

# RESTRUCTURING OF THE MANAGEMENT SYSTEM AND THE ROLE OF TOP MANAGEMENT

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## ABSTRACT

*In conditions of market economy organizations constantly need to improve their competitiveness. It requires continuity of changes of management system. Sometimes these changes are comprehensive and radical and comprising all structural elements of management system. The purpose of these changes top management usually opts for the management system restructuring. At the same time two important groups of tasks need to be realized: 1) ensuring all assumptions for restructuring process success and 2) managing of the restructuring process which means implementation, too. Top management need to ensure the success of the restructuring process of management system by its competence, authority, level of consciousness and responsibility. The restructuring process is often carried out in unstable conditions in organization and environment, too. The success of the management system restructuring process largely depends on the top management competence. In this paper author delivers an explanation of the restructuring process of management system and the role of management in that process.*

**Key words:** *top management, management system, restructuring.*

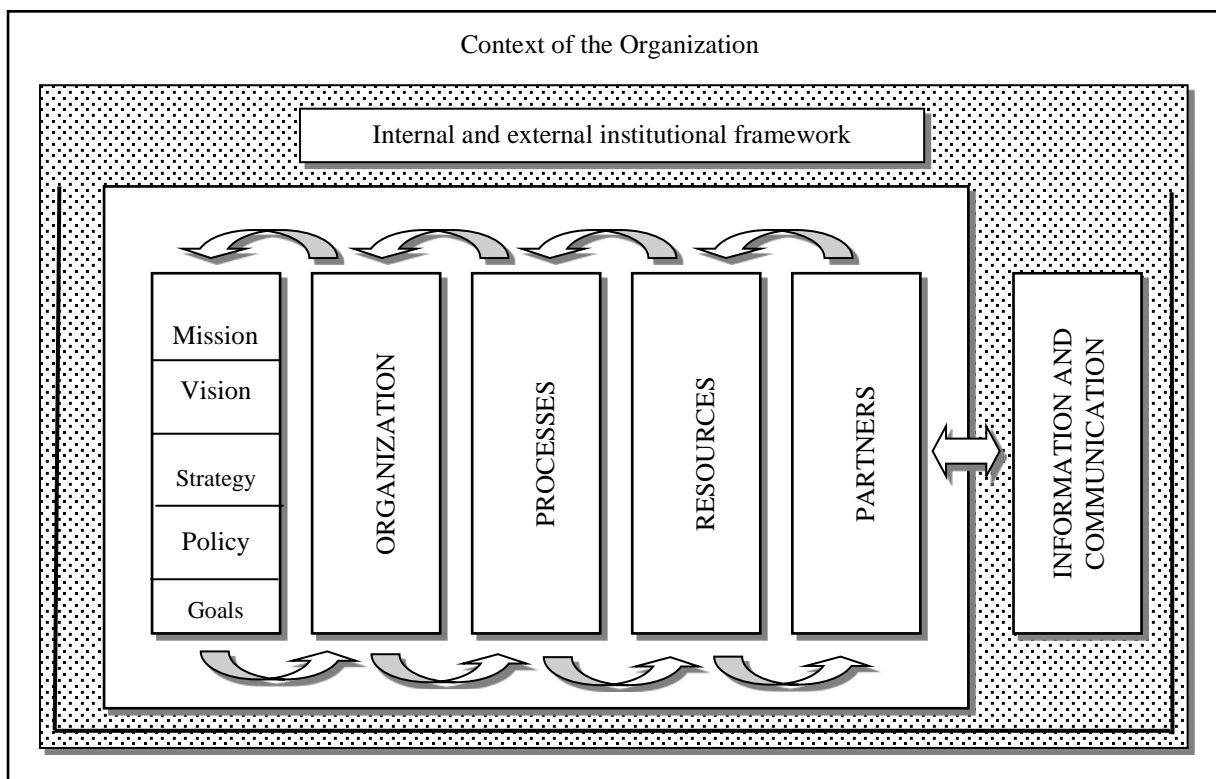
## 1. INTRODUCTION

Regardless of its business activity, physical size or degree of awareness of its top management, all organizations have a management system. No matter if it is a production plant, hospital, faculty, humanitarian organization, sports association; the management system has identical structural elements. Functioning of the management system is the responsibility of its top management. Quality of the entire management system depends on quality of the management system structural elements. And its quality determines the organization's position in the market. In conditions of liberal market, competitiveness is one of managerial objectives of the organization's top management. Maintenance of a certain level of competitiveness or its improvement requires implementation of a series of procedures within the management system, aimed for enhancing its characteristics, such as: selection of strategy, definition of clear and appropriate policies, setting realistic and measurable goals, flexible and process oriented organization, reliable business processes, sufficient good quality resources, developed relations with partners, functioning information and communication system at all levels and in all directions. Developing these procedures and ensuring their implementation are tasks of top management. Implementation of these procedures is most often called restructuring, since interventions and changes are done to individual or to all structural elements of the management system. Top managements often carry out management system restructuring without actually having enough knowledge of the system itself and its structure. Restructuring processes are therefore frequently unjustifiably simplified, and a very common standpoint in practice is that restructuring means linear decrease of costs and employee number. This approach is superficial and wrong and it does not produce expected results. However, the future of the organization often depends on the manner of conducting the restructuring process and its outcome. Restructuring process is the responsibility of the organization's top management.

