such information is, however, difficult to verify and not always fully comparable. Secondly, productivity can be measured over time, for example by indexing within the same operation. The targets set in terms of productivity could accommodate both of the above-mentioned approaches. Restructuring affects the whole organisation. It is therefore necessary to apply a multifactor productivity measurement. By applying this approach, it should be possible to determine whether the total inputs have decreased and the total outputs have increased, thereby resulting in a more productive and efficient organisation after the completion of the restructuring process.

Issues that need to be addressed are:

- Which information can be viewed as important feedback in terms of productivity improvement?
- How should the feedback be processed to present management with purposeful information?
- Any restructuring process takes time to plan and implement. What is the ideal time duration for such a process without affecting productivity negatively?

- What are the key points that need to be considered in the restructuring process to enhance positive effects on productivity? If not in place, how should these key points be implemented?
- Companies have different levels within the organisation. To which level should the restructuring proceed for a company to have completed a successful restructuring process?
- Should the implementation of work teams be included in the restructuring process?

Quality, as one of the substructures of productivity, should at least stay the same (if not improve) as a result of the restructuring. How should quality be measured to support the overall productivity performance of the restructuring process?

1.5.METHODOLOGY

The subject of this dissertation leads to a literature study of the topic. The research focuses on restructuring and, more specifically, on downsizing.

Information on the subject was obtained from:

- Internet publications
- Publications
- Magazines and journals
- NWU Online Library
- Questionnaire

A questionnaire was drawn up to verify some of the important points that were made in the literature study. Clover (Pty) Ltd. (hereafter referred to as Clover) consists of six managerial levels from top to bottom. The questionnaire was distributed to people on each of the six levels (from the management board to operator level) to collect information that represents the perceptions of all the employees in the company about the recent restructuring exercise. This approach was followed in order to be able to

compare how the different managerial levels perceived the restructuring exercise. The two levels below the management board were mostly implicated in the restructuring process. The restructuring contained a downsizing exercise, as well as combining different divisions and departments. The end result was that functional employees and managers, as well as line managers, were affected in the process. The author therefore ensured that the questionnaires that were sent to employees on these levels were returned, thereby determining the impact that the restructuring process had on the different management levels, as well as on the productivity at Clover.

The questionnaire (Appendix) consisted of multiple choice questions and open-ended questions with the main purpose of collecting as many different opinions as possible, especially since the questionnaire was distributed to managers in the upper levels of the management board down to shop stewards on the lower levels. The purpose was to cover a representative sample of the whole spectrum of employees on all levels in the company.

1.6 SUMMARY

Through the study of available literature, as well as the questionnaires completed by employees of Clover, the author determined the level of impact of restructuring on the productivity of a recent downsizing exercise at Clover. An overview, as well as the effects of the restructuring exercise, will be detailed.

CHAPTER 2

2. LITERATURE SURVEY

2.1 INTRODUCTION

The reasons for corporate restructuring are usually either competitive pressures or a changing environment. Managers reorganise their businesses to minimise the uncertainty and maximise fit by optimising management processes, enhancing performance, reducing costs, optimising product mix or generally strengthening their competitive position (Dentchev & Heene, 2003). On other occasions, the pressures due to low profits, poor productivity and high operational costs are such that a company has to address these issues in order to remain competitive.

One of the possibilities in addressing the problem is to restructure. To restructure implies taking drastic steps, whether it is on the highest level by means of mergers and acquisitions, or on the lower levels in the company by means of outsourcing, reengineering or downsizing. The saying that one should always begin with the end in mind applies in the restructuring of an organisation as well. When restructuring occurs without specific goals, productivity levels that have to be met in order for a company to be competitive are influenced negatively. A great deal of uncertainty is created in the process of restructuring amongst employees, management, suppliers and customers. If not undertaken in the correct way, restructuring can lead to a process that takes a long time to settle, causing unnecessary profit losses. According to Chase *et al.* (2004:339) organisations need to organise around outcomes resulting in greater speed, improved productivity and customer responsiveness.

Improving productivity itself is a double-edged sword. Without economic growth improving, productivity displaces labour. However, continuous improvement in productivity is essential to remain competitive in business.

After restructuring it is essential for any organisation to be productive, thus optimising its competitiveness. This, in turn, presents a far better chance for a restructuring process to be successful.

2.2 BACKGROUND IN TERMS OF PRODUCTIVITY AND GROWTH IN THE FOOD AND DAIRY INDUSTRY

In terms of productivity ratings, South Africa does not fare well compared to other countries. The result thereof is that global competition is mostly seen as a threat. Profits in the food and dairy industry are under pressure, resulting in drastic steps that have to be taken from time to time. This is especially the case when:

- Economic factors take a turn for the worse.
- Surplus products from abroad are available for extensive periods in South Africa.
- World prices fall low, supported by the strong currency, resulting in “dumping” becoming profitable for international organisations in South Africa.

In terms of long shelf-life products, overseas products can generally be imported and sold at lower prices than the comparable South African products.

Factors in the dairy industry in South Africa that hamper growth are: (Vink & Kirsten, 2002)

- Too many small processing plants.
- A lack of economies of scale, due to the relatively small volumes processed in most of the plants, as well as the high capital cost relative to the volumes processed.
- Low levels of investment in terms of technology.
- High unit costs, mostly due to high raw material prices and high operational costs.

- Inconsistent quality.
- Competition in the global arena contributed to the above-mentioned factors.
- High input costs (milk price).
- Low productivity.
- Unskilled workforce.
- High salaries compared to the skill levels and productivity output achieved in the food and dairy industries.

Towards the end of 2002, South Africa was in a situation where the currency did not expose the above-mentioned weaknesses. The strengthening of the Rand, as well as the policy changes, according to Vink and Kirsten (2002:11), experienced over the past decade exposed the low productivity of the food industry; this in spite of the acceleration in productivity after 1994.

The degree of openness of the South African economy is a major contributing factor to profitability pressure that the dairy industry as a whole experiences. The graph in Figure 1 shows the increase in the degree of openness after 1994. It also shows to what extent the agricultural sector has opened up as a result of the liberalisation of agricultural marketing, to the extent that the agricultural sector is now almost as exposed to the world economy as the economy as a whole (Vink & Kirsten, 2002:8).

Figure 1: Degree of openness of the South African economy.



Note: 'Openness is measured as (Exports + Imports)/GDP

Source: (Vink & Kirsten, 2002:9)

In some instances, companies have had to adapt by implementing drastic measures to ensure their survival and continued growth. Companies that postponed the implementation of these measures ended up having to take, or still need to take even more drastic steps in order to ensure their continued existence, let alone making profits.

According to a study carried out by Vink and Kirsten (2002:34) the four largest dairy companies in South Africa process between 74% and 78% of the total amount of commercial milk delivered to dairies. They further found that, in South Africa, increased competition in the dairy industry with smaller milk buyers increasing their volumes, are counter to that found in the rest of the world. In the rest of the world, fewer and larger firms are responsible for the production of dairy products. In spite of the increased competition in South Africa, there is little evidence of the processing industry becoming more competitive; it remains oligopolistic. Vink and Kirsten (2002:35) quoted the National Productivity Institute (NPI) as saying that the scope of opportunity in the dairy industry was large, especially in view of the

possibilities that exist in the improvement of all resources (capital, labour, equipment). They further state that, based on this information, the productivity of the dairy industry is not conducive to narrowing the gap between the farm gate and consumer price. This sets the scene for intense competition in the primary and secondary dairy industry.

2.3 RESTRUCTURING OVERVIEW

In an ideal world, everyone employed by a company should be able to add value. Employees who add value will contribute to the improvement of productivity in a company, thus contributing to the profit. However, in the real world, especially in South Africa with our low levels of productivity when compared to the countries that we have to compete against, the pressure to improve productivity is even higher. The result thereof is that the occurrence for the need to restructure seems to be on the increase. Restructuring with the aim to improve productivity can be done in many ways. The most common ways are:

- Downsizing
- Outsourcing
- Divesting some businesses and acquiring others
- Strategic alliances
- Reengineering

(Hellriegel *et al.*, 2002: 26; Thompson *et al.*, 2005: 273)

2.3.1 Downsizing

Restructuring commonly takes place by means of downsizing the company. This is done to reduce the number of management levels. Many companies restructure by way of downsizing.

2.3.1.1 The main objectives of downsizing are:

- Cutting costs.
- Spurring decentralisation and speeding up decision-making.
- Cutting bureaucracy and eliminating layers of hierarchy.

- Improving customer relations.

(Hellriegel *et al.*, 2002: 26)

2.3.1.2 According to Mroczkowski *et al.* (2002: 5), some of the main causes for downsizing are:

- Business downturns
- Privatisation
- Organisational restructuring
- Improving staff utilisation
- Outsourcing and contracting
- Result of a merger
- Result of an acquisition
- Plant obsolescence
- Transferral of other new technological processes
- Loss of government funding or contracts
- Plant automation
- Long-term strategic factors

In the end, the above-mentioned reasons for downsizing are catalysed by either market driven forces or long-term strategic plans, or acquisitions and mergers. Downsizing catalysed by market driven forces is usually long overdue and a reactive approach. Downsizing catalysed by long-term strategic plans follows a proactive approach, enabling careful planning and the outcomes that the company would expect after the downsizing exercise has been completed.

The speed with which downsizing is engaged upon depends, to a great extent, on the labour laws and the strength of the labour unions. In order to have positive results in terms of improved productivity outcomes, it is very important to involve the labour unions from the start. This will ensure clarity as well as buy-in from all parties involved.

2.3.1.3 Consequences of downsizing

According to Hellriegel *et al.* (2002: 26) middle management especially has been hit hard by downsizing. Consequently, today's managers supervise larger numbers of subordinates who report directly to them. This necessitates the need to clarify productivity objectives with subordinates, meaning that they have to understand and buy-in regarding these objectives. Having knowledge of and insight into the value added to the organisation in reaching these objectives assist in the downsizing exercise. Self-managed work teams contributed as well by affording the opportunity to downsize due to self-managed work teams taking ownership of what they are doing.

- Employees between the ages of 50 and 60 years are hit hardest by downsizing.
- Low employee morale was experienced immediately after the downsizing. However a study done by Mroczkowski *et al.* (2002: 9), has shown that morale improved amongst the remaining workers after one year. This was mainly because they felt more secure and became more productive.
- Production costs lowered, thus contributing to the company's profits - improved productivity.
- By keeping the knowledgeable employees, quality improved when downsizing was done.
- Studies showed that the training expenses increased, thereby enhancing the average skill level.
- Sick leave and absenteeism increased temporarily for the first year, after which it improved to the same levels as before the downsizing occurred.

Research done in the United States of America shows that improved profitability does not automatically follow a downsizing effort, and that productivity and cost reduction outcomes vary. In an article in the *Byu*

Magazine Jenkins (1997:8) states that a job is not an entitlement and it is not healthy to view employment that way. Jenkins continues by saying that it is a little too easy for managers to lay off people. Yes, there is a responsibility to the stakeholders, but there is also a responsibility to those people who contributed to making money for the stakeholders for the past several years. Jenkins quoted Lee Perry (1994:8) by saying that the real villains of downsizing are rarely ever mentioned: - the kingdom builders. These are the managers in a company who build kingdoms before a company is ready for them. These managers find jobs for people who do not add value, and the jobs then get eliminated. Bureaucracy is something managers create. Mroczkowski *et al.* (2002: 15) quoted McKinley *et al.* (1995) who said, downsizing can be applied as a "quick fix" that should impress shareholders, bring down costs and improve profitability. Such behaviour often leads to disappointing results. Jenkins further quoted Lee Perry "When organisations cut across the board as a sort of mid-course correction, it breeds a natural backslide. It hasn't fundamentally changed how the work is done in the organisation. Therefore, if all an organisation does is cut 10 percent, it is still using insufficient processes. People just have to work harder. This creates natural forces that lead managers to balloon up their employment again. Researchers therefore advocate a meticulously planned restructuring process where reasonable and expected outcomes of downsizing are clearly spelled out. The idea is to cut out non-essential work, not people. Typically, such a plan would include obtaining the approval of all stakeholders, that is shareholders, customers, management and the workforce. Such a plan will include the detail of how implementation will be planned and the expected outcomes of downsizing will be stated clearly.

