



FURNITURE INDUSTRY IN RESTRUCTURING : SYSTEMS & TOOLS

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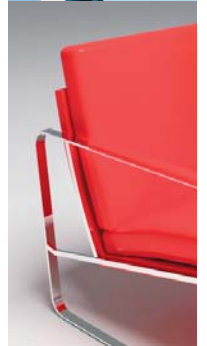
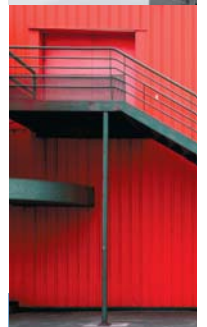
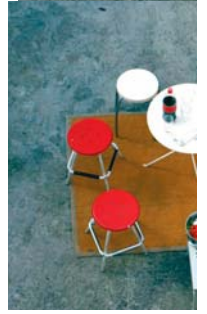
Guidelines

ON MANAGING THE PROCESS OF CHANGE
OF THE FURNITURE MANUFACTURER



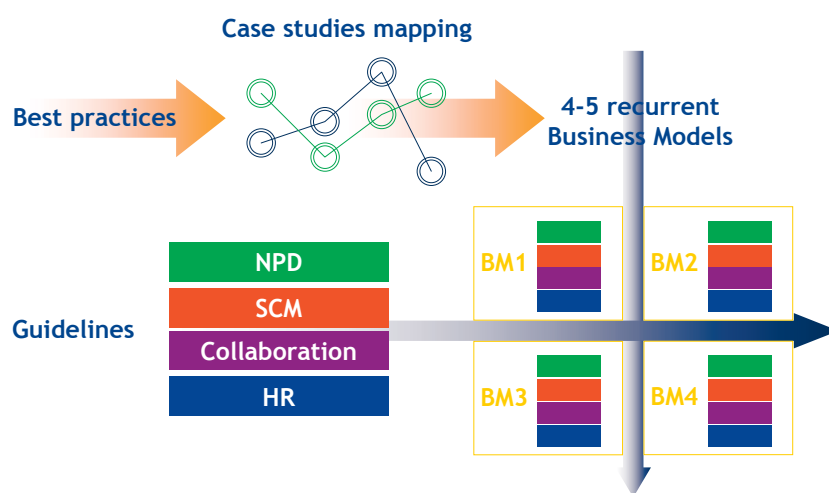
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The globalization is changing the structure of labor intensive industries such as the furniture industry. Increased imports at lower prices force the European manufacturers to look for competitive edges and if necessary to restructure their operations. Some looked at their business model, other at the product, the production, productivity or the relation with the final consumer or a combination of some or all of these different aspects. The solutions, some more successful than others they come up with are multiple.

The FIRST project has the ambition to look into this subject with the aim to formulate recommendations to serve as inspiration to manufacturers. The methodology used was to analyze 30 companies that either went to a restructuring or that had particular characteristics in one or more aspects of their business that allows them to (better) cope with the problems arising from the globalization. This analysis should lead to business models from which guidelines on specific strategies could be distilled.



During the work it rapidly became clear that there are almost as many business models as there are companies, and on suggestion of the advisory board of the project, it was decided to concentrate on guidelines for practical strategies in specific fields rather than develop entire business models. The advisory board also suggested to formulate these guidelines in short separate formats easily usable by interested manufacturers.

This way the work resulted in the formulation of six guidelines around specific activities: product development and innovation, supply chain management, industrial co-operation, outsourcing, human resource management and electronic communications. In parallel the partners developed a sub contracting database for manufactures interested in co-operation as an instrument of increasing such co-operation between manufacturers in the EU and especially with manufacturers in the most recent EU Member States. Information on the project and on the database can be found on the UEA web site www.ueanet.com.

The analytical work has been done by the partners under the leadership and guidance of the MIP, the Polytechnic University of Milan and of AIDIMA, the Spanish technical furniture center. BFM, MEDIFA and the UEA and some of its other members contributed in the best practices and the redaction of the guidelines. Ifabrick, the information department of MEDIFA was responsible for the Web site and database.

