A Case of Responsible Restructuring as Good Governance

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First established in the late 1800s as the US subsidiary of Dumont SA, a French-based pharmaceutical and chemical company, NTC Pharma grew steadily through the 1950s and 1960s to become a global, research-based pharmaceutical firm which in 1971 merged with Imogen Inc, a worldwide manufacturer of consumer products. The end result was the NCI Corporation, and the merger proved fruitful: Only a decade later, the company's sales had grown four times by focusing 70% of its products in pharmaceuticals and 30% of its products in widely known household name brands. In fact, NCI's breakthrough products enabled the company to outgrow its parent in size and expand rapidly into Europe, Africa, the Middle East, Asia, and South America.

So although flourishing at the onset of the new millennium, US conglomerate NCI was determined to remain a world-class player on the market. One of the company's policies was to collaborate with business consultant McKinsey to monitor and adopt best practices for organizational development. As a result of this partnership, NCI's senior and top management all became well acquainted with McKinsey consultants Robert Waterman's and Thomas Peters' *In Search of Excellence*, which said that a company's headquarters should have no more than 50 people total.

This fifty-person model, along with other management standards noted in the book, soon became a benchmark for an internal, company-wide study to find out how NCI's management practices compared with best-in-class companies. The findings indicated that many departments—even whole divisions—did not measure

Based on a living case in Switzerland.

up to the companies discussed in the book. For NCI's top management, the message was clear: Reduce any regional head offices that were larger than the ideal fifty-person headcount.

René Renz, Personnel Executive for NCI's European Headquarters in Geneva, Switzerland, was well versed in the details of the internal study. *In Search of Excellence* had been widely read throughout all corners of NCI and so had the negative results of the internal study. Renz knew change was brewing on the horizon, and when Michael Sauderman, the top HR man at NCI's headquarters in the United States, called to set up a meeting, Renz was not surprised. "Book a nice, quiet room at some hotel for the entire weekend where we can talk confidentially," said Sauderman. Renz did not know exactly what to expect, but he knew that whatever was taking Sauderman across the Atlantic would not be pleasant news.

1 Saturday Morning: The News

Only a handful of people were present at the weekend retreat in Montreux, Switzerland, and Renz did not miss the fact that Renz's own boss, Marc Adler, President of the European Division, had not been invited. A new man had been chosen to head up the European Division instead of Adler, and he had come with a few of his advisors—also new—to the retreat, making for a total of just five participants that Saturday morning.

Sauderman got right to the point: "The fact is, René, that we have to slim down. Our admin and management is much too high. Our European Division Headquarters alone has 110 people where it should have 50 or less. We just can't afford to ignore this situation. We've devised a reorganization which will reduce Europe's management levels from four to two and our headcount to 50, and I need you to figure out how to implement our plan. We need you to begin and complete rollout on Monday."

Sauderman showed Renz the new organizational plan as well as a list of the departments—and people—to be phased out. Even Adler was on the list of people leaving.

Renz's mind reeled. NCI was simply too large and integrated into the Geneva community to be able to effect this kind of organizational change without impacting large numbers of people above and beyond those in the company. In addition, times had been good at NCI. Growth had risen steadily from year to year; this reorganization did not come as a result of need. In fact, NCI was considered a choice employer with rich resources and payback that attracted the best of the best to come work for the company. Many people were going to find it hard to understand that this radical change was being undertaken because the organization's top management had changed its strategic direction.

When the top management has made a decision like that, there is nothing you can do, really, but implement it. But you can decide how to implement it in the way you think is right.
(René Renz)

There would, on the one hand, be emotional repercussions in the company. Those who were not cut would be burdened by the implications of their former colleagues' sheer absence. Efforts would have to be doubled; employees would take on larger loads—willingly or not—and extra strain as a result of fewer hands at the till. The sense of insecurity from the cuts would make the company's remaining employees feel like survivors, and this emotional weight would have to be dealt with.

However, there was also the question of the people being asked to leave. It seemed like a lose-lose situation. On the one hand, the organization had invested in these people and in the department, and now, just as the investment was beginning to bring returns, it was being liquidated. No matter who he asked to leave, their exit from the organization would invariably constitute a major loss of star talent with which the organization might never again have contact. On the other hand, the individuals leaving the organization would have to work extremely hard to find a situation that not only matched, but also furthered, their considerable talents. As ironic as it would perhaps seem, it appeared that making the change happen also revolved around getting people to come to terms with and accept their own dismissal.