In summary: According to Mroczkowski *et al.* studies have shown that there are serious negative issues during the first year after downsizing. With longer term stability, however, the benefits outweigh the negatives.

Recommendations: (Mroczkowski *et al.*: 2002:16)

- Companies should advance the concept of employability of workers rather than secure employment. Career planning and counselling

services should be provided to help employees make the adjustment to a system of flexible movements in employment structures.

- The need for restructuring should be identified as early as possible. It might be driven by new forces such as new technology, business-to-business commerce, and mergers and acquisitions resulting from international business entering the transition economies. As a consequence, the goals of rightsizing will go beyond simple improvement in staff utilisation and more towards reshaping the skills mixes, as well as creating flatter and more responsive organisational structures, thus building complete new business cultures.
- New waves of employment restructuring are likely to occur in situations of high productivity and full utilisation of employees' capacities. Therefore, the downsizing benefits in terms of productivity cost and profit may become harder to obtain. Morale will depend on the general acceptance of low levels of job security.
- Managers should allow enough slack to the new competitive forces on their employment structure to allow for rapid expansion when markets develop or new opportunities arise.
- One way to prepare for future challenges is to use flexi timers. This means allowing people to work from home, doing "piece jobs". People employed like this usually have the vital skills necessary to bridge a gap that occurs when a new opportunity arises.
- Work to improve counselling and career management skills of supervisors and managers, as well as human resources, management must proceed. Developing assistance programs for displaced workers, especially in the area of outplacement services, should be considered. Well-developed services of this kind may help alleviate morale problems resulting from lay-offs.
- Out of hand business groups should keep on lobbying with the government and labour unions to change the legislative framework to increase the flexibility of the labour markets. Business should support education and public communication programs that prepare workers for career self-reliance.

Results recorded from organisations on downsizing:

According to Cummings and Worley (2005: 292), out of a survey conducted amongst 1005 companies that used downsizing to reduce costs, fewer than half actually met their cost targets. Only 22% achieved expected productivity gains. About 80% of the firms needed to rehire some of the same people they had terminated. Fewer than 33% of the companies that were surveyed reported that profits increased as much as expected and only 21% achieved satisfactory improvements in shareholders' return on investment. Another survey of 1142 companies found that only a third of the companies achieved productivity goals. Cummings and Worley (2005: 294) further state that the effect on financial performance due to downsizing also shows negative results.

These research findings paint a rather bleak picture of the success of downsizing. Cummings and Worley (2005: 295) states that these results, although negative, must be interpreted cautiously:

- Many of the surveys received feedback from human resource specialists who might be naturally inclined to view downsizing in a negative light.
- The studies of financial performance may have included a biased sample of firms. If the firms selected had been poorly managed, downsizing alone would have been unlikely to improve the financial results. The reasoning is that firms with poor financial performance are more inclined to downsizing as a means to become profitable again.
- The disappointing results may be a function of the way downsizing was implemented.

A number of well-known firms, for example Motorola, General Electric, etc. have posted solid financial returns following downsizing exercises. Cummings and Worley (2005: 295) state that the success of downsizing

efforts may depend as much on how effectively the intervention is applied as on the lay-offs or the quantity of layers that were taken out.

After a downsizing exercise has taken place and costs have been reduced, the challenge however remains to maintain or, better still, to improve on the productivity levels achieved before the restructuring process started.

Quality as a concept from the consumer's viewpoint is supported by:

- Positive company image. To put it in another way: What is the consumer's image of the company?
- Cost of the product. Any product or service has to present "value for money" in the eye of the consumer before he/she will consider buying the product. This means that cost will always be a factor. However, as mentioned previously, the focus should be on productivity measurement and the measuring of the output to support the "value for money" concept.
- Decreased liability. Any consumer expects the product that is available on the shelves to be within the legal standards. Companies whose products do not comply with these standards face the possibility of costly legal action.

2.3.2 Outsourcing

Hellriegel *et al.* (2002: 26) defines outsourcing as letting other organisations perform a needed service and/or manufacturing needed parts or products. In many instances, outsourcing and downsizing go hand in hand. The ability to outsource allows organisations to become flatter in hierarchy and smaller; meaning becoming more effective. Outsourcing allows an organisation to concentrate on its core business by striving to continuously improve on aspects that contribute to better productivity in an organisation.

Advantages of outsourcing, according to Thompson *et al.* (2005: 153) are:

- An activity that can be performed more cheaply by outside specialists.
- An activity that can be performed better by outside specialists.
- When the activity is not crucial to a company's sustainable competitive advantage and won't hollow out its core competencies, capabilities, or technical know-how.
- It reduces the company's risk exposure to changing technology and/or changing buyer preferences.
- It streamlines the company's operations in ways that cut the time it takes to get newly developed products into the market place. It lowers internal coordination costs, and/or improves organisational flexibility.
- It allows a company to concentrate on strengthening and leveraging its core competencies. It should allow the company to focus on distinctive competencies, thus creating a sustainable competitive advantage.

An aspect that companies always have to keep in mind is the outsourcing of too many and the wrong type of activities, resulting in weakening the company's own capabilities. In the long run, such companies have to work even harder to be successful.

2.3.3 Divesting some businesses and acquiring others

According to Thompson *et al.* (2005: 273) the divesting of some businesses and acquiring of other businesses have the objective to put a whole new face on the company's business line-up. Restructuring can also be mandated by the emergence of new technologies that threaten the survival of one or more of a company's important businesses. Newly appointed CEO's might decide to redirect the company. It might be prompted when a firm has a unique opportunity to make an acquisition so big and important that it has to sell some of its existing businesses.

Thompson et al. (2005: 274) further states that corporate restructuring has become a popular strategy over the past decade. After acquiring an organisation, restructuring usually takes place within the organisation. This occurs when key personnel from the organisation that acquired the other are placed in the newly acquired organisation to ensure strategic alignment. It usually takes the route of senior managers in the previous hierarchy being replaced to ensure a quick response and to adapt to the new culture of the mother company.

2.3.4 Strategic alliances

According to Hellriegel *et al.* (2002: 27) two or more firms agree to cooperate in a venture that is expected to benefit both (all). This alliance creates new resources for a company, thus contributing to improved productivity.

A typical example of strategic alliances is the forming of joint ventures between two partners. According to Thompson et al. (2005: 240) a strategic partnership or joint venture can be useful in at least three types of situations:

- It is able to pursue an opportunity that is too complex, uneconomical or risky for a single organisation to pursue.
- It makes sense when the opportunities require a broader range of competencies and know-how than any one organisation can marshal.
- It is sometimes the only way to gain entry into a desirable foreign market.

When these alliances are formed, you end up with different organisations, each with their different operational approach. In these circumstances, it is critical for future success to clarify the objectives to be reached, including the productivity objectives. These objectives, considered well enough, will contribute towards aligning the activities within the new alliance, enabling positive results sooner than later.

2.3.5 Reengineering

This is commonly known as the radical redesign of an organisation's processes, especially its business processes. The traditional ways of organisations and how they have approached the different steps in the value chain are transformed completely. According to Hellriegel *et al.* (2002: 329) the goal is to design the most effective process for making and delivering a product. Effective processes are those that cost the least, while at the same time rapidly producing goods (reliable) and providing service of excellent quality. Benefits may include faster delivery time, more accurate billing and fewer defective products, thus improving productivity. New technology usually provides the opportunities to reengineer a specific process. The new technology, as well as the transformed process, frequently allows an organisation to downsize, thus decreasing costs.

Results recorded from organisations on reengineering:

Cummings and Worley (2005: 300) state that the results from reengineering vary widely. A bestseller on reengineering reported that 70% of the efforts failed to meet their cost, cycle time or productivity objectives.

Performance improvements in particular processes were associated strongly with changes in six key levers of behaviour, including structure, skills, information systems, roles, incentives and shared values. Committed leadership to the new process was identified as one of the critical aspects to ensure success. Cummings and Worley further state that a survey done amongst companies that had successful reengineering cases found that they were characterised by:

- A clear vision of the future.
- Specific goals for change.
- Use of information technology.
- Top management's involvement in and commitment to clear milestones and measurements.
- Training of participants in process analysis and teamwork.

2.4 PRODUCTIVITY AND GROWTH

Productivity is defined as all the actions that bring a company closer to its goals (Chase *et al.*, 2004:675). According to Chase *et al.* (2004:29) the productive strategy generally yields results sooner than the growth strategy. A balanced approach is necessary to ensure that cost (which includes restructuring as well) and asset reductions do not compromise a company's growth opportunities. Thompson *et al.* (2005: 29) states that a Balanced Scorecard approach for measuring company performance requires setting both financial and strategic objectives and tracking their achievement. The surest path to sustain future profitability quarter by quarter and year after year is to relentlessly pursue strategic outcomes that strengthen a company's business position and, ideally, give it a growing competitive advantage over rivals. This approach may include restructuring as part of the planned strategic outcome.

As mentioned before, improving only productivity is a double-edged sword. Without growth, improving productivity displaces labour, thus minimizing cost. People (and more specifically, the unions) realise this concept, therefore buy-in is not always there when an organisation is not growing and trying to increase its profits by minimising cost.

Productivity in itself is a simple concept: The amount of output produced per unit of input. In general, it is easy to talk about productivity, but very difficult to measure and manage. It has been said that productivity isn't everything; however, in the long run it is almost everything. When one thinks about it, this concept is applicable to almost all types of organisations and institutions. A company needs to have its product or service delivered on time, every time, at the best price with the quality of the product or service always being the same. The same applies to non-profit organisations, for example schools and universities, etc., if they want to continue to excel. Government needs to deliver on promises that were made, as well as basic services and infrastructure to support economic growth and development in any country. Government needs to deliver again by maximising output with

the minimum input, because they are working with the taxpayer's money, and the taxpayer expects Government to deliver on its promises. Those governments that succeed in doing so contribute to long-term economic growth, which is a positive spiral that in the end benefits everyone in a country.

The ideal is to increase volumes and at the same time to prevent costs from rising or, even better still, decrease costs. Productivity improvement in general can be summarised as the following:

- Input down; Output same = Productivity up.
- Input same; Output up = Productivity up.
- Input down; Output up = Productivity up

When an organisation is in the process of restructuring, the goal should always be to achieve one of the above-mentioned equations. Typically, any restructuring process initially wants to aim at lowering the inputs while at least maintaining the outputs, resulting in a beneficial situation. In general, the aim should be to increase the outputs as a second phase while maintaining or lowering the inputs. The combined effort will then be the achievement of the third equation resulting in the most beneficial situation for an organisation. According to Chase *et al* .(2004: 39) a multifactor productivity measure is where you compare the ratio of output to a group of inputs but not all inputs. These outputs identified must be applicable to a specific type of industry.

