

Scalpel or Chainsaw: Pros and Cons – You Be the Judge

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Introduction

The climate in our current political world is focusing on eliminating government workers, which will undoubtedly flow down to state levels. In this article, we want to focus not on our personal reactions, but instead thoughts on the recent history of such actions and present the scalpel or chainsaw approaches for our readers to consider.

In the late 1980s, Michael Hammer and James Champy introduced the concept of “reengineering.” By the early 1990s, the name became Business Process Reengineering (BPR). BPR involves radically redesigning core business processes to achieve significant performance improvements. The Harvard Business Review published the slogan: “Reengineering Work: Don’t automate, Obliterate.” The HBR article and the concept sparked a widespread interest in reengineering practice across various industries.

Reengineering involves completely rethinking existing business methods, work procedures, and attitudes toward customers and suppliers. It usually starts from a “clean sheet of paper.” It is not about marginal improvement...it is about reinvention rather than evolution. It is not a quick process. As with new ideas, many companies jumped on the BPR bandwagon, as did many consultants ready to guide companies through this process. There were some successes, but few companies had the patience for the long and expensive process and eventually many lost interest. Hence, there were mixed results, and BPR joined the litany of ideas we refer to as “the flavor of the year.” This was not a chainsaw or a scalpel, but the end product was to be massive changes in processes and people. It started efforts that grew into our dilemma, Chainsaw or Scalpel.

The Chainsaw Approach

In the early 1990s, Mr. Al Dunlap stepped in. Some of you may have heard of him; if not, a quick internet search yields a lot of background. Be sure to read information about his early corporate tenure and work in the paper industry. Al Dunlap became CEO of Scott Paper. At the peak of his career, he was known as a professional turnaround management specialist and downsizer. The mass layoffs at his companies earned him the nicknames “Chainsaw Al” and “Rambo in Pinstripes” after he posed for a photo wearing an ammo belt across his chest. Through his creative accounting practices and seemingly arbitrary ‘cutting’ measures, he sold Scott Paper to Kimberly–Clark for \$ 9 billion, netting him \$100 million in stock options and appreciation of his holdings.

Dunlap took over as chairman and CEO of Sunbeam in 1996. His methods resulted in Sunbeam’s reporting record earnings of \$189 million in 1997. Industry insiders became suspicious when they discovered certain seasonal items were being sold at a higher volume than normal for the time of year. For instance, many barbecue grills were sold during the fourth quarter. In the second quarter of 1998, the Sunbeam board of directors investigated aggressive accounting practices and extreme discounting, carried out at the direction of Dunlap. It turned out that Dunlap had sold retailers far more merchandise than they could handle. With the stores hopelessly overstocked, unsold inventory piled up in Sunbeam’s warehouses. As a result, Sunbeam faced losses of as much as \$60 million in the second quarter of 1998.

Albert J. Dunlap is associated with significant negative consequences including large-scale layoffs, damaged company reputations, major accounting scandals, and investor losses,

primarily due to his aggressive cost-cutting strategies that often involved unethical practices to inflate short-term profits, most notably at Sunbeam Corporation where he was CEO, leading to his downfall and legal repercussions.



Key consequences of "Chainsaw AI":

- **Massive job cuts** — Dunlap was notorious for rapidly laying off large numbers of employees to quickly improve a company's bottom line, causing significant disruption and hardship for workers.
- **Accounting fraud** — Investigations revealed that Dunlap often manipulated financial reporting to artificially inflate profits, leading to significant accounting scandals and investor lawsuits.
- **Damaged company reputation** — Dunlap's aggressive tactics often severely damaged the reputation of the companies he led, making it difficult for them to recover after his departure.
- **Stock price volatility** — Due to the sudden changes and potential accounting irregularities, companies under Dunlap's leadership often experienced extreme fluctuations in their stock prices, harming investor confidence.
- **Legal repercussions** — Dunlap faced significant legal action from the Securities and Exchange Commission (SEC) for his fraudulent accounting practices at Sunbeam, resulting in fines and penalties.

Dunlap made slashes without assessing the impact of the cuts on the company products or people. He gave no thought to ethics or social responsibility.

From 1981 to 2001, Jack Welch was the CEO of General Electric Company, one of the world's largest and most valuable companies. He focused on short-term share price over sustaining and growing the core businesses. He grew the company by expanding into areas that were not core businesses. He adopted an employee ranking system and systematically cut the bottom 10% of the employees annually, regardless of the role the people played in the success of the business. In his first few years of this approach, he eliminated over 100,000 people. He also outsourced and off-shored work to the lowest bidder, all to boost earnings. He grew the business by going into areas that were not GE's core functions, such as Financial Markets, including subprime loans. Various observers

called him Neutron Jack and The Man Who Broke Capitalism. GE never again reached the status they previously held.

He gave little thought to ethics, social responsibility or the people who made GE what it was.

