

Downsizing Your Organization? Lessons from the Trenches

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In this current difficult economic climate, many organizations are facing the unfortunate necessity to downsize and streamline. Astute executives and HR managers, many of whom have been through previous rounds of downsizing, realize that they must approach it carefully because both research and experience have shown that there are many negative consequences to this process¹. The big question for these managers is: "Can we avoid the pitfalls of downsizing and create the best possible outcome for our organization?" The answer is a qualified 'yes.' The emotional trauma of downsizing cannot be eliminated totally but the long-term damage to your organization can be minimized. This article will summarize the best practices of organizations and managers who have faced this daunting challenge and the lessons they have learned.

1. Plan in advance

It might seem trite to say that downsizing must be planned in advance but many organizations wait until the last moment to downsize and then react in panic with negative outcomes². Be proactive before the eleventh hour. Bring together a cross-functional team of people to plan and guide the initiative, including senior leaders, HR executives, and labour leaders, when applicable. This planning team should represent the needs and concerns of the entire organization. And finally, plan to make the cuts as quickly as possible. Nothing is more demoralizing to employees than hearing again and again that the last round of cuts proved not to be enough and another will be necessary. Even if your plan calls for gradual attrition, employees want to know how many will be cut and by what timeline.

- Planning teams should gather information useful for effective downsizing from many sources. For example, consider some or all of the following:
- An inventory of employee skills and performance levels to help management make informed decisions;
- Demographic data (such as rank, pay grade, years of service, age, gender, and retirement eligibility) on the entire workforce to help predict normal attrition and turnover;
- Information about successful downsizing processes of other organizations; and
- Information about various opportunities available for employees outside the organization.

¹ Gandolfi, F. (2008) 'Learning from the Past: Downsizing Lessons for Managers,' *Journal of Management Research*, Volume 8, Number 1, 3-17.

² See for example the following: Appelbaum, S.H., Delage, C., Labibb, N., and Gault, G. (1997). 'The survivor syndrome: Aftermath of downsizing,' *Career Development International*, 2(6); Doherty, N. and Horsted, J. (1995). 'Helping survivors to stay on board,' *People Management*. Personnel Publications Limited, London; Cameron, K.S. (1994) 'Strategies for successful organizational downsizing,' *Human Resource Management*, 33(2). 189-211; Greengard, S. (1993, November). 'Don't rush downsizing: Plan, plan, plan,' *Personnel Journal*, 72(11), 64-76.

HR managers are essential members of downsizing planning committees. They must help develop an employee plan for downsizing, which should include such important issues as attrition management, alternatives to involuntary separation, outplacement, workforce distribution after downsizing, identification of competencies needed by employees taking on new or increased responsibilities, training and re-skilling programs, and so forth.

2. Senior leaders should become involved early and remain visible throughout the downsizing initiative

Senior leader involvement is particularly important in downsizing initiatives. In fact in a major study of public sector downsizing³ the active involvement of executives was shown to help achieve downsizing goals with little loss in quality or quantity of service. Even if the news is bad, employees want to know what is happening and they want to hear it from the top, so communicate as clearly and as soon as you can. And be honest – employees need to know the reasons behind the downsizing, that it will be a humane, objective, and fair process, and that the pain will be shared. Those who understand the business reasons for downsizing are more likely to support these difficult decisions and to play a positive role in revitalizing the organization afterwards⁴.

A final piece of advice for senior leaders - remain visible throughout the downsizing effort. If senior leaders decrease their communications over the course of the downsizing, employees may disconnect from the organization and become distrustful⁵.

3. Be strategic about your cuts

If you make across-the-board cuts, you may well end up harming core competencies and leave your organization weakened for facing the future. Research has proved the superiority of taking a strategic rather than a mere cost-cutting approach to downsizing⁶. Decide what is essential to your organization's core products and services and what is peripheral, or nice-to-do but not essential⁷. Your approach should be to eliminate departments and staff that do not contribute to core organizational functions⁸ and to eliminate or outsource non-core tasks. Strategic cuts are easier to justify and help reduce the anxiety level of remaining staff. At the same time, you should legally discharge employees whose

³National Performance Review 1997. 'Serving the American Public: Best Practices in Downsizing.' Benchmarking Study Report September.

⁴ Amundson, N.E., Borgen, W.A., Erlebach, C.A., Jordan, S. 2004. 'Survivors of Downsizing: Helpful and Hindering Experiences.' *The Career Development Quarterly* 52(3): 256-271.