Renz felt personally responsible to these people, who had given the company so much of their trust and worked so hard for NCI. The company had been blessed with extremely talented and capable employees, several of them experts with world-class reputations, in point of fact.

There was the option of simply leaving the company and leaving the problem to others. On the other hand, if he stayed, how could he, in less than 48 hours, just get rid of people who had done so much for the company? What tools lay at his disposal for doing the thing right? What pitfalls had to be avoided? What should his next steps be?

Decision Point #1 Renz has Saturday evening and Sunday morning to decide about his role in the process of downsizing NCT's European Headquarters from 110 to 50 on Monday. How do you think he should proceed?

2 Saturday Afternoon: The Decision

The feeling of shock sets in later. At that moment, you just start taking action. (René Renz)

Renz decided that he owed it to the extraordinary people in his unit to stay and implement the change properly.

It was one of the worst days of my life, but leaving would have been an act of cowardice. The only thing to do was make the best of things. (René Renz)

Having made this decision after the meeting on Saturday afternoon, Renz began to think about what to do. It just so happened that he had taught a course on HR management practices and policies at one of the local universities, so he had had

plenty of exposure to the theory on the process of transferring talent and expertise from one company to another due to downsizing. This process also included outplacement, a hot topic which had trickled over from the USA back in the 1980s, and Renz had made good use of it in individual cases in the past to counter people's sense of shock and disorientation at the news of their dismissal.

There are two things you have to consider in a situation like this. There's the tangible aspect of the matter—the severance package—and that has to be at least adequate. But then there's the intangible aspect. If all you do is offer people a severance package—even a generous one—they're going to feel like they're being treated as things, not people. Compensating people solely in material ways sends the message that people—and their lives—can be bought and sold. (René Renz)

Renz's practice in these cases had therefore been to treat the people leaving the organization in the same way he himself would want to be treated. One aspect of this meant doling out severance packages which were as fair as possible. However, although the executive management in the United States had authorized Renz to be generous in this regard, Renz also wanted to make sure that these talented people would know what the next step in their career was after their time with NCI had ended.

If you can show people what their future holds, it cushions the blow they feel after this kind of a shock. I mean, when you're asking these individuals to leave the company, you're not just asking them to make changes but also their families as well, and sometimes these are people from other countries, and often these factors aren't in mind when you make this kind of decision. You shape people's lives by hiring them, but when you let them go, you have a long-term impact on them as well, and that's why it is very important for a responsible company to take care of people just as well when they are leaving the company as when they are entering it. (René Renz)

Decision Point #2 What considerations does Renz need to make to ensure the successful implementation of the restructuring? What tools should he make use of and what measures should he avoid? What resources does he have to be able to offer people options beyond that of a severance package?

3 Gearing up for Monday: Devising a Solution

First, Renz compiled all 60 people's names, age, qualifications, and job function in a list. This gave him an overview of which employees were qualified for what position. The next thing he did was to create an action plan for implementing the change on Monday. The rollout would have to be timed well so that, among other things, Renz would have enough time to speak privately to every individual affected before communicating the news to other stakeholders. In addition, an information plan had to be set up so that the news would be communicated properly.

I was really on my own. I had to make sure that people heard things at the right time and that they would keep what they knew in confidence. (René Renz)

He also drafted a budget of direct and indirect costs associated with the implementation which included considerations, such as sums paid out for helping people to move house or losses incurred as a result of change in leadership. The budget also included a severance package for each person affected. An employee received a certain amount of severance pay based on age and length of tenure in the company. However, the package also covered the cost of outplacement support, which would be flexible and given on a case-by-case basis: Individuals who needed more assistance with finding a new placement at another company would receive it.

After Renz had clearly outlined what had to happen on Monday, he turned to the more immediate need of helping people with the next step in their career. A successful career in Switzerland required the acquisition of a personal network of contacts, and Renz had accordingly spent several years networking with HR executives and managers within and beyond Switzerland. He knew many people in the Geneva area as well as renowned colleagues in HRM in 18 other countries. Though by no means a common practice, Renz called individuals from this network—although many came from NCI's biggest competitors—and explained the situation to each person confidentially, as well as his desire to be able to offer each person leaving NCT a viable next step in his or her career.