## 2. MANAGEMENT SYSTEM

Management system of an organization is a complex composition of structural elements necessary for conducting business processes (Figure 1). These are: 1) strategic documents defining the organization's commitment, materialized in its mission, vision, strategy, policies and managerial objectives and targets, 2) organizational structure, 3) business processes, 4) resources, 5) partnerships and 6) information and communication (Drljača, 2007). This structure exists according the internal and external institutional framework and need to be understand with its context.

Performance of structural elements is interdependent and each of them affects the performance of the management system as a whole. A system is a set of interrelated or interdependent elements. It is a group of elements that may be separated into independent parts without harming the whole. Each system consists of two or more elements that must meet the following conditions: 1) each part affects the performance of the whole, 2) performance of elements or components is interdependent, and affects the performance of the whole, 3) no matter how components may be divided into groups, no component makes independent influence on the whole (Chapman, Lee, Shiba, 1999). In other words, quality of each individual structural element affects the quality of the management system, and consequently the quality of results of business processes running within the system.



**Figure 1** Management system elements of structure (Source: Own study)

A common characteristic of all successful organizations is continuity. It is continuity in realizing their mission. Continuity implies a long period. There are examples of organizations present in the market for over hundred years. During life cycle of an organization many internal and external factors affect its management system. It means that the management system must adjust to new conditions in the environment: institutional, political, sociological, economic, etc. The context of the management system of an organization should be understood.

When significant changes in the environment occur, the management system of an organization usually undergoes significant changes in its structure; changes are made either to an individual structural element, to several of them or to all structural elements of the management systems. These changes are called restructuring of the management system.

### **3. RESTRUCTURING OF MANAGEMENT SYSTEM**

The goal of owners and top management of an organization is to survive in the market, to increase competitiveness and market share. In order for an organization to survive in the market in newly created conditions, it is most often necessary to change the present way of thinking, work and behaviour. Changes that organization needs to implement with the aim to adjust are mostly comprehensive and radical. Beside other things, they require creation and promotion of a new system of values in business operations, in which the following dominates: quality, organizational culture (Drljača, 2005) and business ethics. With the aim to implement comprehensive and radical changes top managements mostly opt for restructuring.