Scalpel

This is a true story: With deregulation staring down one of the nation's largest public utility companies and one of the larger nuclear-centric generation companies, facing large backlogs of work and a somewhat lethargic work environment, the Chief Nuclear Officer and his Vice Presidents realized something needed to be done to turn things around and prepare the organization for a competitive energy environment. The CNO contacted a few independent consultants, asking for ideas and proposed approaches to address the challenges confronting his organization. We formed a team of 4 consultants charged with placing the organization under a microscope to identify opportunities to address the intent of reengineering. The process we devised included the following:

Mission Statement

Establish a dynamic and permanent framework for enhancing Nuclear Operations' processes, functions, individual and group behaviors, teamwork, and effectiveness. A successful framework will:

- Be developed in partnership with affected organizations.
- Be integrated with relevant issues
- Provide a road map for ongoing progress
- Require broad-based commitment from Nuclear Operations and other affected organizations.
- Produce wide-ranging measurable improvements

Approach Overview

Each staff member and key volunteer individuals conducted a *Self-Assessment of Organizational Functions*. This involved:

1. Do you consider the Function essential to achieving the organization's mission?
2. Is the Function required by Law, Regulation, and/or Corporate Policy?
3. What's the impact of terminating the Function?
4. What's your perception of how well the Function is being done? (High/Medium/Low)
5. Do barriers exist that prevent the Function from being done (or done better)? (If so, identify)
6. Is a similar Function being performed elsewhere in the organization?
7. What is NOT being done that should be? (If any, revisit 1-6)

As a basis, we asked that they use any organizational chart or functions, job descriptions, etc., as the starting point.

Once this initial assessment was completed, we conducted a 3-4 Hour "Table-Top" Interactive Review of Results with selected staff/volunteers.

The next activity was to perform a *Validated Self-Assessment of the "Deliverables"* provided by each. Identify all the "Deliverables"

currently being provided for each function. An assessment of each "Deliverable's" usefulness in order of magnitude estimate of the cost to produce each "deliverable" (FTE's, Contractor \$, etc):

- What do you deliver? (Define the specific product, service, resource, etc.)
- When is it delivered?
- To whom is it delivered?
- Why does the person to whom it is delivered get it?
- Why is it being done?
- What is the cost to produce it? (Labor/time, Contractor \$, etc.)

Validate the results with their customers through group and/or individual sessions.

Develop recommendations for further analysis.

Review Findings with staff and selected volunteers.

Evaluate the results of the above activities to determine the appropriate course of action.

Finally, we took the findings from these assessments to those who receive the outputs/deliverables and asked if what they are getting is useful, worth the time it takes to prepare the outcome, or if they had any other suggestions. This was a very interesting activity. We found in many cases, the recipient of whoever was performing the function commented that they did not know it took the level of effort reported and indicated they could do with less or less frequently.

The point here is that we could then surgically find unnecessary functions, restructure functions and levels of effort to meet the needs of those receiving the outcomes, and ultimately identify those individuals who were making work and those who were productive.

Pros and Cons

None of what we are talking about is new, albeit sure sounds like chainsaws are making a lot of noise today.

This is fairly easy and obvious from a direct impact between the chainsaw and the scalpel. Still, indirect effects impact an organization perhaps more than the obvious ones.

The Chainsaw

- Typically results are quick, showing short-term financial benefits.
- In the case of Chainsaw Al or Jack Welch, they also manipulated the financial outcomes, suggesting that the direct results may not have been as advantageous as reported.
- The chainsaw offers immediate gratification for those wielding it.

- However, the long-term damage is significant. Employees who are high performers and loyal may become demotivated.
- A tremendous amount of time and mental energy is spent coping with the seemingly arbitrary disruptions created by those waiting for the hammer to drop or those who remain.
- Institutional knowledge is lost and most likely lost forever.
- Long-term damage results to the organization, with those welding the chainsaw the only benefactors for a while.
- In summary, the 'baby gets thrown out with the bath water,' and what made the organization good gets destroyed.

The Scalpel

- The scalpel approach is methodical and focused. Everyone is involved, and those who oppose are usually the most vulnerable to exposing their lack of value to the organization.
- The scalpel surgically identifies inefficiencies and results in a systematic way of restructuring a function to become more efficient.
- The scalpel approach requires leadership and patience. It takes longer because of the process involved, but the results are worth it.
- The indirect benefits include organizational ownership of the process, a demonstration of leadership's commitment to performance, and their commitment to eliminating deadwood within the organization.
- Finally, preservation and strengthening of the positive aspects of organizational culture.
- The scalpel approach is not quick, but it provides more meaningful results

Conclusion

None of what we are talking about is new, albeit sure sounds like chainsaws are making a lot of noise today.

There is historical precedent that the chainsaw approach leaves much to be desired. It requires little to no leadership acumen. Those wielding the chainsaws do not know about what they are cutting. It is a bottom line promise that takes no account of the actual work an employee is performing and how critical it is to the organization's mission. Eliminating supposed waste by using a chainsaw will destroy an organization and the function that organization performs. How can you improve something if you don't understand how it functions?

Chainsaws are quick and scalpels take time and effort. You decide what is the best approach.

As always, your feedback is welcome. Please let us know what your thoughts are.



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