

Ray Mischkot APTA Draft Presentation
Some Guidelines for Organizational Downsizing and Restructuring:
How to Maximize "The Gain" While Minimizing "The Pain" ¹

Introduction

During the last quarter of 1995, I was engaged by the Riverside Transit Agency (RTA) to conduct an assessment of organization structure, staffing and effectiveness. The purpose was to identify and recommend approaches to restructuring that would support RTA management in meeting future increases in service demand without increasing the size of its current management staff. This was particularly challenging because RTA has traditionally maintained a lean organization and the management staff was already stretched in coping with an unprecedented rate of growth in both fixed-route and demand-response service. To ensure that the assessment was responsive to RTA needs, we asked the Study Steering Committee to define "what success would look like" in terms of our final report and presentation. This yielded the following criterion, which was used to guide our data gathering, analysis and recommendations.

Provide findings and recommendations to support RTA management in achieving and sustaining an organizational structure that is "flexible" in terms of responding to funding and demographic change and "defendable" in terms of demonstrating to its Board, regulatory oversight authority and other critical stakeholders that funding from all sources are wisely spent.

My presentation centers on six business transition principles applied in performing the RTA study consistent with this "flexible and defendable" criterion. These principles provide practical guidelines for managing organizational restructuring and downsizing in a way that can minimize the negative impact on productivity and quality of service that often follow in the wake of such endeavors.

An Overview of Organizational Restructuring Principles

Principle 1: Plan organizational restructuring from the "outside-in"

Perhaps the most unique aspect of the RTA study is that we assessed the organization from both an internal and external perspective. Planning from the outside-in means that restructuring should begin with a clear understanding of the external forces that usually drive the need for restructuring and downsizing. Examples of such business environment (outside) forces include:

- Demographic trends that change the pattern of demand for transit service
- New federal service mandates such as the Americans with Disabilities Act (ADA)
- Political or economic pressures that result in funding restrictions
- Increased emphasis on rail service that competes for funds

Such market, economic and political change effect the actual or perceived "rules of the game" regarding what constitutes "successful" transit service. This first principle suggests that restructuring should begin with an explicit "success criterion" defined by agency management in conjunction with its board of directors and the other public bodies that influence: what constitutes meeting the public transit service mandate, what this should cost, and what funds should be allocated for support.

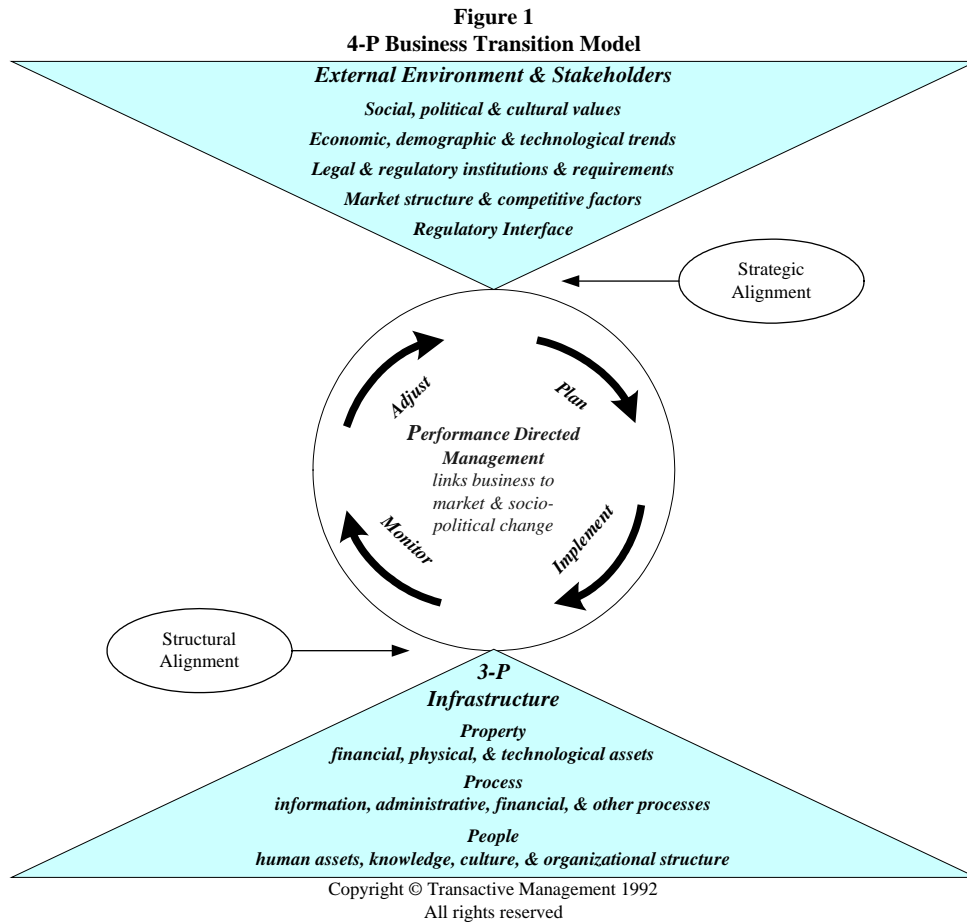
Put more simply, before you start rearranging the organizational pieces—e.g., staff size, staff mix, lines of reporting, organizational levels, roles and responsibilities—clearly define what key stakeholders expect this newly configured organization to do. How can you put the puzzle together if you don't have the picture on the box? This is about managing the board and other key stakeholders in a manner that clearly defines the picture on the box.