I explained right away that this was all emergency and that I only had Monday to tell everyone and that we had a win-win situation all the way around. I'd be giving my HRM network colleagues great talent which NCI could no longer employ; they'd fill the position at minimal expense, effort, and time invested; and the people leaving NCI would have a seamless next step in their career to look forward to. (René Renz)

That his colleagues would see the immediate benefits of this approach and respond positively to it was to be expected: Hiring an executive search consultant would cost a company up to 40% of the salary offered for any position to be filled, and even just placing an advertisement in a noteworthy publication cost approximately CHF 5000. Soon, Renz's network connections had faxed Renz a description of all the positions open at their companies, in total over 80 from over 15 competitor companies.

Renz then looked at his original employee qualifications list and compared each job description with each employee's previous experience, qualifications, and education and assigned them jobs that might be of interest. Renz's final list had three columns: One for each person's name, one for his or her professional qualifications, and a third showing the positions open for which each individual seemed qualified. After he had assigned at least one position to each person, he removed each candidate's name from the list and faxed it to his network colleagues for their review. As a final thought, Renz built in a contingency plan. Some of the individuals to be phased out were qualified to take on certain internal positions which were being hired for at that time, so Renz planned to offer these individuals the option of an

internal transfer first. This alternative would also mean a smaller loss of talent to the company.

Of course, this process took up the rest of Saturday and went on Sunday before and after I presented my game plan to the corporate representatives, but by late Sunday evening, I'd organized new jobs for almost all of the people leaving NCI. (René Renz)

Decision Point #3 What do you think will be the most difficult aspect of the rollout? What do you think Renz should do to make the most of the strengths and backup/safeguard against his weaknesses in his action plan? How should he frame the news to each person? How will the way he frames the news impact the organization and the change effort?

4 Monday: Game, Set, and Match

It was clear that if the information was disseminated improperly, people would take the change badly. In the mid-1990s, Switzerland remained one of the least legalized countries in the western world: People could be hired by means of a verbal agreement, without a written document. Trust was the backbone of business—why create laws to regulate something when a handshake sealed a business deal just as well?

However, trust was as fragile as it was crucial. Renz knew that it had to be preserved as the basis for collaboration with all the stakeholders in the restructuring process. Misunderstanding and miscommunication were luxuries that NCI simply could not afford. For one thing, the news of this scale of dismissals in one of Geneva's largest sources of income and employment could easily sour relations between NCI and the Swiss government if improperly communicated. The Geneva city government would have to receive the news directly from the company, not just read about it in the paper. And if employees got wind of the news prematurely, insecurity and worry could overtake the organization in almost no time.

Monday went by in a whirlwind of activity. Renz scheduled an appointment of seven minutes on average with each person being asked to leave the company to walk through the restructuring and severance process and explain what would happen next. He began with top-level managers first and worked his way down.

People want to know what is going to happen. I didn't waste time telling people that they were going to lose their job, but I also assured them that it wasn't because of their performance. When you're meeting with someone to let them go, the meeting has to be short. You have to explain that it isn't your doing, that you want the best for them and that they will find a job that's at least as good as what they have now, and that the material aspects of the change will be fair. And we knew we could be fair, because the company was doing well and because even with the generous severance pay that people were given, the restructuring was going to pay itself back. (René Renz)

Many of the people Renz spoke to that day had expected some measure of this nature to arise as a result of Peter and Waterman's study. Many at NCI's European Headquarters felt that American companies tended to be restructured more

frequently based on trends and best practices, which could mean lower employment security compared to working for a Swiss firm. However, this expectation did little to alleviate people's disappointment and upset at losing their jobs. As more and more people became informed, the tension in the atmosphere became more and more palpable. Renz knew that people would still need an explanation that would allow them to digest their feelings on the matter.

I said to people, 'We all know that when you work at headquarters, you're in the most comfortable, highest place in a company, and that's in a city with one of the highest standards of living in the world. The problem is that people stay put because there is no place to be promoted to internally, and since a lot of people are slow to look for new assignments outside the company, we have a build-up here that has to be broken down.'

Renz also reserved an hour to inform employees who would be staying with NCI of the restructuring because these individuals would also need an opportunity to digest their feelings about this restructuring effort. So Renz invited everyone to a meeting in which he asked them to work together to help NCI into its new, improved, leaner future. Thereafter, he met personally with the government to talk about the dismissals. He rounded up the communication process by making an announcement to the press.

