The Effects of Organizational Restructuring, How They Can Be Mitigated and a Case Study of a Small Trade Association

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Introduction

At some point every organization undergoes some sort of restructure whether it be small or large. Restructuring is needed for a variety of reasons but all restructuring is done to have a positive impact on the organization. However, some organizational managers underestimate the effect restructuring has on employees. This paper addresses why and how organizations restructure and its effects on employees. First, we will look at what restructuring is and why organizations take on such risky endeavors, then we will look at the effects of restructuring on the employee. Next, we will look at the ways in which an organization can mitigate the negative effects of restructuring on employees. Lastly, we will do a case study of a small trade association's restructuring to see what went right, what went wrong and how, according to our research here, any negative effects could have been mitigated.

What is restructuring?

In their book, *Reframing Organizations* (2013), Bolman and Deal describe an organization's structure as the "blueprint for formally sanctioned expectations and exchanges among internal players…and external constituencies." For example, an organizations structure can consist of the governing policies, rules of hierarchy and the vision and culture. From Bolman and Deal's definition then, we can define restructuring as changes to the expectations and rules of exchanges both inside and outside of the organization. Restructuring doesn't necessarily mean a complete overhaul of the entire organizations work processes. Organizational restructuring can mean different things for different companies at different time. For instance, a company might want to restructure just one department or only work on restructuring their culture. Each organization restructures differently according to what reasons brought the company to make changes in the first place.

Why do companies restructure?

Organizations decide to restructure for a myriad of reasons. Internal and external changes force an organization to readjust in some way (Bolman & Deal, 2013). In all cases the motives behind restructuring are to bring about positive change. A few reasons for restructuring are to reduce costs, improve business performance or to improve efficiency. External forces such as environmental shifts, technology changes, leadership changes, organizational growth and improved productivity can motivate an organization to start looking at ways to restructure. business may decide to restructure. While the motives behind restructuring are rooted in wanting to bring about a positive change in the organization, often times managers forget to include the effect on employees during restructuring.

Effects of restructuring an organization

Restructuring an organization is an extensive undertaking. Many mangers underestimate the changes in relationships that result from a restructuring. Underestimating the how a restructuring may effect employees can lead to more resistance and problems during the change process, decreased work satisfaction and worse yet, a failure to complete the restructuring process. For example, employees may lose a colleague that they have worked with for a long time and begin working with new colleague on a daily basis, they may take on extra duties, older employees may be downsized and take with them institutional knowledge while new employees are not trusted. All of these can have a negative effect on the employee and in turn, a negative effect on the restructuring.

Employee Trust

Organizational restructuring can bring about dramatic changes in the employee experience. One of the ways in which an employee can be negatively affected is in their trust level. The more changes an employee is required to make, the harder it is for the employee to adapt and the likelier it is that the employee will lose trust in their colleagues. In a study of 72 employees before and after an organizational restructuring, Lee and Tea (2005) found that the more changes an employee was required to make, the lower the trust level among colleagues. This means that an employee will be less receptive to restructuring if there are extensive changes. This negative effect on trust amongst colleagues could be due to different work flows as well as increased uncertainty and ambiguity which can lead to greater stress on working relationships.

Employee Satisfaction

Employee satisfaction effects restructuring in a similar way as trust. The more changes the employee is required to make, the higher the uncertainty and ambiguity in the role of the employee, the more likely it is that the employee will have a decrease in work satisfaction. In the same study as above, Lee and Tea (2005) also found that the greater the amount of changes required from employees the lower the work satisfaction level. This further shows that employees are less receptive to restructuring if there are extensive changes. In a similar study, Probst (2003) found that those affected by the restructuring reported significantly lower levels of job satisfaction after the restructuring than employees not affected by the restructuring. The negative effect on job satisfaction could be due to an expansion of duties, work overload, role confusion or increased uncertainty. Along with these results, Lee and Tea (2005) also found that trust and work satisfaction were both effected by each other. This means that the higher the level of trust, the higher the level of work satisfaction in employees and vice versa.

Employee Turnover

With the announcement of an organization's intention to restructure there is often an increase in concerns over job security. In a study of over 300 participants, Probst (2003) found that those employees who were affected by the restructuring had significantly lower job security perceptions than those who were not affected. He also found that turnover intentions increased following reorganization. This means that employee turnover is a negative effect of restructuring. In the same study, Probst found that organizational commitment was significantly decreased by the organizational restructuring. These negative effects can be attributed to greater stress, lower perceived job security, increased uncertainty and increased conflict among employees.