Brynjolfsson and Lorin (1998: 1) ask the question: Where does productivity growth come from? They continue by answering that by definition it doesn't come from working harder – that may increase output, but it also increases labour input. Similarly, using more capital or other factors does not necessarily increase productivity. Productivity comes from working smarter.

Productivity is related to inputs in general that should contribute towards higher productivity outputs:

- Adopting new technologies and new techniques for production.
- The rate of investment in a country or a business usually leads to growth.
- Education – investing in people. Globally, the countries where the education is of a higher level are growing fastest.
- Innovation and invention create those breakthroughs that enable growth.
- Creating a motivational climate that supports productivity improvements.

2.5 THE IMPORTANT ROLE OF INFORMATION

Information is a value-added resource and its value isn't easily documented. According to Hellriegel *et al.* (2002: 543) information is used to achieve desired goals and may include:

- Maintaining or increasing market share
- Avoiding catastrophic losses
- Creating greater flexibility and adaptability
- Improving the quality of goods and services
- Maximising revenue
- Minimising costs

Typically, higher level managers are interested in information about overall organisational performance and new product ideas. Detailed information on daily production and quality at different plant levels is useful to self-managing teams in the plants. In the case of a restructuring exercise, the process itself, as well as the desired outcomes, should be monitored by carefully selecting the information that will contribute to the success of the exercise.

Cummings and Worley (2005: 448) state that the greater the uncertainty, the more information is required to learn about the environment. This is

particularly evident when environments are complex and rapidly changing, for example in a time of restructuring.

2.6 THE NEED FOR A MOTIVATIONAL CLIMATE IN THE WORKPLACE

To succeed with any productivity improvements, a motivational climate is a prerequisite for success. People generally try to prevent change from happening, mainly due to a sense of security they experience in times of stability.

The questions that arise are:

1. How should one implement restructuring actions while coping with this feeling of uncertainty and still achieve the required results the organisation needs to succeed?
2. How must a motivational climate be kept in place or reaffirmed to assist in the achievement of a positive outcome?

It is generally accepted that people cannot be motivated if management does not create a motivational climate, e.g. organisations and their leadership have a large role to play in creating a climate where the personnel working in the organisation are motivated. To some people it is much easier to be motivated and to accept change than to others. It differs a lot from person to person and people's approach to life itself. According to Coetsee (2002: 102) locus of control refers to what one ascribes responsibility or blame for what is happening or occurs in one's life. It thus has to do with the degree to which you believe that you yourself influence what happens to you. Coetsee continues by saying that people with an internal locus of control believe that we as humans have the power and ability to decide on our actions and behaviour. However, we don't have the power to decide what the consequences of these decisions will be. People with an external locus of control are 'as-a-result-of' people, while internal loci of control people are 'in-spite-of' people.

As a starting point, everybody accepts as a fact of life that there will always be change. The leaders in the organisation must be aware of the different

ways how people experience change and deal with it accordingly to ensure that the desired results they want to obtain from the restructuring and productivity objectives are achieved.

2.7 LEADING AND MANAGING CHANGE

As mentioned previously, change is part of everyday life. It is no different in the organisational setup. For organisations to “survive” and increase their profits they constantly need to restructure. Coetsee (2002: 188) states that it is understandable that management and leadership excellence are more and more seen in terms of managers' abilities to manage change and the abilities and skills of leaders to guide change effectively. A lack of dedication and focus amongst the personnel leads to low productivity and weak results in the objectives to be achieved by the organisation.

Any company needs to recognise the external and internal forces for change. Kreitner & Kinicki (2001: 659) summarise these forces as follows:

External forces are:

- Demographic characteristics, for example age, education, skill level, gender, immigration. Two key trends they have identified are:
 - The workforce is more diverse.
 - The business imperative to effectively manage diversity.
- Technological advancements, for example manufacturing automation and office automation, are increasingly used as means to improve productivity and market competitiveness.
- Market changes, for example mergers and acquisitions, as well as domestic and international competition. The emergence of global economies is forcing companies to change the way they do business.
- Social and political pressures, for example war, values and leadership.

Internal forces are:

- Human resource problems/prospects, for example unmet needs, job dissatisfaction, absenteeism and turnover, productivity, participation and suggestions. These problems stem from employees' perceptions about how they are treated at work, as well as the match between the individual and the company.
- Managerial behaviour and decisions, for example conflict, leadership, reward systems and structural changes. Excessive interpersonal conflict between managers and their subordinates is a sign that change is needed.

Internal pressures to stay viable (improve productivity) in the food and dairy industries are forever on the increase. The differentiation laps of time achieved with new products are decreasing all the time. This is made possible due to technology and know-how being available globally from numerous sources in terms of equipment and knowledge. The result is that products get marginalised to be more generic than value-added, putting pressure on costs throughout the supply chain of an organisation. This means that the need for change resulting in improved productivity and lower costs is on the increase in the food and dairy industry. These changes resulting from the need to improve productivity, lower costs and to restructure are either done by way of incremental changes (small scope) or strategic (transformational) on a large scale. When transformational changes take place the organisation moves from a present state to a future state by implementing specific changes through planned interventions. Depending on the type of restructuring (downsizing, outsourcing, divesting some businesses and acquiring others, strategic alliances or reengineering) that takes place, the organisation's mission, goals and climate and in the case of mergers and acquisitions or strategic alliances, the culture and structure change dramatically as well.

Important characteristics of restructuring are:

- Requires a number of integrated interventions
- Requires detailed planning and is more time-consuming
- Involvement and commitment of all stakeholders is necessary and all members of the organisations are affected in one way or another
- Results of change are often unpredictable
- High emotional levels are present
- Resistance to change is stronger
- Leads to longer term changes
- Top management involvement a prerequisite
- Requires effective management and leadership
- Enhances effectiveness - doing the right things right

(Coetsee, 2002: 194)

2.8 PLANNING FOR ORGANISATIONAL RESTRUCTURING TO GAIN PRODUCTIVITY IMPROVEMENT

The subsection headings describe a generic approach proposed by Hellriegel *et al.* (2002: 320). They state that change is most likely to be orderly when it has been planned. The planning process itself can help unfreeze the organisation by convincing people of the need for change and involving them in discussions about how to change.

2.8.1 Assess the environment

According to Hellriegel *et al.* (2002: 320) the four environmental factors most responsible for stimulating change are customers, technology, competitors, and the workforce. Others that could be added are globalisation, technological advances and the actions of important stakeholders.

Cummings and Worley (2005:90) state that dynamic environments change rapidly and unpredictably and suggest that organisations adopt a flexible

strategic orientation. Dynamic environments are relatively high in uncertainty.

Any organisation assessing the environment is strongly advised to start off with the Five Forces Model as defined by Michael Porter (Hellriegel *et al.* , 2002 :89). The five forces are buyer power (customers), potential entrants, suppliers, substitute products and industry rivals.

Economic indicators that will influence industry profitability must be taken into consideration. The economic forecast done by the Reserve Bank contains a large amount of relevant information applicable to industry. The currency ratio, which has been strengthening since 2002, has exposed South Africa's low productivity by not being able to compete on the global market. Companies in the industry that did not adapt early enough experienced downward pressure on their profit margins.

World prices follow a cyclical pattern in most of the agricultural products. Studies on the expected tendencies in world prices, especially in food commodities, need to be taken into consideration.

2.8.2 Determine the performance gap

Every organisation has certain objectives that have to be achieved over time. The current results, as well as the expected results the organisation expects to achieve in the near future, need to be compared against these objectives. By determining the performance gap, the severity of the situation can now be determined.

Chase *et al.* (2004: 40) refers to the Balanced Scorecard concept as a tool that forces an organisation to articulate its strategy. In addition to the traditional financial measures, a Balanced Scorecard includes metrics that help an organisation answer three critical questions:

- a) How do customers see us?
- b) What must we excel at?
- c) How can we continue to improve and create value?

In terms of determining the productivity gap, it is important to consider the necessary inputs mentioned in 2.4 namely:

- a) The use of new technologies and new techniques
- b) Determining the skills gap
- c) Determining the motivational climate that supports productivity

The information gathered with the Five Forces Model can be used in the diagnosis of the organisational problems compared to the rest of the industry, thus determining the performance gap that exists.

2.8.3 Diagnose organisational problems

According to Hellriegel *et al.* (2002: 322) the aim is to identify the nature and extent of problems before taking action. They continue that the idea that diagnosis should precede action seems obvious, but its importance is often underestimated. All too often results-orientated managers prematurely begin the change process and impatiently push for solutions before the nature of the problem itself is clear.

Cummings and Worley (2005: 90) state that to understand how a total organisation functions, it is necessary to examine particular inputs, design components and the alignment of the two sets of dimensions.

Conducting an organisational diagnosis is a prerequisite for successful change. According to Coetsee (2002: 197) the purpose of diagnosis is to determine the present state of the organisation – what the strengths and the problem areas or weaknesses are, and what the gap is between the desired future state (vision) and the present state (current situation) of the organisation.

The requirements to be met for a diagnosis are:

- Information must be valid and reliable.

- The information must reflect the complete picture of the organisation.
- The methods used to complete the diagnoses should prove to be substantiated when verified against other methods.

2.8.4 Articulate and communicate a vision for the future

Hellriegel *et al.* (2002: 322) states that successful change efforts are guided by a clear vision of the future. Until leaders formulate a clear vision and persuade others to join them in being dedicated to that vision, they will not be able to generate the enthusiasm and resources needed for the necessary large-scale changes.

According to Coetsee (2002: 35) visions should contain two interrelated sub-factors:

- a) Goals – focussing on what we have to achieve
- b) Values – focussing on how we are going to achieve it

The goals give direction to a vision but must be supported by shared values (the guiding principles of behaviour).

Goals and objectives set the priorities; they provide the guidelines for management decisions, especially in the different divisions and functional departments; set the standards for achievement; provide the means for measuring achievement; and provide a deadline or time frame in which to achieve.

2.8.5 Develop and implement a strategic plan

According to Hellriegel *et al.* (2002: 322) investments made in planning often produce significant improvements in productivity. A strategic plan for change could be the blueprint for action. According to Thompson *et al.* (2005: 38) a manager must be able to direct organisational change,

motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets in order to convert strategic plans into actions and results.

Organisations structured in divisions or functional departments should develop a more focussed plan based on the overall strategic plan. The divisional or functional managers should consider what has to be done in their specific departments to execute the strategic plan, as well as the actions they need to take to get the process underway.

The anticipated output of a strategy can be classified in five components:

- Financial outputs, for example sales, profits, return on investment and earnings per share.
- Productivity outputs measuring the internal efficiency, for example sales per employee, waste, error rates, quality, units produced per hour, operational cost per unit, equipment utilisation, line/plant performance and line/plant efficiencies, etc.
- Shareholder satisfaction reflecting how well the organisation has met the expectancies measured with the share price.
- Customer satisfaction measured in terms of market share, customer complaints and focus group data.
- Employee satisfaction measured in terms of opinion surveys.

2.8.6 Make plans to anticipate and reduce resistance

Resistance to change is an important factor that needs to be managed in any restructuring process. If not managed closely, it might result in the company not fully implementing a strategy, and thus not receiving all the benefit involved by implementing the strategy. Some examples of resistance can be immediate criticism, malicious compliance, sabotage, insincere agreement, silence, deflection, in-your-face defiance etc.

In most instances, resistance to change is a negative force slowing down the restructuring process, causing time delays and negatively influencing expected results.

