The cost of change

The top finance professionals can play an important role when a company is restructuring, says David Parmenter

The CFO and financial controller are very often too far removed from the action when a restructuring is proposed. If anyone is to talk sense to the board and senior management team, it has to be the CFO, who can be the authority on the potential costs.

A major reorganisation, with its multiple steps, consultations and political dynamics, is as complex as putting in a new runway at a major international airport while keeping the airport operational.

The CFO needs to ascertain the costs of such an exercise. Here's what typically happens in a reorganisation.

* **Loss of key staff in the lower-tier management ranks**. There is often a period of chaos where staff are disillusioned and many key employees in the third- and fourth-tier management ranks walk out of the door with a golden parachute, straight into employment elsewhere. A reorganisation can leave you with the also-rans and piranhas.
* **Ex-employees come back as contractors**. The bedding-in process starts to kick in somewhere between month seven and month 12. The completion of all the redundancies takes longer than expected and, yes, more than a few will come back as contractors at a higher cost. These costs must not be ignored.
* **Consultancy costs rise**. Consultancy costs go through the roof, as assistance will be needed with counselling staff, culture change and communication.
* **Branding is redesigned**. Look back to the last time this was done for a reasonable estimate.
* **Recruiting activity**. As all staff affected are likely to need to reapply for their jobs, additional HR resources will be required.
* **Work on property leases**. Releasing surplus property can take up to three years, especially in an economic downturn.

About two years after the restructuring is announced, productivity is likely to be back to normal; up until then, you have effectively been going backward. In the period two to three years after, advantages may begin to kick in.

Feeling contractions

When faced with a contracting business, there are a number of options you need to explore before undertaking a reorganisation and making everybody reapply for their jobs:

* Discuss the issues with the affected operational units and ask them to find new initiatives that can help part-fund their salaries. Often there are a number of income-generating possibilities that have not been explored.
* Consider buying some time by redeploying staff so that some have the chance to seek further employment while still employed. This is a managed staff-reduction process and will save a huge amount of money on redundancies, while at the same time giving your staff an opportunity to find new jobs.
* Work with the human resources team to design a voluntary redundancy programme. You have to be prepared to lose some top employees, as you can't directly target staff members with lower skillsets.

As CFO, you shouldn't underestimate the long-term impact of staff reductions. Where possible, the CFO should argue that it is better to fund the shortfall out of retained earnings. The cost of firing and rehiring is often much higher than holding on to the staff.

An organisation with 500 full-time employees that is contemplating dismissing between 50 and 70 staff members would, by my calculations, be no worse off if the staff members were kept on and redeployed, where possible, within the organisation for up to two to three years. ■

Next steps

1. Analyse the last restructuring performed in the organisation so you have a benchmark cost available.
2. Email me (**parmenter@waymark.co.nz**) and I will send you a checklist to put you off a reorganisation and a spreadsheet to work out the hidden costs of dismissals.

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