Principle 2: The nature of business is change

Regulated public-sector agencies are distinguished from unregulated private-sector businesses by the elected or appointed oversight bodies established to ensure that the public service mandate is met by a prudently managed transit service organization. This second principle suggests two things:

- Even though a political body replaces the market in translating public demand, transit agencies are, in fact, competitive businesses—they provide a service that can be met by alternative means (e.g., rail and automobiles).
- Transit businesses, like all businesses—private, public, regulated, unregulated—are in a constant state of transition.

Organizational restructuring should be planned and implemented based on a clear understanding of how the reconfigured structure can best support the public service mandate. Therefore, restructuring should be directed at keeping the transit organization in sync with business environment changes. This is the essence of the RTA "flexible and defensible" criterion. Both "defendability" and "flexibility" are based on the organization's ability to respond in a timely manner to the external forces that shape the actual and perceived need for transit service as well as the availability and allocation of required funding.



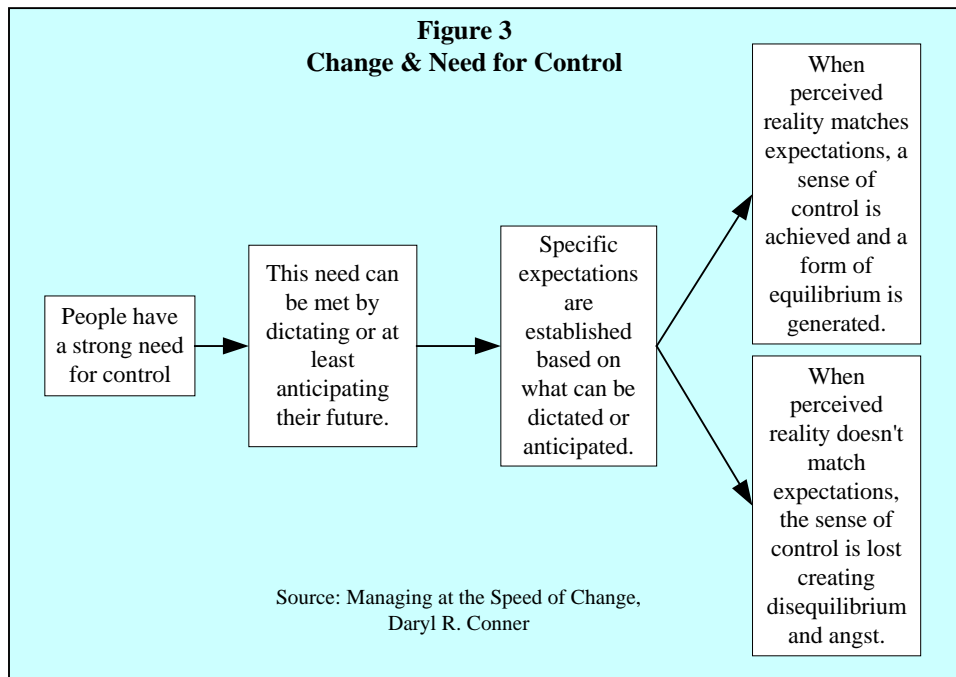
In our work at RTA, we used the business transition model provided in Figure 1 to develop assessment