The current booklet formulates guidelines on managing the process of change of the furniture manufacturer. It is not meant to suggest that European furniture manufacturers should follow the strategies described, but the booklet wants to contribute to the reflection on this subject by those manufacturers who feel that it might fit into their business model. We hope it serves them well.

Bart De Turck
UEA secretary general
FIRST project manager

I. Reasons for change in the furniture industry in developed countries

I.1. Competitive environment framework and business model sustainability

The furniture industry all over the World is keeping on showing a vigorous growth of production numbers each year. During the last years the furniture manufacturing sector has increased more than 11 percent each year worldwide. These growth data are demonstrating the maintained tone of furniture industry development.

Analysing the causes that could explain the growth of the worldwide furniture production, there can be observed changes in the shares of the contribution to the total industry figures from the developed countries and from the so-called emerging countries.

In only two years the contribution of the emerging countries to the total industry production has grown by 12%. This growth of the emerging country contribution can be explained by the productive capacity growth, that during the last 5 years have reached an average of 30 percent per year.

Such an evolution of the emerging country production over the worldwide total production could be caused by the availability of excessively cheap manpower, by an industry policy of purchasing big quantity of raw materials and the development of great industrial groups that enable generating economies on a large scale in the furniture production industry.

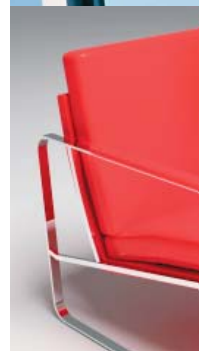
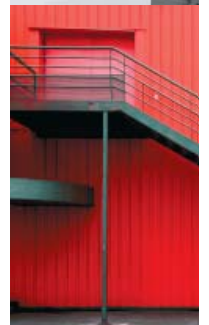
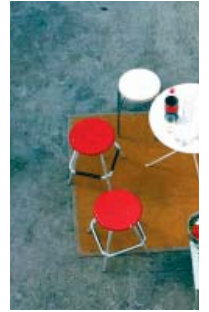
Even if the big companies located in these countries of low production costs will base their business strategies on generating economies on a large scale at the beginning of the 21st century, actually they are following strategies based on generating a differentiated product of high value added. Their objective is not a competition solely based on price in the developed countries, but on product differentiation such as exclusivity, image/prestige of the brand, short term delivery conditions, easy return, etc...

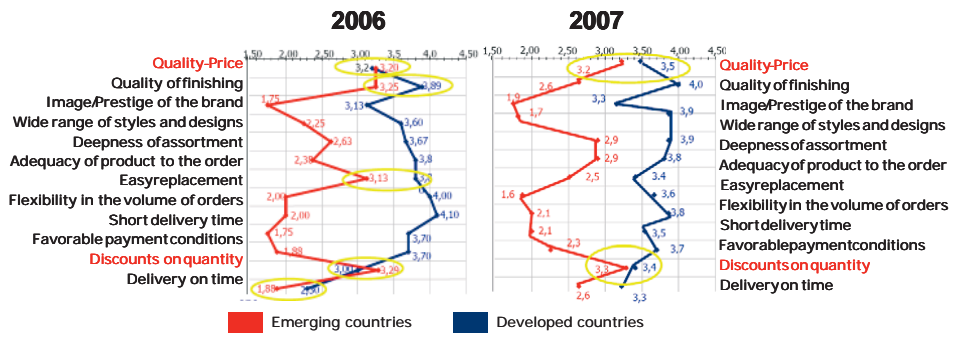
The furniture production growth of the emerging countries (mainly China, India, Brazil...) is the result of creating an industry initially based on generating scale economies. Actually the business strategy of these furniture producing zones is based on creating value to the consumers through an increased investment into technology, image, design, short delivery terms etc...

I.2. Future scenarios of the furniture industry

The analysis is clarifying the actual situation of the furniture industry, such as the threat in terms of competitiveness which the emerging countries are creating by the evolution of their business strategies.

The results of a study on the European distributors' perceptions are showing that high cost countries are still competitive, although emerging countries are preferred in terms of price – quality and discounts based on quantity.





Source: Study on the perceptions of European retailers. AIDIMA.