According to Hellriegel *et al.* (2002: 324) individuals and sometimes organisations tend to resist change for four reasons:

- Fear

In many instances, employees fear the consequences, for example restructuring often means downsizing, causing them to lose their jobs.

- Vested interests

Some managers initiate change believing that people with the same information would come to the same conclusion. Sometimes people have vested interests in maintaining things as they are, thereby resisting change.

- Misunderstandings

When people misunderstand or don't understand the implications of change they build resistance. It is important for top managers to be visible during change to clearly spell out the direction of the organisation and what the benefits will be after the change has been completed.

- Cynicism

This is seen as something new managers want to do to make their mark. When trying something new, some might view it as the "flavour of the month". Involving employees from the start throughout the change process reduces cynicism. Research shows that participation, especially when it is voluntary, usually leads to commitment.

Coetsee (2002: 204) identifies six steps to manage resistance to change:

Step 1: Determine the system's readiness and susceptibility to change. This can be evaluated by determining the culture's acceptance of change and by determining how it was managed in the past.

Step 2: Identify sources of resistance (individuals, groups or resistance coalitions).

Step 3: Determine the nature of resistance (passive, active or aggressive resistance).

Step 4: Diagnose reasons for resistance. Reasons include phenomena-based in the individual, social system or the environment.

Step 5: Select, develop and implement specific resistance management strategies directed at the resistance of each source.

Step 6: Evaluate the success of the resistance management effort. If the effort is successful, manage it. If not, go back to Step 1.

2.8.7 Make plans to monitor and begin change implementation

Careful consideration should be given in measuring the employees' and customers' satisfaction throughout the change process. In addition, the productivity improvements, cost savings, profitability and other results required from the change process should be monitored continuously to ensure progress. Hellriegel *et al.* (2002: 327) states that misjudging the amount of time needed to see positive results of a change process is perhaps the most common mistake that managers take.

CHAPTER 3

3. EMPIRICAL INVESTIGATION AND RESULTS

3.1 INTRODUCTION

Clover, a leading company in the South African dairy industry, recently underwent a restructuring exercise by means of downsizing and combining divisions within the company. The purpose was to drastically decrease the costs in the company to levels that would allow Clover to be more price competitive in the market. Downsizing was one of a few important actions that were taken in the process. To be more price competitive meant a total increase in productivity (decrease the total operational costs) in the company.

As in many other instances, there are always different opinions on:

- Whether the restructuring exercise was really necessary
- Whether the initial goals, as set out at the beginning of the exercise, were achieved
- The success of the exercise in itself

From the above-mentioned points and from the answers received in the questionnaires it is evident that there are important issues that need to be considered in any restructuring exercise. The results from this research done will, together with other research that has been done on different restructuring methods present examples to companies that need to go through a similar exercise. Thorough planning and executing any restructuring exercise from the start will ensure successful completion of such an exercise.

3.2 THE DESIGN

To gather information about the topic of this dissertation, a questionnaire (Appendix) was sent to employees within Clover. The aim was to gather information representing the whole spectrum of personnel working in Clover who were affected by the restructuring process. For this reason the

questionnaire was sent to employees working in all of the managerial levels within Clover.

3.3 METHOD

The methods applied to research can be categorised as follows:

- Formal sciences, for example mathematics, have no association with empiria.
- Factual sciences study empirical objects and events. The factual sciences are further categorised on the basis of expected results being mainly theoretical, practical or of both types.
 - Basic research – primarily promotes the theory and collected knowledge.
 - Applied research – promotes both theory and practice.
 - Development – practical benefits only.

(Anon, 1994)

From the above-mentioned classification, the method applied in this dissertation is the applied research method; the reason being that the author plans to put forward a proposal on account of the empirical research done.

In the literature study, many important issues that need to be considered in a restructuring process were identified. The points that were identified were put into questions with the aim of forming a general opinion on whether the restructuring exercise was successful or unsuccessful, as was defined in the goal referred to in 1.3.1. The proposal will be put forward with these answers in hand as well as a conclusion and a recommendation.

3.4 PARTICIPANTS (RESEARCH GROUP)

In compiling the research group, a convenience sampling method was applied. Care was taken to include employees from all levels to have an unbiased group that represents different opinions within Clover. Clover consists mostly of five

managerial levels, making it six from top to bottom. Two to four persons in each of these levels were identified. The intention was that these employees working in the different levels in the company should represent the opinions of the population. The group consisted of:

- Management board members
- Senior management
- Middle management
- Junior management
- Supervisors
- Operators and general workers

In total, 22 questionnaires were sent to employees on the different levels. The whole spectrum was covered, including two members of the Management Board down to two Chief Shop Stewards. A total of 16 questionnaires were returned and represented employees across the six levels from top to bottom.

The fact that the downsizing was a first for Clover, as well as the fact that it was a time of uncertainty for everyone involved, makes the participants (who were all to a larger or lesser extent implicated by the exercise) appropriate participants in the study. Those who remained in the company had to do more work with fewer resources, thus compensating for the people who had to leave due to the restructuring exercise.

3.5 PROCEDURES AND RESEARCH METHODS

The questionnaire was drawn up from relevant information retrieved from the literature study. The purpose of the different questions was to determine whether the points of view mentioned in the literature study (Chapter Two) are applicable to the restructuring exercise that Clover went through. A cross-functional approach was followed with the questionnaire. Although multiple choice questions were included, the main purpose was to receive input from the participants with the focus on a qualitative approach rather than a quantitative approach. For this reason, open-ended questions were mostly asked. In other

instances where participants were asked to choose amongst different options, their choice had to be motivated briefly, thus enabling the author to gather insight in how the participants viewed the restructuring process at Clover.

3.6 ETHICAL ASPECTS

Acknowledgement is given to the work of the authors referred to in this dissertation. The different books and publications helped to guide the author in the literature study, as well as with the compilation of the questionnaire.

The approach to the dissertation is to collect the applicable information without giving negative publicity to Clover. The author has concentrated on the factual information, and aspires to concentrate on the facts in the discussion about the results of the questionnaire, as well as in the discussion and interpretation.

Clover must grant permission before any publication of this dissertation may go ahead, due to the fact that their employees completed the questionnaires in their capacity as employees of the company.

3.7 EXPECTED OUTCOMES

The recent restructuring exercise, including a major downsizing exercise that Clover went through, is a first in the history of the company. Although Clover has been decreasing their staff levels for a number of years, the approach that was followed was more one of a natural process. In situations where retrenchments and restructurings occurred it was more branch, department or division-specific. The restructurings that took place centred on shifting the focus, getting Clover to perform in areas where the under-performance was not acceptable, or where opportunities existed. In the past, downsizing as such was not the main drive behind restructurings.

Because of this background, the author expects the questionnaires to reflect some uncertainty and negativity, mainly due to the fact that the “stable” boat that was rocked had been perceived as a very “stable” boat by the employees.

The author is of the opinion that this false sense of security existed mainly due to three reasons:

- Firstly, Clover has many employees who have worked at the company for many years. Clover had operated as a cooperative, namely NCD (National Cooperative Dairies), for close on a century before it was changed to a company. Many of Clover's employees originate from the cooperative's days.
- Secondly, Clover has seen similar low profit or loss situations in the past, where senior management did not follow such drastic measures. The reason for not taking such drastic measures could also be linked to the fact that Clover used to operate as a cooperative. Since operating as a private company similar situations, which might have been tolerated in the past, could not be tolerated any longer.
- Thirdly, the South African agricultural economy is open to the world as is the rest of the economy in the country. This has resulted in far stronger competition than had been experienced in the past. The result was a bigger focus and a more pro-active approach on returns, profits and potential threats that might have prevailed in the past.

For the first time, personnel were not sure whether they were going to have a job the following day. Of course, everyone hoped for the best. After the initial uncertainty, those who remained suddenly realised that they had more responsibilities. During the restructuring process, a number of people chose to retire early, taking a lot of experience out of the company. Those who remained had to bridge the gap that had been created.

3.8 RESULTS

The questions asked in the questionnaire (Appendix) are divided into two main groups, namely the questions related to the restructuring exercise itself and how the group experienced the restructuring exercise. Secondly, the focus was on productivity and then more specifically, the advantages that the restructuring exercise would present to the company in terms of productivity improvements.

In the questionnaire, the questions were asked in no specific order, although the related questions were grouped together in the following discussion.

Firstly, the questions on the restructuring exercise were:

Question 4: What was the reason given for the downsizing exercise?

Of the respondents, 94% indicated that the restructuring exercise was necessary to improve Clover’s competitiveness by reaching the productivity and strategic goals. Some general comments that were made are:

- To increase the company’s competitiveness
- Operational requirements had to change to remain competitive
- The costs in the company were too high. The lowering of cost was necessary to be able to compete.
- Low profitability due to market situations that changed meant that Clover had to restructure to adapt to the new circumstances.

Question 5: According to you, what prompted the restructuring exercise?

The participants were presented with eight possible options. They were asked to select not more than two of the eight as to what prompted the restructuring exercise. The options were as follows:

Business downturn	21,6%
Organisational restructuring	18.5%
Improvement of staff utilisation	12.2%
Outsourcing and contracting	2.7%
Plant obsolescence	2.7%
Long-term strategic factors	24.7%
New technology processes available to smaller companies	2.7%
Economic situation in RSA	12.2%
Ineffective cash flow	2.7%

One of the participants added ineffective cash flow as a reason that prompted the company into the restructuring exercise.

Question 6: Was the length of the downsizing exercise too long, just right or too quick?

The feedback was as follows:

Too long	56.3%
Just right	25%
Too quick (short period)	18.7%

The main concerns of the respondents who felt that the duration of the exercise was too short, was that the time frame did not allow for proper planning. Another viewpoint is the fact that the people who left the company had not transferred the experience that they had gained (some of them over many years) to the personnel who remained within Clover.

The opinions of the people who felt that the exercise was just right is that a longer exercise would have resulted in even more negativity. In addition, a shop steward who also completed the questionnaire felt that the length was just right. The reason that he gave was that there were no stoppages in the factories because of the downsizing exercise.

The majority felt the exercise was too long. The comments can be summarised as follows: With a downsizing exercise creating such uncertainty, the process needs to be as quick as possible.

Question 7: Was the restructuring exercise necessary for Clover to adjust to its macro environment?

The feedback was as follows:

Yes	81%
No	19%

From the feedback, the information can be summarised into three main points, namely:

- The participants felt that Clover had an inability to compete price-wise and that Clover was not competitive anymore. This non-competitiveness was mainly due to the effectivity not being good enough and the cost structure not being lean enough.
- Clover's elaborate support structure, creating red tape and slowing down decision-making, had to be addressed. A number of participants felt that even after the restructuring exercise the support structure still presented an opportunity for further improvement, resulting in an even more lean structure.
- The restructuring was necessary to enable Clover to become more business-driven.

Question 8: Should the implementation of work teams be included in the restructuring process?

The feedback was as follows:

Yes	87.5%
No	12.5%

The comments can be summarised as follow:

- It was felt that work teams will present more sustainable solutions and buy-in, including the necessary improvement in productivity.
- Work teams present a communication forum that result in the alignment of everyone to the strategic goals in the company.
- Work teams present the opportunity to create ownership, thus coping better with change in the sense that it will be seen as a solution.
- Work teams assist the lesser skilled personnel to get on par quicker. Mentorship and training in the workplace receive more emphasis when work teams function to their full potential.

Question 9: What were the most important goals to be achieved by the downsizing exercise?