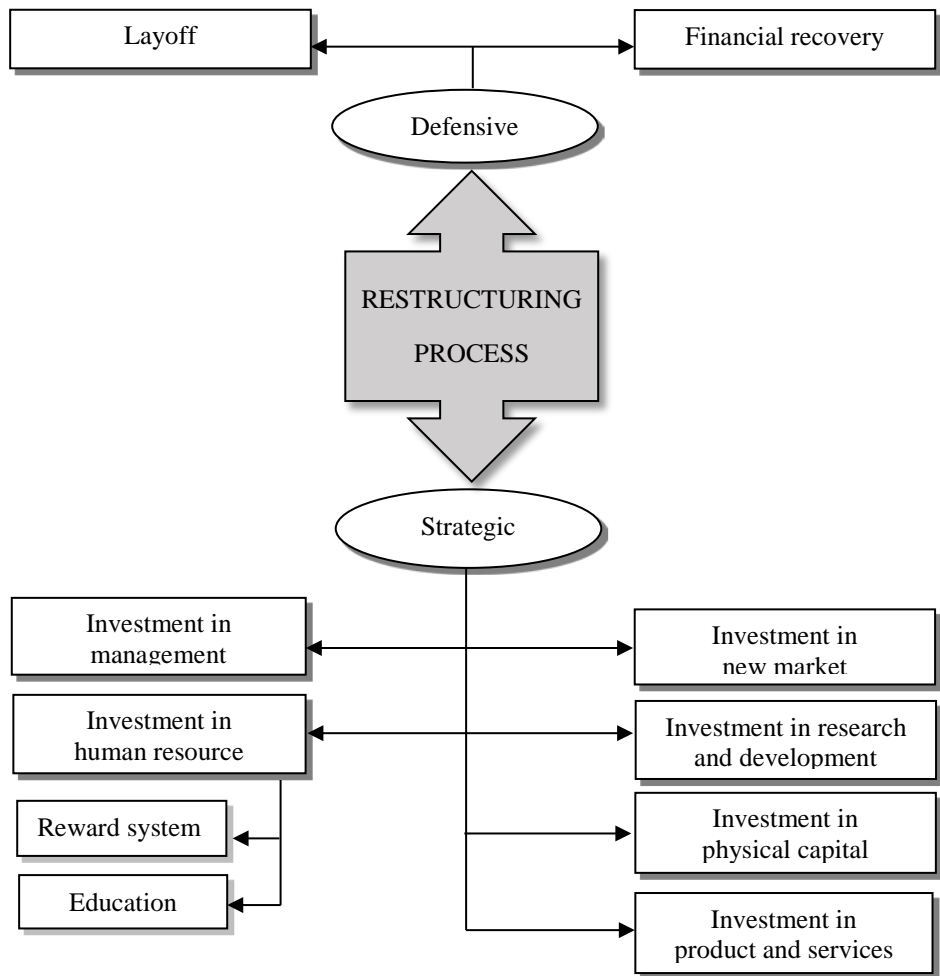
#### **3.1. Definition of the term restructuring**

Restructuring means all-inclusive interventions on changing the structure and introducing new technologies, as well as a new investment cycle. It also means changes in structural elements of the management system and a wide set of programs and activities with the basic goal to increase efficiency of the organization as a whole. At first restructuring was seen as a process of various changes in ownership structure (merger, acquisition, buyouts, sales, integrations), and in the later phase this term includes, beside ownership, also organizational, technological and market oriented rearrangement of an organization, its business activities and portfolios. It is a constant process of various improvements and transformations of existing structures and continuous innovation in methods and techniques of managing the organization and its business operations.

Restructuring (Bahtijarević-Šiber, Sikavica, 2001) is a process of implementing big changes in the organizational structure that often include reducing the number of management levels and changing organizational components by relocating and outsourcing some activities or functions, and very often also by reducing the number of employees. Integral and important part of this process is a decrease of depth and width of the organization known as *downsizing*. This means significant reduction of layers and size of middle management, widening the scope of controls and generally reducing number of workers. Through well implemented restructuring process organizations become "narrower" and "shallower" by eliminating everything superfluous that slows down their reaction to fast changes in the environments, and they concentrate on things they do best. Restructuring process must be strategically led as a project and be integral part of a broader vision of widespread changes. In principle, there are two types of restructuring: defensive and strategic restructuring.

Defensive restructuring is based on two activities: 1) reduction of employee number by layoff and 2) financial recovery. This approach is characterized by the following (Drljača, 2007):

- it is implemented in times of bad business results,
- analysis of the current state is not thoroughly made,
- real causes of existing problems have not been thoroughly considered,
- restructuring process is of shorter duration,
- impromptu implementation,
- restructuring is only partial,
- positive effects are mostly short term.



**Figure 2** Conceptual model of restructuring (Source: Own study)

Strategic restructuring is more complex and based on two groups of complex activities: 1) activities relating to management of human potentials and 2) activities relating to investments in: assets, knowledge, products and services, development and new markets. This approach is characterized by the following:

- it is implemented also in times of good business results,
- implemented after thorough analysis of the current state,
- all causes of the existing problems have been considered,
- restructuring process lasts longer,
- implemented without time pressure,
- it is mainly a full restructuring,
- positive effects are not achieved immediately, but they are positive in the long run.