Competitive gap of the European distributors' perception concerning their products' origin 2006-2007.

In spite of the wide gap existing between some of the indicators analyzed in the graphics above, the investments in the fields of technology and training in the emerging countries will create the reduction of the competitive gap in a very short time. As conclusion, current business evolution will not be sustainable for the industry in high cost countries in next years.

For being able to identify in the present the situations that could happen in the furniture industry of the future, it is necessary to create foresight scenarios based on economic, political, and social, etc... factors, that can help establishing the different ways and directions of the development of the furniture industry for the future. Once the future scenarios of the furniture industry are defined, it is important to observe their realization over the time. The measurement based on the use of macroeconomic and sectoral indicators allows to observe now that according to which one of the scenarios the furniture industry is developing.

I.3. The need for anticipation

Creating these indicators together with collecting the same data of the present will allow the companies of the furniture industry of high productive costs countries to obtain information in the present about the future evolution of the furniture industry in the developed countries and in the emerging countries as well. This way the business strategies to be followed can be defined for the future company plans.

The objective of visualizing the possible future scenarios that could occur in the furniture industry is creating sustainability business models in time, in accordance with the conditions created in the competitive environment worldwide. The sustainability of the company is referring to generating business strategies that are allowing the enterprises to obtain and maintain their sources of competitive advantages against the growing competitiveness mainly of countries of low production costs.

2. Management of the process of change

The necessity of creating new business models for the companies of the furniture industry, which make them being sustainable by generating new sources of competitive advantages, is requesting the development and application of a process of change in each part of the organization.

2.1. Resistance to change

Talking about resistance to the changes means talking about the management of resistance to change. The objective of management of change is to create optimal conditions (emotional and political ones) for making it effective.

The main force that we should fight against in the process of management of the changes are habits and rejecting attitudes of the people against changing situations because of their fear of losing control. All these causes delay or make impossible the application of strategic decisions, and have negative consequences for the activity development in short and long terms as well.

The resistance to change can be communicated three ways:

- Explicit resistance to changes: the staff manifests its resistance to the process of changes (complaints, threatening by denying work).
- Implicit resistance to changes: This type of resistance appears in executing daily working activities (loss of motivation, increase of errors/mistakes).
- Deferred resistance to change: appearing in an unexpected way and time after the changing process application.

The implicit and deferred resistance are more difficult to manage than the explicit resistance because of the length of identifying the problem. The resistance to the changes for the staff might mean a way of communicating to the company pending frustrations without solution, practical problems overstepped, or a forced cultural stability system of the organization.

2.2. Stages of the process of change

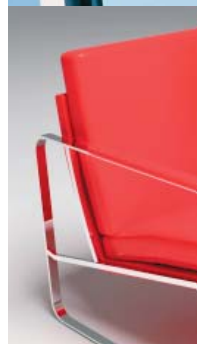
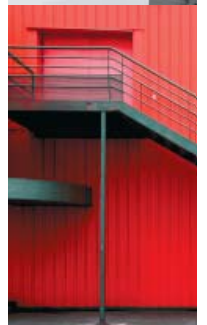
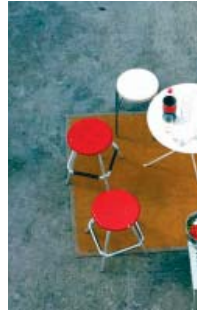
Breaking the corporative inertia

In the long period in which the company did not arrange any change of high importance the employees of the organization have also submerged in a static professional and labour state where the control of the activities and the customs and habits are causing difficulty in any kind of process of change.

The objective is to make the people of the highest integration level of the former culture understand the motivations of the change arranged. For this purpose there are three mechanisms used usually:

- Admitting the non-fulfillment of the expectations.
- Blaming for the wrong values.
- Emotional security transmission.

If we would like to change a person; the negative information on his behaviour should be accompanied by positive evaluations in other activities where an adequate development is seen.