criteria on how organizational restructuring should be linked to business environment change. As indicated, the model segments the overall business system into three elements: the external business environment, the internal business environment (the “3-P Infrastructure”) and a “performance-directed management” process that links these two environments through a four-step management process—planning, implementing, monitoring and adjusting.

In terms of the model, strategic alignment represents aligning the board and other external stakeholders as suggested by Principle 1. The resultant public service mandate then provides a basis for structuring an organization that is both "defendable" and "flexible"—i.e., is structurally aligned in terms of the process, people and property infrastructure required to fulfill this mandate.

Principle 3: The business of change is nature

This is a deliberate play-on-words that has an important message that is too often overlooked; restructuring and downsizing involve both a business and cultural transition. The former represents "the gain" of improved organizational efficiency and effectiveness. The latter, represents "the pain"; the impact that uncertainty can have on the behavior, beliefs and values that drive workforce motivation and productivity. This is especially true for downsizing, which threatens financial security and introduces significant levels of uncertainty about the future. Figure 2 shows how the "natural" human need for control is linked to equilibrium between workforce expectations and after-the-fact outcomes.



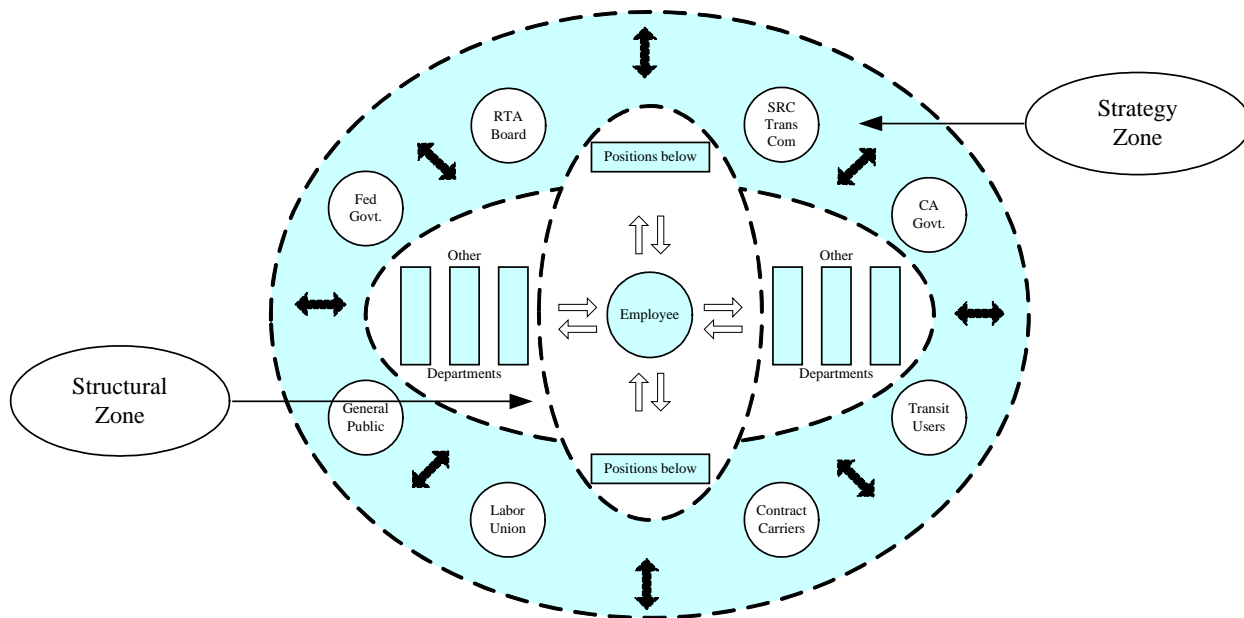
For example, if your transit business has been relatively stable, employee expectations regarding their wage/salary, job security, benefits, and job responsibilities and performance goals generally match outcomes; employees feel in control and are productive. As soon as management begins considering the need for restructuring, particularly downsizing, it disrupts this critical balance.

