

Restructuring



It pays to attempt to anticipate required structural changes, rather than wait for the market to force a wholesale change

Tucked away in a dark corner of the BUSS3 specification is a topic titled 'Competitive Organisational Structures'. At first you might think this is simply a rehash of the content you studied for BUSS2. However, an awareness of how organisational structure facilitates the delivery of strategic objectives is essential if you want to capture the top marks.

The focus at AS is very much on the type of any given organisational structure and the notion that the structure in place is a direct product of the management's choice or preference. The suggestion is that organisational structure is governed by the internal choices of those responsible for managing the business. The concept of *competitive* organisational structures is much more concerned with the alignment and the need for an organisation's internal structure to effectively reflect the external environment.

Banking structures

A case in point is the recent announcement by Lloyds banking group of a restructuring of its operations. The decision to cut 9,000 jobs and close 150 branches across its UK network is evidence of a significant change to the way in which it conduct its business.

Is this a financially motivated measure? Perhaps it is a cost-minimising reaction to the ongoing economic difficulties in the UK. But at a time when the housing market is apparently gaining traction, consumer confidence appears to be returning, GDP is stable and unemployment is falling, you might expect banks like Lloyds to be expanding their workforces as they gear up for the economic recovery on the horizon. The truth is that Lloyds may well expand its workforce in the future, so why slash 9,000 jobs and mothball operations?

The important point is not how many jobs are being cut, but *where* they are being

cut. A closer assessment of the upheaval at Lloyds and other high street banks reveals a growth in workers on digital and remote services, coupled with a reduction in branch employees. The way in which consumers access banking services is changing rapidly, with an emphasis on

Box | The changing face of UK banking

- There was a 35% fall in traditional banking transactions between 2010 and 2013.
- Across the sector as a whole, mobile banking is doubling every year.
- There were 18 million mobile banking transactions in the UK in 2013.
- In 1988 there were 16,873 bank branches across the UK compared to 9,702 in 2013.

Source: BBC

for success

Ryan Cook examines organisational restructuring in the context of changes in the banking industry

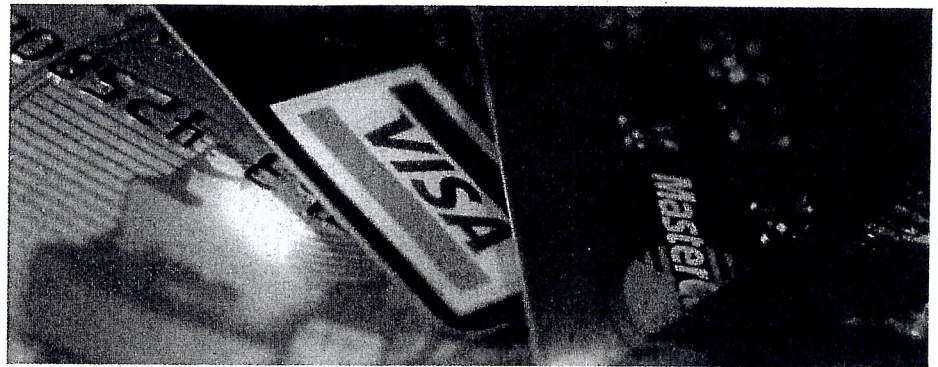
smartphones and mobile banking (Box 1). Thus a reconfiguration of the Lloyds structure is required in order to maintain customer service levels and effectively meet this evolving demand — the external market has provoked the internal changes.

Shifting consumer behaviour and new technologies aren't the only headaches faced by Lloyds and its high street rivals. The fallout from the payment protection insurance (PPI) scandal continues to deliver financial penalties for high street banks, and the provision of entirely remote financial services by new entrants such as Google Wallet and Apple Pay further intensifies the competitive pressures faced by the traditional banking organisations.

Evolution not revolution

Banking is not the only industry facing rapidly changing competitive pressures. As the underlying economic drivers in a market shift, so too should the way in which a business is structured and organised. Lenovo's recent acquisition of Motorola (making it the world's third-best-selling smartphone maker behind Apple and Samsung) and the decision by Air France to rationalise its existing

Customers' desire for online and mobile banking has led to a restructuring of the banking industry



long-haul operations in order to focus on its short-haul venture demonstrate structural attempts to keep up with or even anticipate shifting market demands.

Evolution rather than revolution appears to be the name of the game where competitive structures are concerned. History teaches us that it pays to be proactive, regularly refine structure and attempt to anticipate the changes rather than wait for the significant change to force a wholesale structural change.

Structure and strategy

Structure is the operationalisation of corporate strategy and the two go hand in hand. Recent history is littered with examples of firms that were unable to configure their structures in a way that effectively delivered their strategic

ambitions. Comet's failure to recognise the growth in online sales meant that its organisation was structured with a heavy focus on sales via retail parks. This was a poor choice and resulted in an uncompetitive organisation characterised by falling sales and poor performance.

Likewise, Sony's inability to adopt a more flexible matrix structure, where expertise was more widely diffused across the firm, produced a structure with internal silos based on business function. This structure was inflexible, outdated and simply not fit for purpose.

Sony did eventually realise its mistake and restructure — a good move, even if a little late. Expect almost constant restructuring from Sony in the coming years as it plays catch up. Businesses operating in a rapidly changing market like technology need to constantly review their structures to make sure they are aligned with what is happening.

When asked why Air France was changing its focus to short haul and cutting jobs despite its return to profit, the company's CEO replied 'these are changing times'. Changing times demand a changing structure if organisations are to remain competitive. Structural change is a natural feature of organisational existence and is a necessary evil. The problem is that in the short term it usually brings confusion, inertia and inefficiencies, as well as operational costs, even if it does deliver financial savings.

Ryan Cook is a business studies teacher and assistant principal at the Baton Rouge International School, USA.