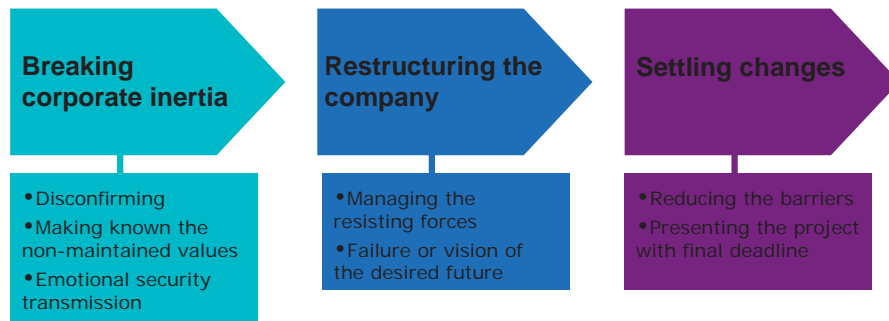
Company restructuring: application of the changes

The essence of change is to act in a different way by creating a new point of view, stimulating the analysis of the environment and circumstances for obtaining the relevant information identifying a new possibility to act.

This is the stage where the different ways of resistance commented before can appear of the highest possibility. The management of these resistance forces is determining the failure of the application of the changes or can provide a common vision of the desired future.

Application of the changes

The stabilization of the process of changes is supposing the reduction of the obstructing forces creating a commitment to the new situation. Even if the management of a company is aware of the fact that the changes will exist in the company continuously, it is not convenient to present it as a continuous and ever-lasting process, beginning and finishing deadlines should be decided on the projects.



2.3. Internal roles

Leaders

The leaders of the changes are those people within the organization, who through their internal or external professional point of view are promoting and helping the application of the changes mentioned before even if they are not having decision making power.

The functions of the role of the leaders are:

- Detecting the trends which justify the changes.
- Communicating the necessity of the changes to those who are in possession of the legitimate power.
- Turning into a legitimate power, facilitator, agent and/or addressee if the change has been decided and planned.

Facilitators

The consultant's role could be internal or external, playing the basic role in the process of change. The main duties of facilitators are:

- Supporting the legitimate power holder and his team in reflecting on their actions and the direction of the changing process.
- Taking part in the work of the management team that is integrating the change.
- Facilitating the methodology for the changing processes.
- Controlling the process of change.
- Showing errors and positive experiences in changing processes in other contexts.
- Creating communication amongst the stakeholders of the company.

Agents

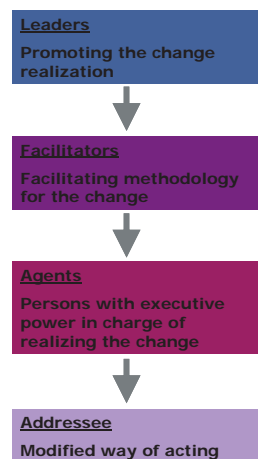
People with executive and technical power who are in charge of realizing the changes. The duties of the agents are:

- Implementing the new processes or necessary systems (automation of data exchange technologies, efficiency evaluating systems, productive systems).
- Evaluating the process of change.

Addressees

The addressees of the changing process can be found above (the top management) or below (employees) the leaders. The duties of the addressees are:

- Actualizing expectations on the future.
- Modifying the habitual way of thinking and doing the work.
- Realizing a control in time on the process of the change management.



2.4. The pace of change

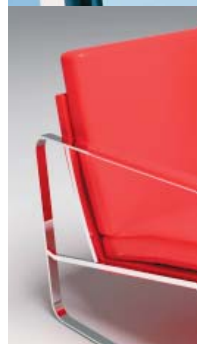
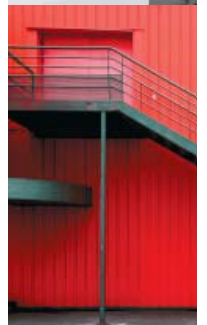
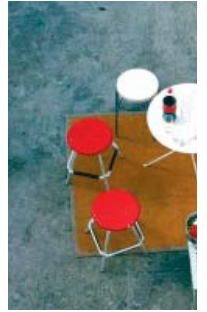
The change process requires an investment of the organization in the fields of resources, teams and time.