The feedback was:

Decrease cost levels to remain at competitive price levels	34.4%
Become more profitable	40.6%
Speeding up decision-making	6.3%
Cutting bureaucracy and eliminating layers of hierarchy	15.6%
Improving customer relations	3.1 %

Question 11: After completion, how did the downsizing affect those who remained in the company?

More responsibility	27.8%
More people reporting to you	5.5%
Fewer management levels – thus improved communication down to the ground level	16.7%
Low morale levels	22.2%
High morale levels	2.8%
New skills had to be acquired	25%

Question 12: To what extent was the downsizing experienced as negative?

The feedback was as follows:

Totally negative	18.8%
Partially negative	81.2%

Question 13: To what extent was the downsizing exercise perceived as a case of uncertainty amongst employees?

Total uncertainty	43.7%
Partial uncertainty	56.3%

Additional comments were made about the effect of "first in, first out" and "bumping", which contributed, to a lesser or larger extent, to the uncertainty that existed during the restructuring exercise.

Question 14: How soon should the need for restructuring be identified in advance?

One year in advance	56.3%
Six months in advance	25%
Three months in advance	18.7%

Question 19: Was it necessary to re-hire people into positions after the restructuring exercise was conducted?

Yes	62.5%
No	37.5%

Participants were asked to briefly motivate their choice. A summary of the feedback is:

- After the downsizing exercise, expertise was needed in certain areas.
- Those who remained in the company had to take on more responsibilities. Due to a lack of training, it was necessary to bring some of the people back.
- Some of those who took a severance package had to be re-hired on a contract basis to utilise their expertise. Some very capable people took packages when it was on offer.

Question 22: Did outsourcing or the concept of outsourcing form part of the restructuring process?

Yes	43.8%
No	56.2%

The summarised comments in favour are:

- Some of the participants felt that outsourcing possibilities were investigated, for example finance.
- Some felt that outsourcing should be investigated as a complementary exercise to downsizing.

Those who answered 'no' made comments about:

- Outsourcing, when viable, has always been a means to reduce cost when the opportunity existed and not only in a time of downsizing.
- Outsourcing should only be applicable to highly skilled functions in principle and not a general approach; more the exception to the rule type of thing.

Question 23: Should outsourcing be investigated as an alternative or a complimentary strategy to downsizing?

Yes	68.8%
No	31.2%

The summarised comments in favour were:

- Outsourcing should complement the core activities in the company by providing the support to a company with more efficient core activities.
- When outsourcing adds value in terms of efficiencies and cost savings, it should be considered.
- Outsourcing, for example turnkey projects which have a start and an end, makes outsourcing a viable option.

Question 24: How acceptable is Clover (personnel) as a company to change? Put in other words: What is the culture in Clover like when change is about to take place?

Receptive to change in general	50%
Neutral to change in general	37.5%
Not receptive to change in general	12.5%

Comments made were:

- It varies within the company. Factors such as age, qualifications, etc. play a role in the acceptability to change.
- At this stage, Clover is constantly introducing new products and technology. This goes hand in hand with change.
- Change and the receptivity thereof is a result of the effectiveness of the communication process, as well as the extent to which the personnel is actively involved in the change process itself.
- Yes to receptive change if done in a transparent manner.
- Yes to receptive change if the motivation is clear.
- Yes to receptive change for the correct reasons.

Question 25: Do you think Clover will go through a restructuring process again in the near future?

Yes	87.5%
No	12.5%

Comments made are summarised as follows:

- The restructuring process did not cut deeply enough. There are still too many employees compared to the competitors in Southern Africa.
- Clover remains a company with too much red tape. The participants in the lower levels felt that senior management still wants to have a too firm hold on decisions, procedures and information. This meant appointing personnel into positions at head office.

- Clover needs to rationalise further to remain cost-competitive. This will inevitably lead to restructuring exercises in the future.

Secondly, the questions on productivity as a consequence of restructuring Were:

Question 1: According to you, what are the key productivity issues in a company that need to be measured and benchmarked in the dairy industry?

The first five options were presented as options in the questionnaire. The participants were asked to add any additional measures that they felt were necessary in the measurement of productivity.

Input costs (raw materials)	21.6%
Operational costs (c/l: c/kg: etc.)	21.6%
Distribution costs	17.6%
Customer satisfaction	13.5%
Time from order to delivery	10.8%
Total costs	2.6%
ROA (Return on Assets)	2.6%
Delivered what was ordered at the correct time at the correct place	1.4%
Market share (in terms of consumer market)	1.4%
Cost of sales	1.4%
Returns from the market	1.4%
Machine availability and efficiencies	1.4%
Losses above standard	1.4%
Net profit	1.4%

Question 2: According to you, what should the strategic objective be in the improvement of productivity?

Overall low cost provider (high efficiency, etc.)	37.5%
Broad differentiation strategy	18.8%
Focussed differentiation strategy (niche)	25%
Focussed low cost provider strategy (niche)	12.5%
Best cost provider	6.2%

Question 3: According to you, what should a company's approach be in the marketplace (dairy industry)?

First – mover	93.8%
Fast – follower	6.2%
Late – mover	-

Question 10: To your collection, how much scope is there for Clover to improve in the utilisation of its resources in terms of capital, labour and equipment?

A lot of scope for improvement	81.3%
Marginal scope for improvement	12.5%
No scope for improvement	6.2%

Respondents were asked to briefly motivate their answer. The feedback can be summarised as follows in terms of "a lot of scope for improvement":

- The time to market (the time from placing the order to the time of delivery) allows for a lot of improvement.
- The business in general can be simplified, i.e. information systems, reduction of store keeping units (SKU's), etc. Clover tends to over-complicate systems and procedures which, in itself, require additional people and management systems to maintain.

- Huge possibilities exist in the improvement of raw material costs which in turn will result in improved competitiveness.
- Efficiencies in operations have huge potential. The reduction in SKU's and contract manufacturing present opportunities. Neither market opportunities, nor the SKU's with high profit margins are fully exploited.
- Clover still operates too much like a bureaucracy and decision-making is too centralised. Being too top-heavy, the company enhances the bureaucratic approach. Some of the participants felt that this approach hampers creativity and entrepreneurial activity, in spite of Clover proclaiming wanting to stimulate these activities.
- Remuneration should be more incentive-driven to contribute to better efficiencies and improvements.
- The participants felt that there is lots of room for technology improvements.

Question 15: What will the effect be in a high growth situation after the downsizing has taken place?

Company will be able to cope with much higher growth than inflation	43.8%
Company will be able to cope with growth more or less equal to inflation	43.8%
Company will be able to cope with growth lower than inflation	12.4%

Question 16: Will the benefits achieved from the restructuring exercise be retained in a high growth situation? The participants were asked to motivate their choice briefly.

The feedback was as follows:

Yes	37.5%
No	62.5%

The participants who answered positively felt that:

- The economies of scale would have a positive leverage effect
- Clover as a company is better aligned after the restructuring exercise
- The restructuring did not affect the capacity of the company and the downsizing exercise was mainly executed in the higher management levels
- The restructuring will give Clover the opportunity to reach the strategic goals in 2008 more easily

The participants who answered negatively felt that:

- The focus of the restructuring exercise was more on costs than on efficiency. Put in other words: It was a rationalisation exercise and not an exercise with the aim of preparing for a growth situation.
- The downsizing led to limited resources in a high growth situation. To go into a high growth situation, additional resources are needed.
- Operational resources needed to support a high growth situation, which is lacking in some instances.
- Highly skilled people left the organisation. Skills are needed to support high growth.

Question 17: What do you see as employability?

To be multi-skilled	18.5%
Ability to add value to the company	59.3%
To be of service to the company	22.2%

Comments made were:

- Skills relevant to market trends and needs are necessary to add value.
- Generally, positive people are needed to enhance employability.

Question 18: Did productivity improve because of the restructuring exercise?

Yes	68.8%
Unchanged	12.5%
No	18.7%

The summary of the brief motivations is:

- Fewer people are responsible for the same output.
- The lower costs will decrease the inputs with the same output, thus contributing to productivity improvement.
- Restructuring in sales and distribution brings more focus, resulting in increased sales.
- A few participants, mainly on the commercial side of the business, felt that the loss of expertise caused an initial dip in quality.

Question 20: Will Clover's profit reach the expected levels after the restructuring exercise was completed?

Yes	62.5%
No	37.5%

The brief motivations are summarised as follow:

- After the restructuring, the costs seem to be within the targeted objectives.
- The downsizing placed a much bigger emphasis on cost management.
- A concern among some of the participants is still having people in certain positions who are not really adding value.

Question 21: Did or will Clover reach its productivity goals as determined in its strategy?

Yes	60%
No	40%

The brief motivations are summarised as follows:

- The lower costs and more focussed approach will assist in reaching the productivity goals.
- A number of participants felt that the restructuring exercise did not include specific productivity goals.
- Some participants felt that it would be difficult to reach the goals initially, but definitely in the longer run as the personnel starts to focus on the business and strategy again.

CHAPTER 4

4. DISCUSSION AND INTERPRETATION

4.1 INTRODUCTION

The approach to the discussion and interpretation will be divided into two groups, similarly to the division in the previous chapter, namely the questions on the restructuring itself and the questions on the productivity impact.

4.2 DISCUSSION OF THE QUESTIONS ON THE RESTRUCTURING EXERCISE

The general viewpoint is that Clover was in a situation where steps had to be taken to improve the profitability. Although the downsizing exercise as such came as a shock, it does seem that the general viewpoint is that the downsizing exercise was necessary, especially since drastic steps were needed to improve Clover's competitiveness. However, the non-competitiveness and low profitability are the result of other circumstances. In 2.2 it was mentioned that the South African dairy industry, contrary to the rest of the world, is in a situation where many new entrants are emerging. The growth that the primary distributors have shown due to their lower cost base, the strengthening of the Rand allowing importers to compete price-wise, as well as more and more new products on the shelves, contributed to the need for Clover to increase its competitiveness. One way of getting there quicker was by way of restructuring. The necessity is emphasized by the participants' comments that the efficiency of Clover is not high enough and the cost structure not lean enough. The fact that some of the participants referred to Clover's elaborate support structure creating red tape underlines the view of some of the participants. The view that the restructuring exercise allowed Clover to become more business-driven (as underlined by the participants) points to the merging of the distribution and sales divisions in the regions. The fact that most participants viewed the downsizing exercise as necessary shows that the communication on the

necessity was done effectively. Even the shop steward in the group gave more or less the same answer as the others. However, that doesn't mean that everyone accepted the whole process. This is understandable, especially if you are implicated in the process yourself.

Interesting, however, that although the restructuring exercise was deemed necessary there seemed to be too many different opinions about what prompted the restructuring exercise. The two options that were most popular, namely long-term strategic factors not being reached and business downturn, compare with the research that was done by Vink and Kirsten (2002) for the dairy industry as a whole. Their research indicates that the increasingly open South African economy (Figure 1 page 9), as well as the strength of the Rand, together with the decline in world dairy prices, meant that Clover was not going to reach its long-term strategic goals. The above-mentioned factors, together with the high milk price paid to farmers and high cost structures in terms of overheads meant downward pressure on profits due to non-competitiveness. To summarise: Market-driven forces impacting on the profitability, as well as long-term strategic goals that were not going to be reached, catalysed the whole restructuring exercise.