⁵ Levitt, K., Wilson, T. and Gilligan, E. 2008. 'Corporate Downsizing: An Examination of the Survivors.' *The Journal of Global Business Issues* 2(2): 13-22.

⁶ See the following: Bruton, G. Keels, K. and Shook, C. 1996. 'Downsizing the firm: Answering the strategic questions.' *Academy of Management Executive* 10(2) and Heenan, D. A. (1989) 'The downside of downsizing.' *The Journal of Business Strategy* November-December: 18-23.

⁷ Lundquist, J. T. 1992. 'Shrinking fast and smart.' *Harvard Business Review* November-December: 74-85.

⁸ Cameron, K. S. (1998). 'Strategic organizational downsizing: An extreme case.' *Research in Organizational Behavior* Greenwich, CT: JAI Press, 20: 185-229.

performance does not meet standards. Cutting low performers does not harm morale as much as using other decision criteria, such as personality or politics.

4. Use multiple techniques

Estimate how long the business downturn is likely to last. Consider your options and alternatives such as natural attrition, early retirement, buyout incentives, mandatory vacations, hiring and overtime freezes, shortened work weeks, salary reductions, facility shutdowns, employee sabbaticals, and salary reductions before deciding to downsize⁹. Institute flexible work practices such as tele-commuting; part-time employment; flexible work hours; variable work week; job sharing; and a variety of leaves with and without pay. The concurrent use of multiple downsizing techniques helps ensure the success of the downsizing process¹⁰. Each has advantages and disadvantages but downsizing by involuntary separation should be a last resort.

These alternative approaches have proven more successful when employees are involved in decisions concerning their implementation and when they accept a “shared pain” approach to downsizing rather than seeing their colleagues fired¹¹. You will preserve morale, and employees considering career changes will benefit as well.

5. Too much communication is impossible during downsizing

Employees expect senior leaders to communicate openly and honestly about the reasons for the downsizing and about the downsizing plan. Don’t try to “soft pedal” it as this only increases anxiety. And build trust by continuing communications efforts throughout the downsizing – don’t let them tail off. But do not make the mistake of relying on letters, memos, or emails from senior leaders. According to surveys, people do not find this type of communication effective during downsizing¹². Face-to-face, two-way communication, where managers listen as well as tell, is much more effective for dealing with a subject as traumatic as downsizing.

Attempt a balance between formal and informal forms of communication and use multiple techniques such as small group meetings, briefings by managers, one-on-one discussion, breakfast gatherings, all staff meetings, video conferencing and informal employee dialogue sessions, newsletters, videos, telephone hot-lines, fax, memoranda, e-mail, and bulletin boards. Brochures and guides can help educate employees about the downsizing process, employee rights, tips for surviving the situation, and so forth. Train to supervisors of employees who will

⁹Gandolfi, F. 2008. ‘Reflecting on Downsizing: What Have Managers Learned?’ *SAM Advanced Management Journal* Spring: 46-55.

¹⁰National Performance Review (1997) ‘Serving the American Public: Best Practices in Downsizing.’ Benchmarking Study Report September.

¹¹ *ibid.*

¹² *ibid.*

be downsized on how to deliver the message and how to access support. Because employees will be asking their direct supervisors for their opinions, make sure managers know what to say.

Do not be afraid of seeking employees' ideas, concerns, or suggestions regarding the downsizing process, both confidentially and in open meetings. Consider establishing a team including employees at all levels to generate ideas for savings (to reduce some of the necessity of downsizing). According to best practice research, employees can contribute to downsizing success by giving valuable ideas to improve the process¹³. Two-way communication also empowers employees during a period when many can feel helpless. And research proves that employees who feel empowered have fewer negative health outcomes even during stressful job changes¹⁴.

6. Survivors are key – do not neglect them

Most importantly, the success or failure of a downsized organization depends on the remaining employees, and so you should have a clear strategy to take care of the survivors during all phases of the downsizing. Beware of communicating to the survivors that they are fortunate to keep their jobs in the difficult business environment. Survivors are typically not grateful and will not work harder after downsizing unless you manage them carefully. Experts have reported that many survivors behave in dysfunctional ways after the event¹⁵ including falling victim to “survivor sickness”, a condition whose symptoms include decreased effort and creativity and increased fatigue and resentment.

How can you minimize these risks?

First of all, how survivors feel about your organization is at least partly dependent on whether they believe their downsized co-workers were well-treated. Employees form close relationships at work and unfair or insensitive treatment of their laid off colleagues will generate resentment and anger. A well planned and managed downsizing process promotes trust and faith in management and in the future of the organization. So make sure downsizing is administered equitably and fairly by formalizing the process and making it transparent. Be as generous as possible in your use of relocation and outplacement assistance and your provision of safety nets to those being downsized.