#### 4. MODEL OF APPROACH

Restructuring process is complex and may be of crucial importance for further development of the organization and it should be managed as a project. Participants that actively take part in the restructuring process are: organization's management, professional team nominated by the management and consisting of experts within the organization, representatives of workers and consultants. Restructuring process may also be conducted without a consultant, if deemed that the organization has experts that can realize the project alone. Engaging consultants has a physiological component, too. Unpopular solutions may be ascribed to them. On the other hand, a consultant

generally bears no responsibility for implementation of his solutions, i.e. the final result. Generally, this responsibility is not foreseen by the contract between the organization and the consultant.

Since they are responsible for results of the restructuring process, the organization's management is to select the model. It is important if the decision on initiating restructuring is made when the organization achieves good business results or when it is in financial and other problems. If the restructuring process is conducted while business operations are good, the prospects for success are better as the process does not run under time pressure and there is more space for showing social sensitivity.

## 5. OBJECTIVES OF RESTRUCTURING

„Before starting a restructuring process, a company must define goals it wants to achieve with it. ... Possible goals may be: arrangement of the company prior to privatization, reorganization for easier sale of company parts, preparation of the company for listing in stock exchange, splitting and improvement of debt/equity ratio, increase of total capital efficiency, changes of market strategy, renewal and improvement of technological position or others. Strategy of restructuring is defined according to the selected goal or a group of goals. The strategy is made after meticulous analysis of the current state, assessment of strengths and weaknesses of the company and choice of appropriate objectives. The strategy defines objectives of restructuring, methods of their achievement and, of course, the needed time. When we speak of time, it is estimated that big companies need three to five years for implementation of a thorough restructuring (Primorac, 1995).“

Organization must define the primary goal, objectives and individual targets of restructuring. The primary goal of strategic comprehensive restructuring may be to increase efficiency of its capital and the organization as a whole through redesign of the management system, by introducing new technologies and starting a new investment cycle. This aims at increasing the level of the organization's competitiveness and repositioning in the global market in the newly created conditions, what should ensure development in the long run. Possible objectives of restructuring may be to do the following:

- make analysis of the current state of the management system structural elements,
- identify inefficient business programs and processes as well as parts of organization,
- improve the existing organizational structure,
- outsource activities and jobs for which it is not crucial that they be performed by the organization or where it is more rational that someone outside the organization performs them,
- improve, innovate, optimize or redesign business processes, when necessary,
- train and capacitate the management and workers for managing quality system,
- review and revise authorities and responsibility of managers at all levels,
- reduce the labour share in overall costs,
- identify and remove un-perspective work positions,
- determine in which organizational units and at which work positions there are surplus of workers and quantify it,
- inform all interested parties of advantages and tasks of the restructuring project,
- plan how to increase the level of motivation of the management and other employees for effecting continuous improvements in the management system.

The following may be listed as individual targets of restructuring:

- to assist in achieving the main goal and objectives within the scope of responsibility,
- to determine the priority of targets within the scope of responsibility, with the aim to realize the project,
- to determine the obligation and the responsibility of managers at all levels for implementation of the project,
- to establish monitoring and control of achievement of project objectives and targets,
- to harmonize objectives and targets on the project.

## 6. THE ROLE OF MANAGEMENT IN THE RESTRUCTURING PROCESS

Top management of an organization plays a crucial role in at least three groups of assignments:

- development of the management system through optimization and development of all its structural elements,
- creating new value,
- restructuring the management system.

### 6.1. Development of the management system

**Strategic documents defining commitment of the organization.** The *mission* is defined and given to the organization at the moment of its founding, in accordance with recognition of needs and the law, and it is set by the owner or the founder. The role of the organization's management is the obligation to complete the mission (Drljača, 2001).

Far-reaching concept, the organization's *vision*, is the area of the owner of the organization (Drljača, 2001). However, the task of making the vision as a document, is mostly in the domain of top management. This responsible task is almost impossible to accomplish if the mission of the organization has not been understood and defined. The elaboration of the organization's vision is determined by two important determinants: 1) long term, and 2) forecast of future developments. Each generation has the right to its own vision. This means that it can be changed every ten years or so.