There were different viewpoints about the goals that had to be achieved. The participants were given more than one choice. Most of the respondents (40.6%) said the goal was to become more profitable, with the second (34.4%) most popular choice being the decreasing of cost levels to remain at competitive price levels. One can argue that, by improving productivity, the company would lower the costs, becoming more competitive, and thus becoming more profitable. Cutting bureaucracy and eliminating layers of hierarchy (15.6%) was third, which could be expected due to the downsizing exercise that took place. An interesting aspect, however, is that the point "improving customer relations" received the fewest votes. This was in spite of the fact that the restructuring exercise included the combination of the distribution and commercial divisions into one division, specifically with the aim to be able to give a better service to the retail, resulting in improved customer relations.

The time duration of the restructuring process is critical, hence the reason for the question. The length of time before a restructuring exercise takes place, as well as the magnitude of the restructuring exercise, is equally critical. The feeling amongst the majority of participants was that the downsizing exercise took too long. This is the expected result of a question like this. The natural tendency of any person will be to minimise the risk, thus preferring that such a period of uncertainty and risk be as short as possible. This viewpoint that the downsizing exercise took too long, together with the feelings of uncertainty and partial negativity, contributed to decreased productivity and maybe even quality of work by doing only what was required for the duration of the downsizing exercise. The concern that existed about the "last in, first out" principle, together with the "bumping" principle, as well as the fact that the personnel were not sure about the future, contributed to the perception that the exercise took too long.

Mission directed work teams or self-managed work teams' main contribution is the fact that it allows the personnel to take control of their own destiny, so to speak. In terms of its application in a restructuring exercise the benefits of improved communication; goal alignment and acquiring the necessary skills to perform the different tasks are major factors to consider. As was pointed out in the feedback, work teams assist the lesser skilled personnel to get on par in a shorter period of time. Some might say that the concept of work teams is only applicable to the production floor where a group of people's input results in measurable outcomes. Contrary to this viewpoint, self-managed work-teams actually present the opportunity to increase a manager's responsibility by means of more personnel being able to report to the manager, thus contributing to positive results in the downsizing exercise. This is a sure method to take out management levels resulting in flatter hierarchical organograms. When these self-managed teams are put together, care should be taken to cover all applicable functionalities responsible for that department's or team's results. This allows management to delegate to a greater extent and stimulates total ownership from the team. The opportunities that work teams present in terms of training, communication, alignment and buy-in should not be underestimated. In

fact, work teams might well contribute to a successful restructuring exercise, especially with the downsizing where knowledge and skills leave a company.

The opinions on how the downsizing exercise affected those who remained in the company confirmed the fact that with less people performing the same outputs, it meant more responsibilities, acquiring new skills and fewer management levels. It also meant an improvement in productivity with the input cost decreasing while maintaining the same output. An aspect that will concern management is the fact that some participants (22.2%) indicated low morale amongst the personnel after the downsizing exercise was completed. Research done by Hellriegel *et al.* (2002: 26) shows that one of the consequences of any downsizing exercise is low morale immediately after the event. Since the research indicated that morale improved one year after the downsizing the company's management, although needing to be aware of this fact, don't have to view this as a major disadvantage of the downsizing exercise. As the personnel have settled into their new responsibilities and have acquired the necessary skills, together with improved financial figures, the morale will gradually start to change. It must, however, be expected that the morale after taking such a knock will be fragile at first. This is confirmed with most of the participants indicating that they would like to know at least one year in advance if a restructuring exercise is going to take place. Everyone knows that this is not always possible; it is more an indication of the uncertainty of the whole restructuring process. A very relevant comment that was made by one of the participants, who also indicated that notification should be given one year in advance, is that it is more a process that needs to be followed than being about the time known to everyone in advance. When considered, it is applicable because to thoroughly plan the process of restructuring will enable the architects of the restructuring exercise to come up with a plan that will accommodate most of the people. Actions to counter aspects such as low morale, negativity and uncertainty when employees don't know how the restructuring is going to affect them, must be considered in the planning of the process.

The fact that most of the participants (62.5%) indicated that it was necessary to re-hire people after the restructuring exercise had been completed, supports the comments in the previous paragraph about the planning of the whole process before actually engaging in the restructuring exercise itself. Comments were made by a number of participants about the expertise needed in certain areas. Expertise and knowledge accumulate over many years. The only way to address this backlog is through succession-planning and individual development programs. This, however, is a continuous process and not something to be addressed during the planning of a restructuring process. In the planning of the restructuring process it might be necessary to contractually appoint people to train personnel and develop processes to ensure a continuation of the key processes in a company. This, however, as was indicated by some of the participants, is a temporary phase. People tend to keep knowledge to themselves and get to a point where knowledge about how to act in certain situations are seen as normal day-to-day activities. Any new person having the responsibility to perform a job or task often learns by trial and error just as the previous person who acquired the knowledge did over time.

The answers that were received on the questions regarding the outsourcing topic were very interesting. The participants in the upper levels answered that outsourcing was not part of the restructuring exercise, while the participants in the lower levels were of the opinion that outsourcing did form part of the restructuring exercise. It is either a case of not understanding what the term outsourcing means or a difference of opinion on what is seen as outsourcing. The fact that the upper levels of management did not regard outsourcing to be part of the restructuring exercise, as well as the majority voting "no" (56.2%) concludes that outsourcing was not part of the restructuring exercise.

Outsourcing does present opportunities and/or alternatives to the restructuring process. This is confirmed with the participants answering positively (68.8%) that outsourcing should be investigated as an alternative or complementary to outsourcing. Outsourcing is usually done when something can be done cheaper and/or more efficiently, thus improving productivity. In the planning process of the restructuring exercise, outsourcing does present the opportunity to minimise

the effect of restructuring and downsizing in the sense that it can be done over a longer period, thereby softening the impact.

It doesn't matter whether it is restructuring or outsourcing: in the end, it has to do with change. Some people are more receptive to change than others. The same applies to companies as well, where some adapt to change very easily, for instance IT companies usually accept change more readily, compared to a typical dairy company. Those receptive to change will adapt more easily to changes with the result that the morale doesn't fall too low or the company ends up being back on track sooner after the restructuring exercise. Management needs to be aware of this and plan accordingly. Companies who tend to resist change need more interaction between senior management and the company, for example road shows, etc. where the reasons for change have to be communicated, making sure that everyone knows why change has to take place. They might not like the idea, but they will know it is the only way. It is interesting that 50% of the participants felt that Clover is a company that is receptive to change. In hindsight, another question should have been added to test the degree of receptiveness. It is interesting to note that a few of the participants who said that Clover is receptive to change, made a precondition (Chapter 3, Question 24) in the brief motivation that was required.

Although the downsizing exercise was experienced as a dramatic intervention, it is interesting to note that 87,5% of the participants expect Clover to go through a similar restructuring exercise again in the future. A downsizing exercise has the benefit of a positive impact on the bottom line in a short period of time. However, the benefits achieved from such an exercise only manage to buy the company some time. This is the time necessary to implement the growth strategy. If the results from the growth strategy don't match the goals and objectives, another restructuring exercise to take out costs is inevitable. This is a message that has to be communicated so that every employee realises the necessity to work together in achieving the goals and objectives as set out in the growth strategy. A conservative growth strategy might not be good enough; a bold strategy requires leaps, not steps. This is necessary to launch the company into a sustainable competitive situation. The feeling

amongst some of the participants that the recent downsizing did not cut deep enough, places even more emphasis on the need for an aggressive growth strategy. One of the participants in the newly formed commercial and distribution division mentioned that additional focus had to be placed on the regions not showing a profit; this is in spite of the focus already given to these regions. This view contributes to a more focussed approach that will support the growth strategy.

4.3 DISCUSSION ON THE QUESTIONS RELATING TO PRODUCTIVITY IMPROVEMENT AS A PART OF THE RESTRUCTURING PROCESS

Improving productivity should always be one of the goals of a restructuring exercise. Lowering the input costs usually yields profits sooner than a growth strategy. A combination of lowering the input costs while increasing the output costs by means of a growth strategy result in the best productivity improvement due to lower inputs while the outputs increase.

On the productivity measurements there were rather different opinions especially because the participants could add measurements they felt were important. All the measurements that were identified can, in actual fact, be used to measure performance and consequently productivity. An improvement in all of these measurements will lead to either lower inputs or higher outputs. The point, however, is that different measurements are applicable to different parts of the business. It depends in what position in the company the different participants were that completed the questionnaire what measurements were chosen. Certain departments are profit centres while other departments are cost centres. It is therefore understandable that the measurements used to measure productivity can differ from department to department.

The overall productivity measurement for the company will depend on the strategic objective as was asked in Question 2. There were too many different opinions in the answer received from this question. Even amongst the senior managers who completed the questionnaire there were differences of opinion. Another reason for the differences could be that not every participant

(especially those at the lower levels) understood the meaning of the different strategic objectives. Anyhow, the overall strategic objective will determine the approach and measurements to be used in the improvement of productivity. The majority felt that an overall low cost approach should be taken. Over the years, Clover has actually used a differentiation approach. In the past, there were strong brands in the different product categories. Over the last number of years, Clover actually moved to an umbrella brand name, using the Clover brand and rationalising the other niche brands by migrating them to the Clover brand. The fact that Clover has such a strong brand name supports this viewpoint. The Clover brand is on the list of the ten strongest brands in the food sector. With this in mind, one can actually question the choice of overall low cost provider, as well as the focussed low cost provider and the focussed differentiation strategy. The only two strategies that support the above-mentioned approach are that of best cost provider (not necessarily the lowest cost) and broad differentiation strategy. With a strong brand like the Clover brand it makes sense to follow the broad differentiation strategy, accommodating the whole product range. With this said, the productivity measurements should be chosen that will best support such a strategy in terms of goal alignment. Almost all the participants felt that Clover should be the first-mover in the dairy industry. To be a first-mover will support the Clover brand and in the long run further strengthen the brand.

The general view amongst the participants is that there is room for improvement when it comes to the utilisation of Clover's resources. A number of opportunities were mentioned in the brief motivations that were made by the participants. Opportunities that will contribute to better overall productivity are:

- Reduction of SKU's (store keeping units) especially those of which the margins are negative or marginal – it will generate capacity for the SKU's that do have profitable margins.
- Time to market to be shortened – it has to do with the scheduling and planning of the different products. The time to market will benefit with a reduction in SKU's mentioned in the previous point as well.

- The reduction of raw material cost speaks for itself. In terms of packing material and other ingredients (besides milk) there is room for reductions in cost, thus improving productivity. Milk, which obviously is Clover's single largest raw material, follows cyclical patterns as determined by supply and demand. (An improvement in this aspect will improve the efficiency off the supply chain and in itself justifies a research topic on its own).
- The speed of decision-making offers possibilities. This is generally an area where there is room for improvement in most organisations. In order to remain a first-mover, the decision-making speed is critical. The other side of the coin is that such decisions need to be informed decisions, which relates to the experience of the decision-maker as well as the reliability of the information processed in the different management information systems (MIS).
- Remuneration on an incentive-driven basis speaks for itself. Incentive-driven remuneration tends to be applied on the higher levels within many companies. It should, however, be applied right down to the work-teams on the operational level. When it is linked to productivity targets, it is a great stimulus to improve productivity results.
- Technology presents many opportunities in terms of productivity improvements. In the South African context, economies of scale sometimes prevent companies from investing in equipment due to ROI not being high enough.
- In general, the improvement of efficiencies will free up capacity, presenting opportunities and supporting the growth strategy of the company.