The integration of the change process in the company should not be understood as a prompt process which is causing modifications of the organization and after finishing it everything returns to be static, but should be understood as a continuous process where the company activities are co-existing together with the change process itself.

Losing the control and the maintaining old habits are the biggest enemies of establishing the the idea of change as a continuous process within the organization.

The time for integrating a change process will differ according to the strategy to be realized, this way it won't take the same time to integrate a process of change to the organization culture as it would take in the level of production.

As the complexity of the strategy to be integrated to the company is growing, it is obvious that the need of resources and labour for the implementation process is growing, so the time for the correct integration of the different strategies will be different.



3. Implementing the change in the furniture manufacturer

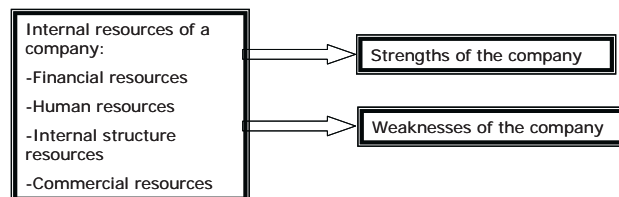
Realizing a process of change only for changing the way of thinking and acting in a company does not make sense per se. The company which is deciding to apply a change management process should integrate a strategic project which should be controlled and maintained as it is developing.

Starting a process of change brings two implicit phases: a phase of starting the management of the process of change and a second phase oriented to the control and maintenance of the process.

3.1. Identifying factors for change: internal analysis

The internal analysis is meant as a study on the resources that are disposable for the company, financial resources, human resources, resources of the internal structure and commercial resources among others.

The characterization of the company resources allows to identify the weaknesses and strengths of the organization that will be useful for strategic planning.



Firm flexibility: skills and capabilities

The flexibility of a company is determined by the ability to adapt to the changing situations which are determined by the competitive environment, and by the ability of the company to solve difficult situations through the adaptation.

In a flexible company all the resources should be oriented to only one direction and should be flexible as well. The resources of a company are determining the essential capabilities which can create competitive advantage for the company through the polyvalence and fungible characteristics of them.

Talking about flexibility of the resources of a company we are talking about:

- The commercial flexibility
- The productive flexibility
- The financial flexibility
- The flexibility of the human factors

3.2. Directions of change

Using the resources created by the company is determining the essential capabilities which will generate the competitive advantage of the organization.

Depending on their competitive advantage sources, the companies might chose an efficiency strategy and produce low cost furniture or chose a differentiating strategy which is based on creating value added to the product with the final aim to be different from it´s competitors.

3.2.1 Efficiency in the furniture industry

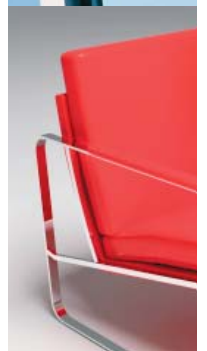
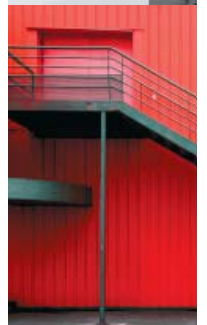
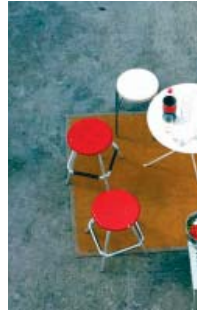
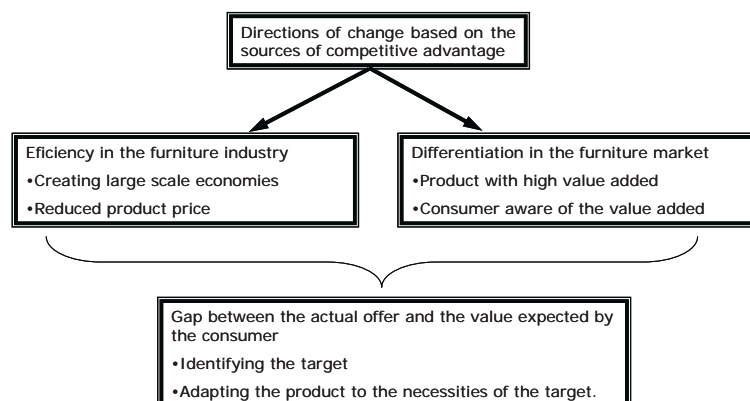
The strategy of company efficiency is based on the competitive advantage provided by the furniture production of low productive costs and by creating scale economies in the production that allows to offer the product to the consumer at a lower sales price.