This principle suggests applying the substantial body of learning on the change management process (i.e., "the business of change") to minimize the decline in morale and productivity, which are often a byproduct of restructuring. Defined patterns of workforce response to change can be used to guide restructuring and mitigate any negative impact on productivity. One of the more significant, albeit counter-intuitive, aspects of the change dynamic is that the perception of control—i.e., ability to predict outcomes with some degree of confidence—can be as significant, or even more significant, than the perception of whether such outcomes are good or bad. The key lesson here is to carefully plan and communicate organizational restructuring goals, decisions and actions. In the long run, candid communications about future change that are negative but prove to be accurate are preferred to positive announcements that are wrong after-the-fact.

Principle 4: Design and implement organizational restructuring from the "inside-out"

Designing and implementing from the inside out involves clearly defining department, team and individual internal and external roles and responsibilities. To accomplish this for the RTA assessment, we used a Bilateral Zone Analysis (BZA) interview technique. Figure 3 depicts the Employee Universe Model, which served as a visual aid during the BZA interview process.

**Figure 3
Employee Universe & BZA Model**



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Beginning with a blank easel-pad, we asked each interviewee to define their responsibilities and recorded this information in the middle of pad (the center of the diagram in Figure 3). We proceeded to work outward defining in sequence, positions above and below, regular bilateral interaction with other departments (structural zone) and regular bilateral interaction with external stakeholders (strategy zone). Once this "universe" was defined, interviewees were asked a series of questions on how well it was working based on our 4-P model assessment criteria. By interviewing managers and selected staff members from each department, we were able to gain a detailed understanding of how both the formal (as defined by organization

charts and job descriptions) and informal (actual practice) organization functioned to achieve the RTA mission.

Principle 4 suggests that you accomplish such an inside-out documentation and understanding of the internal and external roles, responsibilities and interactions that are the substance of organizational performance. Such an investigation of how the organization actually functions reveals patterns of organizational weaknesses that are symptoms of underlying causal barriers to more efficient and effective performance. For example, such analysis can reveal:

- Organization structure barriers—duplication of effort, role ambiguity, too many management layers, functional silos (i.e., ineffective inter-department interaction)
- Staffing barriers—too many/too few, wrong mix, need to improve core competencies
- Cultural barriers—low morale, poor teamwork, resistance to change
- Strategic barriers—too many/conflicting responsibilities re external stakeholders, insufficient management direction, need to improve performance-directed management

These patterns should guide the design of organizational restructuring and downsizing in a manner that builds on organizational strengths and addresses causal barriers to improved performance. In addition, by broadening your organizational assessment beyond structure and staffing, you can also obtain valuable insights into improving other areas including work processes and the physical and cultural environment.

Principle 5: Reconfigure your organization to be "transactive"

Data obtained through BZA-based interviews and document reviews define internal and external interactions, which reveal "transactive" patterns. By this I mean the inter-personal and inter-group bilateral transactions (verbal, written and electronic communications) that represent how the organization actually works. A transactive organization is one designed to actively promote communications across organizational divisions and at interfaces with external entities that have the most significant impact on revenue and funding, cost, and quality of service.

The term "transactive" was chosen to emphasize the two types of transactions that take place within the business (internal) and between the business and broader business environment (external):