*Strategy* can be defined as *the manner of achieving objectives (development plan)*. From the viewpoint of the system management it is more appropriate to speak of *functional strategy* or *mission supportive strategy* directed to making the business strategy operational, and in a wider sense also implementation of all other strategies (strategy of organization, corporate strategy). „Mission and strategy are two most important factors of any company. By means of commitment to contribution defining the identity of the company, the mission defines the purpose of the company. Strategy of the company sets objectives and gives rules for their accomplishment. Both mission and strategy must be ambitious, but also present a source of motivation that inspires and encourages people (Cardona, Rey, 2009).“ Strategies may change, while the mission remains the same.

Making various *policies* on the basis of mission, vision and strategy, is also a task of the organization's top management. There is a need for making policies such as: production policy, sales policy, accounting policies, development policy, quality policy, marketing policy, etc. Actually, policies are materialization of the vision and the strategy and they make setting objectives and managerial targets possible.

*Objectives* represent further operationalization and should be measurable so that the direction and time schedule of their realization may be ascertained at any moment, and thereby also the realization of the organization's policies. „In the philosophy of management by objectives, the mission and objectives are interdependent: a mission without objectives is a dead mission, and an objective without a mission is a blind objective. Same as in management by objectives, objectives are key components also in management by missions, but under one clear condition: objectives are meaningful only if serving the organization's mission (Cardona, Rey, 2009).“

Top management bears responsibility for implementation of the mission, achievement of the vision, implementation of the strategy, defined policies and accomplishment of the set objectives. If top management does not accomplish these tasks successfully it also does not fulfil the requirements of owners and other interested parties (customers, social community, partners and employees). Such top management has no perspective.

**Organization.** It is a task of top management to define organization. This is done in order to determine authorities and responsibilities for defining work tasks. Besides, functional organization

serves as infrastructure for implementing modelled business processes and shaping a process oriented organization.

**Business processes.** Top management should ensure that business processes of the organization are named and documented, as follows: 1) basic operational business processes, 2) supporting or logistic business processes, 3) management business processes, and 4) measurement, analysis and improvement processes. It is also their duty to provide resources needed for running of business processes, as well as to take care that the processes run according to rules and that they are subject to controls. All this with the aim to ensure quality of business process results materialized in the product or service confirmed in the market.

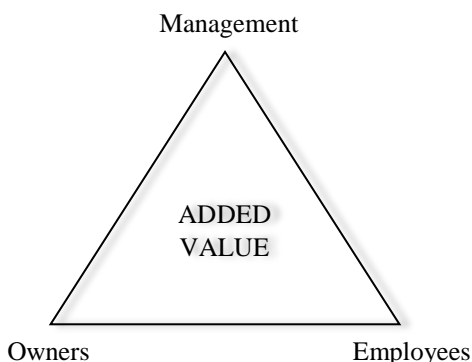
**Resources.** Top management should provide resources for functioning of business process in sufficient quantity and of required quality. The resources are: human potentials, work environment, equipment, raw materials and materials, financial funds, time, information.

**Partners.** Partners in the management system are: suppliers, government institutions, educational institutions, health institutions, etc. Top management should establish criteria for selection of partners. Organization with orderly management system does not allow just anyone to be its partner, because it may significantly affect the quality of business process results, and eventually the quality of product or service.

**Information and communication.** This primarily means three levels of information and communication: 1) within business processes, 2) among business processes and among structural elements of the management system, and 3) between the management system and the environments. This is essential to the management system. Without a developed information and communication system, the management system will lose its vitality in short time. Establishment of an appropriate information and communication system belongs to the scope of responsibility of top management.

## 6.2. Creating new value

Standardization and optimization of the management system are performed in order to achieve business results that will satisfy interests of owners, but also other interested parties. The basic task of every top management is to lead their organization in the way that ensures creation of new value.<sup>1</sup> Synergy of three most important entities is essential for this process: 1) owners, 2) management, and 3) employees. Each of these entities has its defined role and assignment in creating new value. This is the reason for striving towards synergy.



**Figure 3** Added value generators (Source: Own study)

<sup>1</sup> Added value is calculated in the following way: sales revenues – goods and services bought by others. In other words, added value covers gross salaries of workers and other payments and compensations paid to workers, paid profit tax, depreciation (serving to maintain and enlarge the assets) and profit. In its definition, newly created value differs from added value only in depreciation. When calculating the added value, depreciation is considered a value added from own capacity.