Social capital

Teams and work relationships are also effected during a restructuring. After restructuring, some changes will eliminate social capital and produce new opportunities to form social capital. Social capital is the information stored in rules, procedures and norms in an organization which guide decision-making and employee interactions. When work groups are terminated, the loss of a colleague denotes the loss of a friend which eliminates a source of social support and can have a negative effect on an employee. In their study, Jacobs, Witteloostuijn and Christe-Zeyse (2013) found that “the more positive employee’s reaction to organizational restructuring the less likely those employees remain relying on old social capital resources and the higher the extent of new social capital by employees.” This means that employees who view the restructuring positively instead of negatively better form new working relationships.

Ways to Mitigate the Effects of Restructuring

Evidence shows that organizational restructuring can have many negative effects on employees. However, these same studies also offer us great insight into what types of activities an organization can do to help mitigate these negative effects. In their study, Lee and Tea (2005) found a positive relationship between an immediate supervisor’s receptiveness to listen to employees and work satisfaction. This finding suggests that one way to mitigate negative effects of restructuring is for supervisors to maintain an open communication line with employees throughout the process. Employees who feel that leaders are empathetic and understanding are more likely to be cooperative and constructive which improves their work satisfaction (2005).

Similarly, it is important for an organization to show employees that they care about them during a restructuring. Jacobs, Witteloostuijn and Christe-Zeyse (2013) found that employees who feel that the organization cares about them are more likely to leave old ties behind and develop new ties. This means that to mitigate the effects of losing social capital, an organization can find ways to show the employees that they care about them and respect their hard work through the restructuring process. Getting employees involved in the restructuring helps mitigate the challenge of the fear of the unknown, a feeling of loss of control and resistance to change (2013).

Case Study of the American Mental Health Counselors Association

Now let's look at a case study. The American Mental Health Counselors Association (AMHCA) is a trade association of mental health counselors whose mission is to advocate for the profession and provide continuing education and a sense of community for counselors. Since the organization broke away from its parent company, the American Counseling Association, in 1996, there was one CEO. In 2013, the CEO retired and the organization hired a new CEO. Under the former CEO the organization was centralized, lacked creativity, and each department was interdependent. The board was more of a representative board in that they were not involved in making many decisions for the organization, employees performed their jobs with oversight from the CEO and had very little autonomy. The CEO made decisions with little input from specific departments. The staff consisted of four full-time equivalents, including the CEO, one part-time and three contractors for website management, newsletter editing, and IT.

Under the new CEO the staff first grew to six full-time equivalents, including the CEO and three contractors. In 3.5 years, the staff was reduced to four full-time employees and two contractors. The new CEO preferred more of a collaborative environment so the board became a governing board that now had input on all operations in the organization, and department heads were far more autonomous and required to give advice about how to proceed with programs.

What Went Right

There were many positive effects to the restructuring of AMHCA. Under the new CEO departments have become more efficient, there is more collaboration and increased social capital. The new management invested in new technology that allowed several departments to streamline their work processes and thus become more efficient. An increase in autonomy allowed departments to explore new ways to collaborate which gave employees increased job satisfaction and productivity. Moving from a centralized organization to a decentralized organization meant that there were more opportunities to work together and thus an increase in social capital in the organization.

What Went Wrong

There were also many negative effects to the restructuring of AMHCA. A lack of communication between management and staff led to increased uncertainty, role confusion and increased stress in employees. This increased stress had a negative effect on trust and job satisfaction in the employees. An increase in efficiency led to downsizing which ultimately also contributed to feelings of uncertainty and stress in employees and negatively impacted job satisfaction as well as decreased the social capital within the organization.

Mitigating the Effects

While there were both positive and negative effects to the restructuring of AMHCA, there were several ways that the negative effects could have been mitigated according to our research. A lack of communication with employees about the restructuring negatively affected trust and job satisfaction. In order to mitigate this, management could have been more open with staff about the changes in expectations and clearer about the vision and cultural shift. Likewise, open communication about downsizing and an acknowledgement of work overload situations as well as the institutional knowledge that was lost could have greatly improved negative effects of decreased social capital within the organization.

Conclusion

All organizations undergo restructuring. It is needed in order for organizations to change and adapt to the external and internal pressures that all organizations face. It is important for organizational leaders to pay attention to the effects restructuring will have on their employees and not to underestimate the benefits of taking the time to communicate and address the employee's needs. Addressing this aspect of restructuring not only improves employee response to the restructuring but can also have a positive impact on the process as there will be less resistance, greater job satisfaction and increased trust.

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