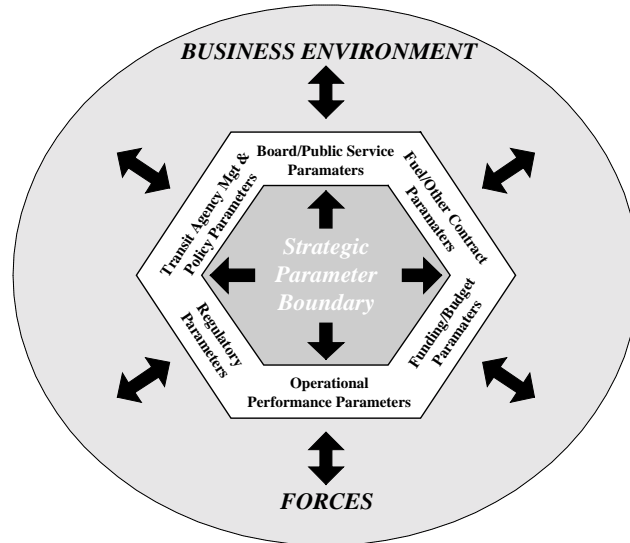
- **Performance directed transactions** include the full range of individual, group, organization, and business environment interactions—or "transactions"—that are quantifiable or otherwise involve economic, financial, operational, or administrative actions that measure performance—e.g., revenue, income, output, turnover, employee levels, salaries.
- **Value directed transactions** include the full range of individual, group, organization, and business environment interactions—or "transactions"—that are inter-personal and reflect and influence individual, organizational, or social attitudes, values, norms and behaviors—e.g., teamwork, environmental responsibility, self worth, respect.

Patterns of internal and external communications are used to define primary transit service units, or "business cells", which are characterized by a distinct population of customers (i.e., a market), funding and regulatory authorities and stakeholders, and specialized operational and administrative requirements.

Figure 4 provides an example of fixed-route service as such a business cell and provides the most important

interfaces with external entities as "strategic parameters".

Figure 4
Fixed Route Service Business Cell

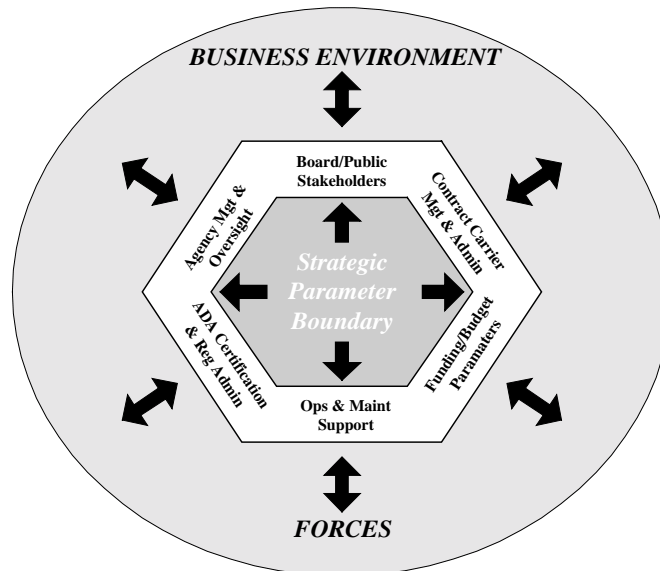


- **Board & Public Service Parameters**—define relations with the transit agency board, any local or state transit/transportation commission that controls funding, other stakeholders that control or influence transit agency revenue and funding allocations
- **Fuel & Other Contract Parameters**—define the costs associated with products (i.e., fuel) and services (i.e. common carrier subcontractors) that are significant in terms of costs incurred as well as the quality of the products and services provided
- **Funding & Budget Parameters**—represent the agency plan and budget allocation, approval and implementation process that translates approved funding into an operational plan and budget against which plan performance goals are tracked and reported
- **Operational Performance Parameters**—represent all activities, processes and costs associated with procuring and maintaining busses as well as service route design, scheduling and all other aspects of transit operations
- **Regulatory Parameters**—represent all costs, activities and processes associated with interfacing with the host of federal, state, and local regulatory bodies that define service requirements in terms of air quality, safety, transit service for the disabled, etc.
- **Transit Agency Management and Policy Parameters**—represent policies and processes such as planning, budgeting, human relations, total quality management and other management oversight and internal control systems that, from the business cell perspective, are "external" in that they represent costs beyond the direct costs associated with providing fixed-route service.

Specialized operations such as ADA-related demand-response service can also be defined as a business cell based on the following characteristics that distinguish this area from conventional fixed-route service. Figure

5 provides the strategic parameters for ADA demand-response service reflecting the following unique characteristics associated with this business cell.