You have to tell the people close to the change. The local community is invariably affected by this scale of change, and they deserve and need to be the first ones to know. (René Renz)

However, Renz's day did not end with the press conference. The news had indeed spread like wildfire, and people began to contact Renz to find out if they, too, were on the blacklist.

I had to answer their questions immediately, of course. People were worried. One person had called me just as he was leaving Switzerland, and I had him paged at the airport when his plane landed so that I could reassure him that he wasn't going to be asked to leave. This is the kind of thing you have to do, or things will get out of hand as people talk and speculate. (René Renz)

The initial meeting was followed by an in-depth discussion of the severance package and procedure between one of Renz's direct assistants. This offered individuals an opportunity to express particular concerns and ask questions regarding the process. Renz also scheduled a personal follow-up with each individual as a third meeting to find out how things were moving forward and to help solve potential problems. Toward this end, Renz also hired an external outplacement consultant to help individuals needing—or wanting—extra support in the weeks to come.

By 7:00 p.m. on Monday, Renz had indeed removed 60 individuals from NCI—most of them management level—and put the company's European headquarters in line with the best practices of the day, with fewer leadership levels and a broader span of direct manager control in the ranks. In financial terms, this change meant no less than a permanent reduction of 50% in the overall budget at headquarters.

Decision Point #4 René Renz has now reduced NCI's European leadership structure by more than 50%. How do you think this restructuring effort will benefit NCI over the long and short terms? How do you think the restructuring effort could harm NCI over the long and short terms, and what do you think the company should do to counteract or safeguard against such negative impact?

5 Stepping into the Future: A New Frame of Mind

The financial benefits of the restructuring were yet to come, but there were immediate takeaways. To begin with, NCI found itself experimenting with new ideas about how to develop as a company. The restructuring had been executed by choice rather than need, and even though almost every employee left NCI with a job in hand, the process—short-lived though it was—had still been challenging at different levels for everyone involved. The company could not afford to constantly lose and rebuild its talent pool as a result of downsizing; ongoing fluctuation would take its toll on the employees, without whose full focus and innovation the company would not flourish. However, increased changes in the global pharmaceuticals market invariably meant more change at NCI, too. To NCI, developing the company responsibly and effectively over the long term now meant strategically developing its people resources so that when hard times hit, downsizing would not be a must.

NCI therefore decided that in future, it would keep its headcount low on a long-term basis. This meant streamlining human resources constantly, before cost-cutting became an ultimatum. For example, whenever a position became vacant, NCI went through a preselection process to analyze whether or not the job could be integrated into other internal functions or whether indeed externals should be invited to apply for the position. The tasks and functions associated with each position were divided into three categories—category I, vital and interesting; category II, vital but boring; and category III, not vital and boring. HR offered category I tasks and functions to internal employees wherever possible and then found solutions for automating category II tasks and functions to subsume them in pre-existing organizational structures and processes without additional expense or effort. Category III tasks and functions were simply phased out of the work structure altogether.

If you want to out-innovate your competitors, you can't surgically remove excess in one fell swoop after your company has gotten 'overweight.' You can't wait that long to make choices regarding your company's development and your people strategy. Building companies doesn't happen through restructuring revolutions but rather through a dynamic, step-by-step process which never ends. Toward that end, you have to have as few fixed costs as possible. You need companies which are lean, fit, and happy, all the time. 'Sinful indulgence' when times are good and then purging when times are bad isn't the way toward long-term excellence and sustainability. (René Renz)

In addition, humanely restructuring by covering both the tangible and the intangible aspects of a change meant that former employees still wanted to work with NCI, even as externals. The company thus found itself better connected than ever, with increased access to a network of expertise and skill that went beyond its internal

and subsidiary borders. Some of the individuals asked to leave even applied for jobs at NCI years later.

Our major achievement was that people came back. Years after they had built up a career with other companies, they still wanted to work for NCI. There is no greater marker of success for a downsizing process, no greater compliment to a company, than when you see the people you let go returning to work for your company. (René Renz)

Decision Point #5 What do you think is the relevance of this type of downsizing solution is in a recessive economy? Which elements of NCI's approach do you think were critical for the success of the restructuring effort and its long-term impact? How do you think other companies can make use of NCI's approach and what, if anything, would you change?

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