Most of the participants (68.8%) were of the opinion that productivity did improve because of the restructuring exercise. Fewer people meant lower costs, thus benefiting productivity having lower input in terms of lower cost and fewer resources, resulting in the same output. Another valid point that was made is the fact that the combination of the distribution and sales divisions will result in a better focus in the different regions. The combination will lead to improved service, shorter lead times and more effective communication both ways, which in turn will lead to increased sales and higher profits.

A successful growth strategy puts pressure on the supply chain in the sense that it disturbs the rhythm for some time before settling again. In such times experience is an invaluable asset. Most of the participants felt that the company would cope with growth equal or better than inflation. This reflects positively for any future growth strategy to be implemented. It means that there is common ground to start from. However, the feeling amongst the participants (62.5%) that the benefits will not be retained in a high growth situation is somewhat of a contradiction. The main concern amongst the participants is about the resources and skills needed to cope with a high growth situation. A situation like this can be overcome if the planning to cope with higher growth is done well in advance. The participants (37.5%) who felt that the benefits would be retained were of the opinion that the capacity was unchanged by the restructuring process. They also felt that the fact that the company started off from a lower cost base would benefit the company in a high growth situation, which makes sense when viewed holistically. Another valid remark that was made is that less people automatically streamlines the additional workload to cope with their everyday routine. Some of the work done gets questioned in terms of its value-adding qualities. Duplication of the work is eliminated this way. Personnel end up doing more value-added work with the same inputs. The same process takes place with a growth situation. Management, however, must be sensitised to assets where personnel struggle to cope with the additional workload.

Those employees who remained in the company must be able to add value in everything they do to contribute to the future success of Clover. Another way of putting this is employability. Most of the participants (59.3%) agreed that employability is the ability to add value to a company. A person who is multi-skilled and who possesses skills relevant to the market trends and needs is highly employable. Those who do not possess the necessary skills have to be guided to acquire the necessary skills to enhance their employability to the advantage of the company as well as the employees themselves. This will support the company in a high growth situation on the one side and self-indulgence for a person on the other side. In a way, employability will support

the high salaries compared to the skills levels typical to the South African dairy industry as well. The same applies to the morale and positiveness of the personnel. The higher the morale, the more positive and confident a person feels in his/her work situation. This inevitably results in higher achievements for an individual which accumulatively benefits the company, thus creating a platform for growth.

It is evident that the effect of the restructuring exercise will linger for a long time in the minds of the personnel. The fact that almost all the participants feel that Clover will go through a restructuring exercise by means of downsizing again in the future, supports this view. The fact that two-thirds of the participants feel that Clover will reach the expected profit levels and one third thinking it is not possible over the longer run, points to a situation where senior management needs to communicate the vision and strategy over and over again until everyone is convinced and on the bandwagon, so to speak. Those in favour felt that after the restructuring exercise the costs were within the targeted objectives. Food price inflation has been under downward pressure for some time. To increase prices in market conditions like this is very difficult. With this in mind the opinion is that, should the restructuring exercise have been postponed to a later stage, the company would not be out of deep waters. Those participants who felt that the company was not going to reach the expected profit levels on its own concern has to do with the levels of expertise that is available, as well as still too high cost in terms of personnel. The perception is that there are still some functional personnel who do not really add value.

According to 60% of the participants, the productivity levels in the company will be reached. With fewer people, a more focussed approach is inevitable, leading to productivity levels being reached. The feeling exists that the company will reach the goals over the longer run.

It does seem that the personnel realise that by improving productivity the company will go a long way in addressing the competitiveness.

CHAPTER 5

5. CONCLUSION AND RECOMMENDATION

5. CONCLUSION

5.1.1 Introduction

Restructuring at best is a traumatic affair, especially to personnel who are not susceptible to change. Restructuring, along with downsizing are done with the intent to rationalise. Rationalisation requires a different mindset than a high growth situation. It is evident that the employees of a company that have gone through a restructuring exercise will live with it at the back of their minds for a long time. It is therefore all the more important that a downsizing exercise has to be planned very carefully and thoroughly, thereby increasing the chances of success.

5.1.2 Testing the hypothesis and objectives

5.1.2.1 To identify key productive issues within the dairy industry

From the feedback received, it seems that there isn't a single key productivity measure that stands out from the rest. It also seems that the normal measurement that is applicable to any large company is applicable in the dairy industry as well. It is proposed that the Balanced Scorecard approach be used to measure the improvement in productivity. By means of the Scorecard, it is possible to measure the applicable operational and financial indicators that impact on the productivity performance. The Balanced Scorecard also allows measurement of the applicable processes that support a productivity strategy, for example maintenance systems and scheduling of manufacturing in order to optimise the throughput in a plant.

5.1.2.2 To determine when restructuring becomes necessary in an ever-changing environment.

This point compares with the proposed planning process referred to in 2.8.1, namely to assess the environment. This includes economic indicators, world market price trends, technology improvements, new product developments, new entrants into the market, etc. An assessment of the internal situation of a company is necessary as well. The key is to know what your company's limitations are and to improve the performance in these areas in terms of productivity. While improving the company's performance, changes in the macro-environment might prompt a company's management into more drastic actions. This means that where a company operates in a business-friendly environment, improvement can occur with incremental changes. In a business-unfriendly or a rapid changing business environment, step changes are necessary. The improvement incrementally allows for stability while it continues due to only a few variables undergoing change. When step changes occur, a lot of variables exist. The more variables present, the harder and longer it takes for any company to normalise the business. The circumstances the company experiences internally and externally, will then determine the severity of the step change, meaning that in terms of a downsizing exercise how deep the downsizing has to go, etc. To what extent does the company need to make sure that there is a continuation of the processes, procedures and how applicable are the measurements to monitor the situation the company finds itself in? What needs to be measured to ensure that the restructuring process delivers the required results?

5.1.2.3 Proposing a restructuring plan will be addressed in part two of this chapter.

5.1.2.4 Determining what the ideal objective of the restructuring should be in the improvement of productivity.

First determine the performance gap, as well as the organisational problems. Tools like Porter's Five Forces Model or the commonly used SWOT analyses are applicable in determining the performance gap and to highlight the internal organisational problems. The whole dairy industry needs to be studied. Information published in reports similar to the report that Vink and Kirsten (2002) did about the South African Food and Agricultural Sector is a good source of information about the industry. The problem is that these types of reports do not get published on a regular basis, resulting in the latest information on an industry not always being readily available.

5.1.2.5 Determining how and when productivity results do prompt change.

Typically, the Balanced Scorecard, a company's financial results, the prospects of the industry and the company within the industry, and the influence these prospects will have on the competitiveness of the company will prompt change. A further aspect is the conviction of the managing board to act instead of waiting and hoping that the economic situation, as well as the factors in the industry nationally and internationally, will change for the better.

5.1.2.6 Work teams as part of the restructuring process.

To implement work teams as part of the restructuring process do not seem logical. For work teams to benefit from the restructuring process, they either have to be in place and operational before the restructuring process kicks off, or work teams should be implemented after the restructuring process is completed as a part of the plan to address the climate, to enable employees to acquire the necessary skills.

In a situation where work teams are in place already, they can be very useful in the continuation of the normal work that adds value on the floor. Cross-functional teams from specialists in different areas can ideally fit into work teams. Ownership and the personnel in the work team taking responsibility for the outcome of their results enable those in the group that might not be so skilful to acquire the necessary skills. A person who has acquired the necessary skills is motivated much easier. They contribute to the success of the department in which they are working, thus creating a positive spiral effect. The other big advantage work teams offer is that with less managerial layers and more people reporting to managers, the effect of the work teams in freeing up space for the managers will contribute largely to the success of the restructuring exercise.

On the other hand, implementing work teams after the restructuring exercise will help to create a positive climate. The other benefit stays the same as mentioned in the previous paragraph.

5.1.2.7 Determine the priorities and sequence of areas to focus on, that will have a significant impact on productivity improvement.

As mentioned before, there seems to be different opinions on what the critical measurement/s should be to focus on that will have an impact on productivity. It is proposed that a Balanced Scorecard approach be used to measure the inputs and outputs applicable to a division or department. However, overall measurements measured on a company level, for example ROA (Return on Assets) should be broken down to the different divisions and departments. The teams must specifically know what their function is in contributing to these overall measurements.

5.1.3 Conclusion

It is obvious that the restructuring process is a delicate process in terms of the human side. People affected are hurt easily and typically humans don't want to think about such an issue, hoping it will go away on its own. In terms of the restructuring exercise itself, those responsible, firstly, have to think about the organisation. A successful organisation that continues to grow will provide employment opportunities for many years to come. The responsible managers have to concentrate on the facts when the objectives to be achieved are identified. The human factor is omitted from the initial process and receives attention only after the financial goals of the restructuring process have been finalised.

The South African dairy industry differs from that of the rest of the world due to a number of facts that are applicable to South Africa only. The conclusion reached on the South African dairy industry is that, compared to large dairy producing countries, South Africa (except for some of the coastal regions), is not ideally suited for dairy farming. This in itself means that productivity and competitiveness will have to be immaculate to enable a company in the South African dairy industry to grow and be profitable. In terms of the performance gap, if those facts in 2.2 are taken into consideration, there is always going to be a handicap if a company in South Africa compares itself to a company in Europe, Australia or Nieu Zealand.

In spite of the initial shock that the employees experienced, it is evident from the feedback received that the personnel realised the downsizing exercise was necessary. The communication about the whole process was good, seeing that most of the personnel agree that the long-term strategic goals were not going to be achieved. The perceptions about Clover's non-competitiveness before the restructuring exercise are accepted by all. Another interesting point is the expectancy of another downsizing exercise in the future. This indicates that there is doubt whether the growth strategy will really kick in, so to speak. The company's management needs to take cognisance thereof and accommodate this in their communication strategy. Another aspect that has to be addressed

in the communication strategy is in terms of the goals that were set before the outset of the restructuring exercise. There are differences in opinion about the goals that were set and whether they were achieved. The conclusion about the communication process is that it is in place. Whether the communication process effectively reaches the employees at the lower levels in the company has to be tested. The experience is that although letters are sent to everyone and company papers are distributed, it remains to be seen whether everybody reads these letters. A way to encourage everyone to read all the letters sent to the personnel has to be found.

On the time duration of such a restructuring exercise, the conclusion is that the planning before the actual process starts needs to be done in detail. Once the communication has been done, the process itself needs to be completed in as short a time period as possible. The problem usually is that information starts to seep through the grapevine, causing more uncertainty and negativity. The grapevine obviously only succeeds in harming the trust that employees have in management. To counter the grapevine and communicate information on a need to know basis, it has to be included in the planning process. If the planning process allows for enough time, it should assist in re-hiring fewer or no former employees. This, however, is not only a function of the planning in the restructuring process. This points to the way succession-planning and individual development programs are conducted throughout the year. The fact that the feedback in the survey indicated that people had to be rehired thus implies that there is room for improvement with regard to succession planning and individual development programmes. Another issue that needs to be considered in the planning process is the concept of outsourcing. However, this is an issue that should form part of the strategy and should not be considered only when the restructuring exercise is planned. The conclusion is that, in this instance, it did not form part of the restructuring exercise at all.