Figure 5
Demand-Response Service Business Cell



- Demand-response service is directed toward a specialized subset of transit users (the disabled),
- It introduces a unique and specialized regulatory body (ADA regulators) that defines the public mandate for providing this service
- Meeting this mandate requires specialized operational and administrative processes and dedicated personnel with regard to:
 - Managing the various public interest groups that represent the aged, mentally challenged and other constituencies of transit users falling within the purview of the Americans with Disabilities Act
 - Contracting with and managing any non-transit agency companies that provide this service
 - ADA requirements for certifying qualified users
 - Operational and maintenance support for scheduling and maintaining the busses that provide this service

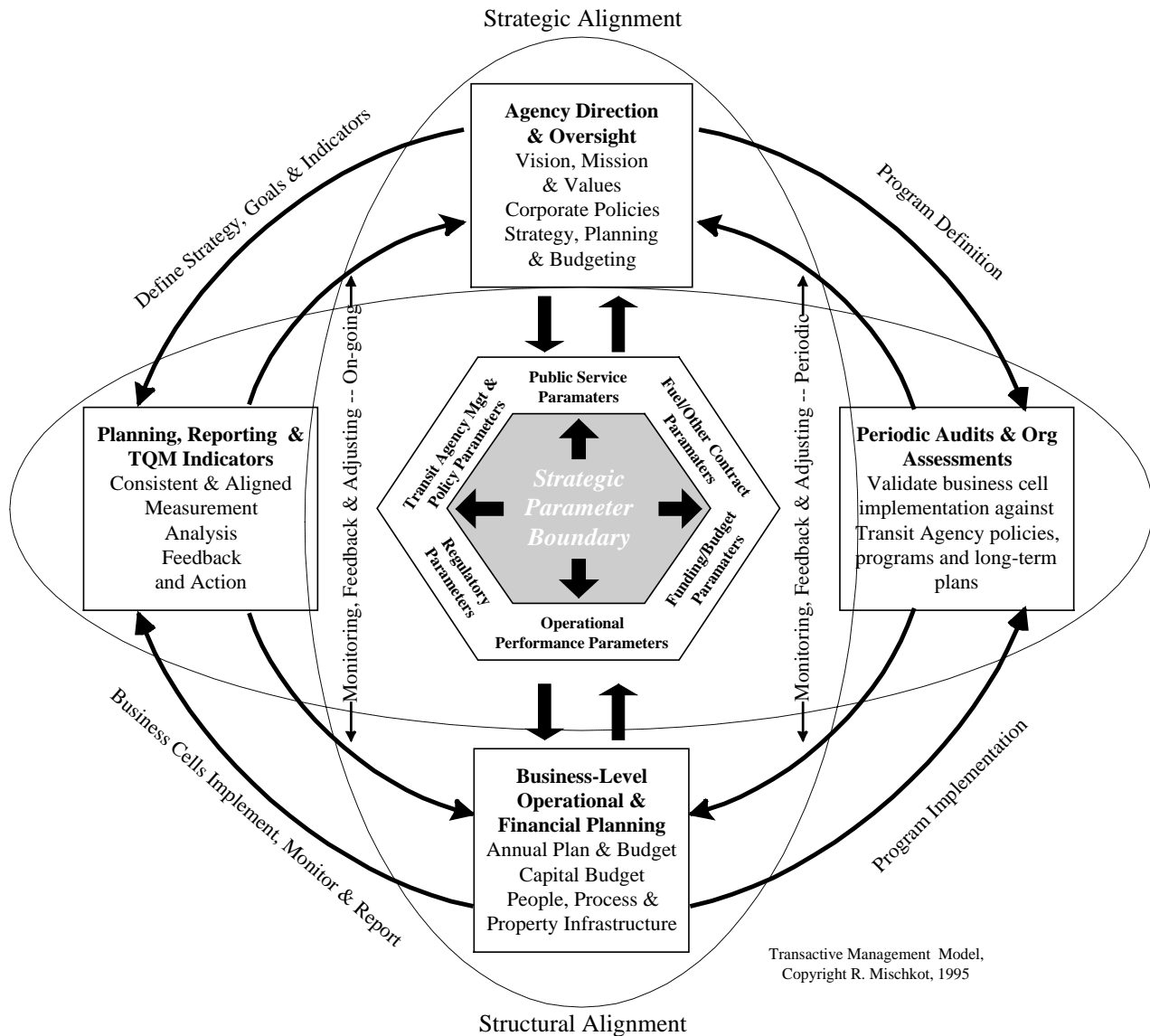
By distinguished such business areas and associated parameters, data on roles and responsibilities collected through the interview process can be "mapped" into an organizational function and parameter matrix that defines the functions performed by each department with regard to the strategic parameters of each business cell. Such a "side-by-side" comparison of department functions clearly shows lack of coverage, too much coverage (i.e., duplication of effort), ambiguity and other organizational weaknesses. Through a combination of organizational restructuring and the use of inter-department task teams, each transit service business can be