3.2.2. Differentiation in the furniture market: consumers as source of value

The strategy of differentiation is based on the competitive advantage provided by creating a product of certain characteristics that are granting a difference compared to the products of the competitors, the consumer is aware of these differences that are generating a higher level of satisfaction during the buying or use.

3.2.3. Gap between the firm´s current offer and consumers´ expected value

The former situation of the furniture sector in which the majority of the furniture were bought in the country of origin and the imported products did not mean any threat, a totally different situation is seen; the producer has to search its target and create a product adapted to the consumers´ needs, generating an expected value of the cosumer.



3.4. Assessment of options

Feasibility of business models

Starting a process of change in a company based on a change of the business model requires a detailed planning process. An organization which should realize a process of change, should take into consideration all the resources and persons which are at the company's disposal and should observe if they are adequate for executing the integration of a process of strategic change into the company's organization.

3.5. Firm's limits for change

The development or integration of the changing process into the organization of a furniture company requires the availability of an abundant number of resources and employees who are able to support the project with high efficiency.

The dominant company structure of the furniture industry is generally based on a reduced infrastructure in terms of resources and employees. In spite of the atomized characteristic of the sector, in several cases the size of the companies means a barrier for carrying out a cultural and structural process of change in the company organization.

Due to the difficulties that the companies might face during the development of a process of change in their organizations, they need to consider establishing cooperation with other firms.

Clusters

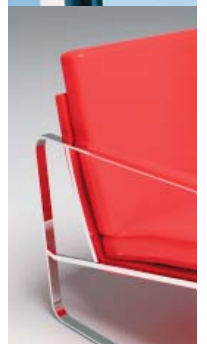
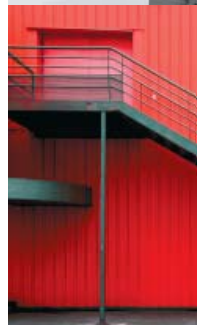
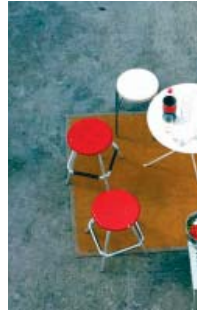
"A cluster is a geographic concentration of interconnected businesses, suppliers, and associated institutions in a particular field. Clusters are considered to increase the productivity with which companies can compete, nationally and globally." (Michael Porter: in *The Competitive Advantage of Nations* 1990)

The furniture industry all over the World has provided space to local economic systems or industrial districts which have certain similarity, such as from the point of view of manufacturing process efficiency, or in the level of competitiveness demonstrated by the the capacity of these business centres, and foreign markets as well.

The main common characteristics of clusters are:

- Activity tradition in specific sectors which represent very efficient mean for the transfer and adaptation of professional abilities within a zone of limited access.
- The favorable demand conditions in terms of quantity and quality.
- A high level of internal capability which is giving an observable boost to the innovation and specialization processes.
- The trend of developing a vertical integration between the companies which are in direct contact with the market, and between the companies which are constituting the supporting sectors.
- Organization models focused on the role of the businessman with direct knowledge on technologies and processes, who this way is able to contribute immediately to the product concept and to the consumer relations.

The positive combination of these elements is the base of the development of industrial clusters through a dynamic structure, a certain level of opening towards external markets and through an organization model of the manufacturing industry in which the specialization and the flexibility are the key factors.



4. Monitoring the change

4.1. Planning the process of change

As all the processes created within the organization, the process of change also needs to be planned for sake of a correct implementation, and also an evaluation system which allows to observe if the decided actions are executed within each area.