In terms of mission-directed work teams the conclusion is that it should not be part of the restructuring process itself. However, mission-directed work teams are ideally suited to ensure that the outcomes of the restructuring process end up being successful. Whether the mission-directed work teams were in place

before the process started or whether the work teams are implemented afterwards does not really matter. The fact that mission-directed work teams will make a valuable contribution can not be underestimated. This is especially the case when:

- Layers in the hierarchy of the company are decreased
- Training on the floor has to be facilitated to replace knowledge and skills that were lost
- Ownership lost during the restructuring process needs to be reaffirmed
- Goals need to be aligned to support the strategy

Initially, the morale and climate in the company was negative. The conclusion is that with good financial results for the first quarter in the new financial year the climate and morale improved considerably. This indicates that the personnel perceive the good financial results as an indication that there will not be an immediate follow-on restructuring exercise after the initial exercise. The fact that almost all the participants said in their feedback that they expect a similar exercise again in the future shows that they know how inconsistent the dairy industry is. High production periods with low prices in the market will definitely surface again in the future. This situation will highlight the weak points in the companies in the dairy industry or even for that matter, other non-competitive industries in the food sector as a whole. If the growth strategy does not comply with the expectations, the possibilities of another restructuring exercise are always going to be one of the options that the management board is going to consider.

With middle management being hit the hardest due to the restructuring exercise, training should intensify to ensure that knowledge and experience that was lost is regained. The culture that needs to be put in place is to carry over the knowledge that you only learn from experience to other colleagues. This aspect is critical if constant future growth is to be achieved.

The restructuring exercise that was conducted indicates that cutting costs to become profitable was the main drive behind the exercise. The company

succeeded because the profits have been satisfactory thus far in the current financial year. The focus on productivity should be more intense than ever, since the focus on productivity will continue to impact positively on the bottom-line much sooner than the growth strategy, thus contributing to the recovery process. The possibility to remunerate with a bigger focus on incentives has great potential. Such an incentive scheme should focus more on a specific person and the contribution expected of that person in a specific year to contribute to the bottom-line. Although it did not feature that strong in the feedback that was received, the feeling is that the restructuring of the distribution and commercial divisions into one division, especially in the regions, will contribute largely to improved growth in the different regions. It is now one management team per region who is responsible for that regions success.

5.2 RECOMMENDATION

5.2.1 Assess the environment

The dairy industry goes through cycles of surpluses and shortages on a regular basis. The South African agricultural sector is not subsidised and the agricultural boards that existed in the past have been demobilized. In addition, with the South African economy now being a much more open economy, the dairy industry as a whole needs to be on the alert all the time. For a company to act pro-actively the assessment of the environment is now much more critical than ever in the past. The assessment therefore has to be attended to at the highest level with forecasts by means of a high road, middle road and a low road possibility. These possibilities then represent an economic condition that with a high road enhances opportunities and growth as well as shortages in the dairy industry. On the other side of the coin, the low road would typically represent surpluses in the dairy industry nationally and/or internationally, unfavourable economic conditions, etc. Forces such as new technologies, business to business commerce, etc. need to be accommodated in the different scenarios. The probability for these different scenarios to materialise should be determined and discussed so that those involved in assessing the environment are able to reach a mutually agreed assessment.

5.2.2 Determine the performance gap

In each of the three forecast scenarios the performance gaps need to be determined, should such a condition prevail. The productivity gap has to be determined should any of the three scenarios prevail. This can be done by utilising the measures on the Balanced Score Card and adjusting them to resemble each of the scenarios identified. Determining the performance gap will assist the company in rightsizing its staff complement accordingly, as well as the skills required to breach the performance gap. An aspect that was learnt from the literature is that functional departments must not grow too large in numbers. It is a sure thing for future downsizing exercises.

5.2.3 Diagnose organisational problems

To properly diagnose the organisational situation it is necessary to examine the required inputs and outputs, as well as the design compared to the ideal design when each of the three scenarios prevails. Make certain that the requirements necessary to do a valid diagnosis prevail.

5.2.4 Articulate and communicate a vision for the future

The abovementioned scenario planning, together with the thorough diagnoses, will enable the management board to formulate a clear vision. The communication of this vision is probably one of the most important factors in the whole process. It is necessary to generate energy and the realisation that there is a need for change. The vision can never be over-communicated and every time someone communicates the vision it has to be done passionately. One of the values to communicate is the concept of employability rather than secure employment.

5.2.5 Develop and implement a strategic plan

With the development of the strategy it can not be said enough: Begin with the end in mind; the end meaning the three scenarios that have been identified.

Typically, the low-road scenario would put more emphasis on cost management and productivity. Thus, with the probability that this scenario will materialise in the next two to three years, certain changes have to be implemented. The company needs to focus on costs, productivity, rationalisations, restructurings, etc. The end would then mean that to be profitable in such circumstances the inputs need to be at certain levels to enable the company to reach the required financial ratios, etc. If the required inputs are going to be too high, the strategy can include restructuring. With time on hand, reengineering can be included in the areas or divisions that need drastic improvement, thus doing a restructuring exercise while at the same time improving the productivity in the applicable departments. The advantage is that this allows the cutting out of non-essential work firstly, and as a consequence cutting people in positions that do not add value to the supply chain.

On the other side of the coin, the high-road scenario presents growth opportunities, increased market share, new markets, etc. In these scenarios the inputs have a different approach than to increase turnover and growth. The required infrastructure must be set up in such a way as to support the opportunities that exist.

The middle of the road scenario is a mixture of both and can probably be summarised as a conservative strategy in times of high-road scenarios or a bold strategy in terms of a low-road scenario. This is probably what most companies do. In the process, however, they miss out on the high growth opportunity that exists by not fully utilising it. In a low-road scenario such a company might typically find that they did not rationalise enough or cut their inputs to satisfactory levels, thus ending up taking drastic actions at the last minute.

The divisions and departments need to be aware of these scenarios and the implications it will have in the company should these scenarios materialise. The different strategies in the departments have to be developed so that it can easily be implemented when needed. It is important to organise around outcomes resulting in greater speed, improved productivity and customer

responsiveness. The overall productivity strategy should tie in with the growth strategy by setting capacity free, thus creating opportunities for growth. Productivity in the long run is almost everything. The surest way to sustain future profitability is to relentlessly pursue strategic outcomes that strengthen a company's business position and ideally give it a competitive advantage over rivals.

5.2.6 Make plans to anticipate and reduce resistance

In the past, resistance to change has contributed to many excellent ideas and strategies not being successfully implemented. Therefore the plans to anticipate and reduce resistance are critical. Involving the departments and divisions in the development of the strategy will contribute to enhancing the general acceptance of the strategy. The development of the strategy can even be included in an incentive bonus. The six steps proposed by Coetsee (2002: 204) are very practical in the management of change. It is very important to manage the climate and culture in the company as a part of the change process. The climate in the company and the acceptance to change should never be underestimated. Manage the climate carefully and see how the change process enhances the success of the company.

5.2.7 Make plans to monitor and begin change implementation

The aspects that need to be measured and monitored have to be included in the development of the strategy. This is another pitfall where excellent strategies don't deliver due to the wrong inputs and outputs being measured, thus presenting a warped picture or management expecting results to soon and deciding a strategy is not worthwhile.

Final conclusion

When restructuring occurs without specific goals, the outcomes of the restructuring are more negative than positive. In this instance, the restructuring exercise did have a positive effect on the bottom line of the company. One can argue that by looking at the bottom line, the restructuring exercise was successful. It is also true that the macro-environment contributed to the success of the restructuring exercise. No restructuring exercise is ever easy because it is people's lives being turned upside down.

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APPENDIX

A QUESTIONNAIRE TO DETERMINE HOW EMPLOYEES PERCEIVED A RECENT RESTRUCTURING PROCESS

1) According to you, what are the key productivity issues in a company that need to be measured and benchmarked in the dairy industry?

(Mark those that you agree with and add other measures that you feel are applicable)

- a) Input costs (raw materials)
- b) Operational costs (c/l; c/kg, etc.)
- c) Time from order to delivery
- d) Customer satisfaction
- e) Distribution costs c/km or c/unit

2) According to you, what should the strategic objective be in the improvement of productivity?

(If not one of the five mentioned below, add the strategic objective you would prefer)

- a) Overall low cost provider (high efficiency, etc.)
- b) Broad differentiation strategy
- c) Focussed differentiation strategy (niche)
- d) Focussed low cost provider strategy (niche)
- e) Best cost provider
- f) _____

3) According to you, what should a company's approach be in the marketplace (Dairy industry)?

- a) First-mover
- b) Fast-follower
- c) Late-mover

4) What was the reason given for the downsizing exercise?

5) According to you, what prompted the downsizing exercise?

(Choose not more than two)

Business downturn	
Organisational restructuring	
Improve staff utilisation	
Outsourcing and contracting	
Plant obsolescence	
Long-term strategic factors	
New technology processes available to smaller companies	
Economic situation in RSA	

6) Was the length of the downsizing exercise?

Too long	Just right	Too short

Motivate your choice:

7) Was the restructuring exercise necessary to enable Clover to adapt to its macro-environment? *(Motivate your choice briefly)*

Yes	
No	

8) Should the implementation of work teams be included in the restructuring process? *(Motivate your choice briefly)*

Yes	
No	

9) What were the most important goals to be achieved with the downsizing exercise? *(Choose one or more of the following points)*

- a) Decreasing cost levels to remain at competitive price levels
- b) Becoming more profitable
- c) Speeding up decision-making
- d) Cutting bureaucracy and eliminating layers of hierarchy
- e) Improving customer relations
- f) Other

10) To your collection, how much scope is there for Clover to improve in the utilisation of its resources in terms of capital, labour and equipment?

A lot of scope for improvement	Marginal scope for improvement	No scope for improvement

Motivate:

11) How did the downsizing after completion affect those who remained in the company? *(Choose one or more of the following points or add additional points applicable according to you)*

- a) More responsibility
- b) More people reporting to you
- c) Less management levels – thus improved communication down to the ground level
- d) Low morale levels

- e) High morale levels
- f) New skills had to be acquired
- g) _____

12) To what extent was the downsizing experienced as negative?

Totally negative	
Partially negative	

13) To what extent was the downsizing exercise experienced as a case of uncertainty amongst employees?

Total uncertainty	
Partial uncertainty	

14) How soon should the need for restructuring be identified in advance?

One year in advance	
Six months in advance	
Three months in advance	

15) What will the effect be in a high growth situation after the downsizing took place?

Company will be able to cope with much higher growth than inflation	
Company will be able to cope with growth more or less equal to inflation	
Company will be able to cope with growth lower than inflation	

16) Will the benefits achieved from the restructuring exercise be retained in a high growth situation?

	Motivate your choice
Yes	
No	

17) What do you see as employability? *(Add additional points if you view one of the three mentioned not to be applicable)*

- a) To be multi-skilled
- b) Ability to add value to the company

c) To be of service to the company

d) _____

18) Did productivity improve because of the restructuring exercise?

(Motivate briefly)

Yes	
Unchanged	
No	

19) Was or is it necessary to re-hire people into positions after the restructuring exercise was conducted?

(Motivate briefly)

Yes	
No	

20) Will Clover's profit reach the expected levels after the restructuring exercise was completed?

(Motivate briefly)

Yes	
No	

21) Did or will Clover reach its productivity goals as determined in its strategy?

(Motivate briefly)

Yes	
No	

22) Did outsourcing or the concept of outsourcing form part of the restructuring process?

(Motivate briefly)

Yes	
No	

23) Should outsourcing be investigated as an alternative or a complementary strategy to downsizing?

(Motivate briefly)

Yes	
No	

24) How acceptable is Clover (personnel) as a company to change? Put in other words: What is the culture in Clover like when change is about to take place?

Receptive to change in general	
Neutral to change in general	
Not receptive to change in general	

25) Do you think Clover will go through a downsizing exercise again in the near future?

(Motivate briefly)

Yes	
No	