planned and managed in a way that promotes a transactive management approach.

Principle 6: Continue to improve efficiency and effectiveness through a Transactive Management Process

Figure 6 depicts what I have developed as a Transactive Management process and model. The RTA assessment recommendations promoted this model by:

**Figure 6
Transactive Management Process**



- Encouraging a “flat” organization by removing cumbersome and costly layers of management

- Applying cross-organizational team-based approaches to encourage teamwork and bring the right mix of skills to bear on each primary service area
- Improving the effectiveness of Total Quality Management (TQM) techniques by integrating performance metrics, benchmarking and best practices into a planning and management process that emphasizes primary service areas
- Improving the effectiveness of information system upgrades and process re-engineering by emphasizing enhancements in primary service areas
- Integrating planning, budgeting, and policy-making (vertical ellipse) with inside-out implementation (central hexagon), consistent and aligned performance metrics, and periodic interventions (horizontal ellipse) to ensure effective management oversight.

This final principle suggests that improvements in organizational efficiency and effectiveness can continue to yield performance benefits. Moreover the product of this effort is not only compatible with but reinforces other performance improvement measures you may have already completed or initiated including Total Quality Management (TQM), process re-engineering, and improved information systems.

The assessment report recommended that improvements achieved through applying the forgoing five principles be made a part of the post-restructuring planning and management process with the business cell as the central component. Strategic alignment should emphasize effectiveness measures developed in conjunction with the board and other stakeholders to define the public mandate for each primary transit service area. Structural alignment should emphasize improved efficiency in meeting this public service mandate by configuring the people, process and property infrastructure in a manner that can provide the highest quality of service for the lowest cost.

Summary and Conclusions

In sum, organizational restructuring and downsizing should be planned and implemented as a process of business transition that has both internal (organizational and cultural) and external (business environment and stakeholder) attributes. The foregoing discussion outlined the following steps in accomplishing this.