The goal of a downsizing is to assure the survival and health of your organization. The employees who remain will need your care and attention. A survey focusing on survivor sickness found that nearly 80 percent of surveyed organizations provided structured services for departing employees but only 45 percent provided these services for employees who remained¹⁶. The survivors are critical

¹³ *ibid.*

¹⁴ Karasek, R. 1990. 'Lower health risk with increased job control among white collar workers.' *Journal of Organizational Behavior* 1986-1998. 11(3):171-185.

¹⁵ Beylerian, M. and Kleiner, B. H. 2003. 'The downsized workplace.' *Management Research News* 26: 97-108.

¹⁶ Doherty, N. and Horsted, J. 1995. *Helping survivors to stay on board.* People Management. Personnel Publications Limited, London

to your organization's future, so take care of them by doing at least some of the following:

1. Assure them of continued employment to rebuild their emotional commitment to the organization. Of course, you will not be able to do this if you do not have a plan and have no idea how many will be downsized or when.
2. Make career counseling available to remaining employees to help them evaluate the impact of the changes on their future career options.
3. Make personal counseling or employee assistance programs outside the organization available to survivors who need them on an anonymous basis.
4. Hold group meetings between senior management and remaining employees immediately after the layoffs are announced.
5. Maintain friendly relations with laid-off employees if you can. This will build trust among the survivors and will be important if you need to rehire these former employees at a later time.
6. Acknowledge that there will be increased workloads if this is the case, and help survivors adjust to them.
7. Provide survivors with training to develop any new skills they will need if their jobs are redesigned.
8. If employees are being brought together into new work teams, provide opportunities for all to meet, feel comfortable with each other and work together. Formal team building might be necessary.

7. Require business plans from various departments within the organization

Requiring departmental or divisional business plans will build support for the effort, involve the managers of these areas, help protect processes and personnel key to each department's future success, and plan for workload adjustments. These plans will help all parts of the organization implement the downsizing more smoothly. Also, involving employees at the departmental level builds morale and trust between managers and employees, and makes everyone more knowledgeable about the organization.

8. Monitor progress

Take the time to periodically review the progress of the downsizing plan, learn from your successes and mistakes, and modify your plan when necessary. Survey employees and clients on a regular basis to get their feedback as well. This review will help you minimize any adverse impacts in your present downsizing plan and gather lessons for completing future downsizings in a more effective way. Do not wait until the end of the process when it is too late to respond to problems.

Downsizing is no fun. You are doing it to ensure the survival or continued prosperity of your organization. When downsizing is necessary, these recommendations will help you evaluate your downsizing plan and incorporate best practices to accomplish your goals.



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Carol A. Beatty is an educator and president of her own company Warp Speed Training Enterprises. Her belief is that acquiring knowledge should be fun as well as useful and has devoted her career to incorporating adult learning principles and experiential techniques into her presentations and seminars. Her passion is creating on-line multimedia business simulations that accelerate learning through a mix interactivity, challenge, and competition, all based on solid research-based concepts and models.

An acknowledged expert on change management, Dr. Beatty focuses her research on the areas of human and organizational issues resulting from the implementation of various types of change. She has recently completed a major study of the key success factors in the implementation of change initiatives and is currently completing case studies of successful change leaders in action. Previous research isolated the components of high-performance teams by studying over 180 functioning teams in Canadian organizations.

An Associate Professor with Queen's School of Business and the former Director of the Industrial Relations Centre, she completed her MBA and PhD at the Ivey School of Business at the University of Western Ontario. She has taught in undergraduate and graduate programs in the Schools of Business, Industrial Relations and Policy Studies.

She is also active as a consultant, speaker and facilitator whose client list includes numerous private and public sector organizations in Canada and abroad, including: Bell Canada, the Assiniboine Credit Union, OMERS, Pfizer Canada, MTS Advanced, Dubai Aluminum, the RCMP, REALPac, the City of Kingston, Telesat Canada, AGF Management, the Loyalty Group, the Alberta Newsprint Company, Accys, Barbados Light and Power, Veterans Affairs Canada, and the Canadian Nurses Association, Bombardier Inc., Ciba Specialty Chemicals, the Ontario Association of School Business Officers, the Government of British Columbia, Bombardier, the Canadian Council on Health Services Accreditation, and Correctional Services Canada. Dr. Beatty is a trained facilitator in Future Search (Weisbord and Janoff) and Whole System Change (Dannemiller Tyson).

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