*Owners* define the organization's mission. This applies particularly to the beginning of the organizational life cycle. They set objectives of the organization. In this phase they ensure financial means and other resources for commencement of the organization's operations. They decide on the management of the organization. The interest of owners is that the organization operates well, realizes profit and has a development component. Owners supervise the work of the management, directly, and indirectly through bodies like assemblies and supervisory boards.

*Employees* carry out their work in accordance with employment contracts, and they are responsible for doing it in the requested way. Their competence and work quality ensure prerequisites for fulfilling quality requirements for the product or the service that should be validated in the market. They should, first of all, be dedicated to achievement of targets at the micro level of their work place, in this way contributing to achievement of the organization's objectives. They carry out decisions of the management. The interest of employees is to ensure existence for them and their families. This is achieved directly through compensation received for their work in compliance with the law and employment agreements, and indirectly through possibilities of training and raising the level of competence and by using other aspects of social responsibility in the organization (work safety, health protection, care for children and family, various recreational activities, etc.).

*Management* designs the vision. Sometimes they do it together with the owner. They are responsible for definition and implementation of strategy, adoption and implementation of policies, setting and realizing objectives and managerial targets of the organization. Management is responsible for functioning and development of the entire management system, for optimization of resources, for development. The measure of success of the management is the business result, often seen simply as profit. Management should find the optimal way to satisfy interests of both employees and owners. The interest of the management is to develop the management system so as to ensure continuity of business operations and profit in the long run. Most often this is the main criterion for giving trust to the management and for realization of their material and other interests. The management is responsible for legal compliance of business operations.

Owners, workers and the management of the organization, in coordination and synergy, are to be thanked for creation of new value in the organization. Equally, if they fail in creating new value, they should be held accountable, each of them within the scope of responsibility.

### **6.3. Role of management in the management system restructuring**

Partial or defensive restructuring should be a permanent process, while strategic or full restructuring should be conducted from time to time, when the market situation requires radical changes and adjustments of the organization. At these occasions modifications are usually made to vision, strategy is changed, organization's policies and objectives redefined. Regardless of the type of restructuring, the management primarily has the obligation to:

- define and adhere to restructuring principles (legality, objectivity, cooperation, patience, transparency, prevention),
- objectively assess the existing state and problems in the management system,
- clearly set and explain objectives,
- clearly define and explain the role of all participants in the restructuring (owners, employees, representatives of workers, social community, customers, partners, etc.)
- determine which structural elements of the management system need restructuring,
- consult with owners and ensure adoption of documents needed for implementation of restructuring (decisions of the assembly and the supervisory board, management board decisions, plans containing activities, deadlines and responsibilities for execution, etc.)
- consult with representatives of workers (works councils, unions) and, if possible, ensure their cooperation and support,
- provide necessary resources, particularly financial means,
- determine the price of restructuring,
- select consultants, if planned to use their services,



- identify risks and perform risk assessment in the restructuring project,
- prepare all employees for restructuring,
- solve individual problems by team work,
- document the entire restructuring process,
- decidedly carry out activities within the scope of restructuring process,
- guarantee legal compliance during all procedures,
- model the organization's identity,
- take full responsibility for the restructuring process and its outcome,
- restructuring should be managed as a project.

The mentioned tasks will be identical regardless of the type of restructuring, but will differ in intensity of activities, deadlines, price and risks.

## 7. CONCLUSION

Management of an organization is at the same time its leader (leadership). This fact points to the task of management to establish unity of purpose and orientation of the organization. Management should create and maintain a climate in which people may completely involve in realization of the organization's objectives. If a climate positive for changes is created it is easier to implement the restructuring process, in a shorter time and with lower costs. The reality in the Republic of Croatia, but also in some other environments, shows that people are mostly not ready for changes, especially comprehensive ones. Implementation of restructuring in such climates is difficult; it lasts longer and entails higher costs. Besides, it generates a conflict. Consequently, social reforms, particularly those often called "structural", are implemented with more difficulties or they are abandoned for political reasons. Such behaviour has a strong influence on the degree of competitiveness of the economy and the pace of getting out of recession. Consequences for the economy are negative and long lasting. The role of management in the restructuring process is of crucial importance. It starts with defining principles of restructuring and ends with communicating the results of the restructuring. Management is expected to show leadership in the restructuring process. This implies: competence, clarity of objectives, commitment, decisiveness and accountability. The fate of organizations, the fate of employees, but also the fate of management itself depends on the success of the restructuring process.

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