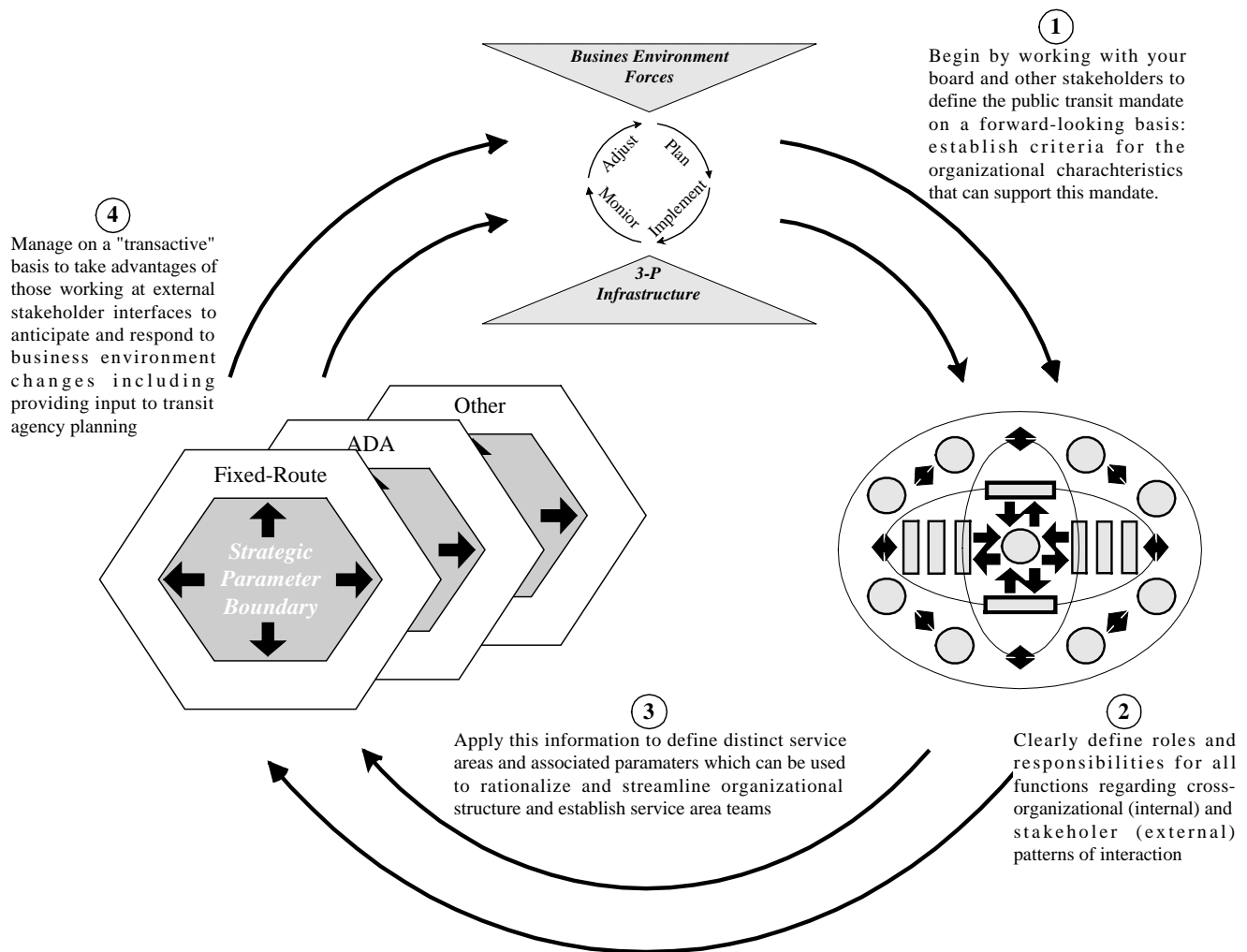
- Plan restructuring in terms of what it takes to keep organizational change in sync with business environment change and work with your board and other external stakeholders to define an explicit organizational effectiveness criterion to guide restructuring.
- Recognize that organizational restructuring has both business and cultural transition dimensions and incorporate change management principles as part of the restructuring agenda.
- Design and implement changes in structure, staffing, functional roles, salary administration and design, and other elements of planned restructuring based on a clear understanding of both formal and informal department, team and individual roles and responsibilities with regard to both internal functions and external stakeholder relations.
- Use this information to define fixed-route and specialized service areas which represent unique businesses in terms of market segment served, funding and regulatory authorities/stakeholders and specialized operational and administrative requirements.
- Draw on all the forgoing areas to restructure the organization in a manner that eliminates unnecessary duplication of effort and organizational layers, leverages staff and line capability through team-based

approaches organized around the business cell concept, and ensures an inside-out planning and reporting structure that allows timely recognition of and response to business environment change.

- Promote a Transactive Management Process by integrating organizational, process and other improvements gained during restructuring and downsizing with other process improvements such as process re-engineering, TQM and improved information systems.

Figure 7 shows how the conceptual models and guidelines provided in this presentation can be applied on an ongoing basis to bring continued improvement in service performance.

Figure 7
Relationship of Analytical Models



¹ This paper, which was originally presented at an April 1996 American Public Transit Agency Meeting, has been

revised to reflect more recent versions of Transactive Management's theories and conceptual models. On the whole, however, it continues to represent an accurate portrayal of the RTA organizational assessment completed at the end of 1995. This assessment was pivotal in contributing to Transactive Management's development of the employee universe model and the BZA interview technique. (Ray Mischkot, November 2003)