The planning of the process of change should contain:

- Definition of those phases/stages/actions which should be realized for being able to execute the integration of the process of change to the organization.
- Defined functions of the managing team of the process of change for an adequate transition between the present and future activities. For this purpose should be taken into consideration resources and structures like setting up a managing committee of the change, an administrative team for the change which is supporting the management of the company in designing and controlling the stages and actions of the process.
- Making a budget which should contain the following elements:
 - Direct costs: training on new knowledge, values and skills, communicating the change internally and externally, internal and external consulting.
 - Indirect costs: non-productive hours dedicated to meetings on preparing the change, non-productive hours dedicated for receiving information, and non-productive hours dedicated to training.
- A timing/schedule for executing the different stages of the process of change not only for short term, but also for long term.

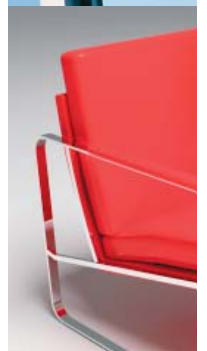
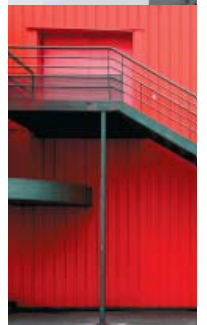
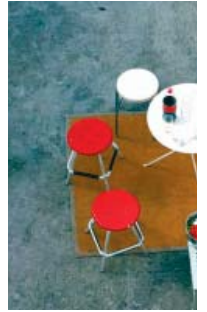
4.2. Resource allocation and teams

It is necessary to dedicate the needed resources and teams for the execution of any kind of action in the organization.

The process of the change management should be understood as a process that is extendible in time and to which the company should dedicate a big part of its resources and labour force. Without a planning phase concerning the resources and labour, the succesful management of the process of change is risked.

One not usual element of the change process is the existence of a specific budget. The main elements of a budget for a company culture changing project are the followings:

- Direct elements:
 - Training on new knowledge, needed values and skills
 - Communicating the change internally and externally (written materials, videos, etc...)
 - Internal consulting
 - External consulting
- Indirect elements:
 - Non-productive hours dedicated to meetings on preparing the change
 - Non-productive hours dedicated for receiving information
 - Non-productive hours dedicated to training



4.3. Communication

The communication of the beginning of a changing process within the firm to the employees should be realized through an organized dialogue based on an adequate methodology with two basic approaches:

- Constructive approach: Formulation of values should be the result of the integration of all the viewpoints of each interest group and member of the organization of the company.
- Research – action: avoids the limits of an approach too theoretic or too practical.

The communication in the company should be realized in different hierarchical levels within the organization following the order of:

- Communication of the leader with himself: for being credible a leader should start clarifying his own values and be able to connect to those ones which are desired by his cooperative partners.
- Communication at the organization's management team level: all the realized reflexions should be transferred to specific working meetings of all the management team, discovering possible dilemmas and checking if there is a common perception on the meaning of the values in practice which are considered to be essential ones.
- Communication between different interest groups of the organization (facilitators and agents): the real development of common values of the company should be a process of dialogue amongst all the relevant interest groups.
- Final communication at an operative level of the organization : The organizing dialogue process should be the essence of some principles or game rules edited in a suitable way and transmitted to each part of the organization.

4.4. Evaluation and corrective actions

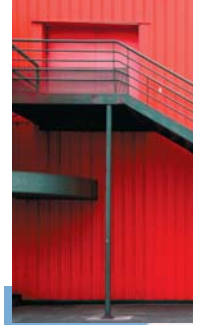
Managing a process of change in the furniture manufacturing companies is not simple analyzing process examining the points of former development activities. The organization should involve the necessary resources and teams for planning and starting the process with the aim of improving the situation of the company.

The evaluation process should be understood by all the employees of the company as an exercise which enables facing the difference between the changes professedly assumed and the daily activities at each activity level of the company from the managing director to the receptionist.

The energy dedicated to set up the managing process the change, normally is so elevate that it is usual to forget the posible evaluation of the process itself.



Notes





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FURNITURE INDUSTRY IN RESTRUCTURING : SYSTEMS & TOOLS



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