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The Right Way To Restructure; The Moral, Ethical And Proactive Way To Bring About Change In An Organization

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THE RIGHT WAY TO RESTRUCTURE; THE MORAL, ETHICAL AND PROACTIVE WAY TO BRING ABOUT CHANGE IN AN ORGANIZATION

BY

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Submitted in partial fulfillment of the requirements for the Master of Arts in Corporate and Public Communications
Seton Hall University

2002
ABSTRACT

BY GUINEVERE S. SHAW

Downsizing has become an almost ubiquitous reality in Corporate America. This study examines the numerous ways companies can avoid downsizing and how companies that avoid downsizing are faring. Additionally, if downsizing is truly necessary how companies can effectively communicate the process to result in minimal impact on the business and employee morale.
ACKNOWLEDGEMENTS

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Chapter I

INTRODUCTION

Downsizing, layoffs, restructuring, rightsizing, mandatory normal attrition – whatever the euphemism the result is the same – people are out of their job, company culture is changed and communities affected. Once considered a taboo, downsizing has become an almost ubiquitous ritual in corporate America. Challenger Gray & Christmas, an outplacement firm, put the figure of layoffs at just under 2 million for 2001 (Roth, 2002, p.61). Downsizing is now changing the way people view themselves and their career. Not too long ago, corporate America was a place where people were sheltered to an extent. They joined a company and for the most part stayed with that company for their entire career. It was a warning on a resume if there were several employers listed. Now the opposite is true, employers expect that people applying with them will show several prior jobs. There is no shame in admitting that one was laid off from their job. A layoff is no longer considered to have any regard to one’s professional performance. A whole industry has sprung up in relation to downsizing. Outplacement companies make their living by providing companies with ways to deal with their newly downsized employees.

Though downsizing has gained reluctant acceptance among workers, the personal impact can be overwhelming. Companies have to address and deal with the workers they are laying off, the workers that are staying and the general public. The downsizing in itself has a detrimental effect on the company. However, if a downsizing is performed with care, i.e. good communication, employee involvement, management explanation and concern, the negative effects can be reduced dramatically.
Research Question

What are the components of a successful downsizing, i.e. a downsizing that has a minimal impact on employee morale and loyalty?

Subsidiary Questions

In an effort to understanding the entire downsizing phenomenon in corporate America, this study also will devote time to:

1) Are layoffs fiscally responsible?
2) What ways do downsizings affect morale?
3) Are there legitimate alternatives to downsizing?
4) What are people’s experiences in relation to downsizing?

Purpose of Project

The author will research the effects downsizing has on both employees that are staying with a company and those that are downsized. We will look at how companies have dealt with downsizing through research and personal interviews, how the downsizing is handled and the effects of different approaches. This project will demonstrate that companies that deal honestly, and with concern are better off than companies that use deceit and dishonesty (whether intentional or not). Additionally, the author will research if downsizing is the best first choice in dealing with needed fiscal change. As a person who has been through several downsizings, the author can through personal experience understand how downsizing affects people both from the standpoint of a staying employee (or “survivor”) and as someone who have been downsized. The author has experienced how necessary direct communication is, respect for people and support
from the company. She has witnessed the poor employee morale visited on survivor employees, the work that does not get done, and the resentment when companies handle downsizing in a poor manner.

Objective

The author's objective for this project is to write a handbook that can be used by leaders of a company that are contemplating a downsizing. The handbook will discuss alternatives that can be used in place of a downsizing and the financial reasoning behind it. The author acknowledges that some companies will have no alternative but to use downsizing to stay in business. In this case the handbook will guide the leaders of a company in developing a plan for downsizing that is proactive, fair, equitable and communicative. The guidance offered by the handbook can reduce the harmful effect that downsizing has on a company.

Limitations

This study focuses on contemporary downsizing in the corporate world of the United States of America. The finding may be applicable to other countries, however, the author finds it necessary to limit the study to the United States.
Chapter II
COMPANIES THAT USE ALTERNATIVES TO DOWNSIZING

Alternatives to downsizing (fully explored in the handbook) offer companies the ability to keep the employees that they have paid to hire, train and retain. The list of areas a company can explore in place of downsizing are considerable. The proactive measures range from less to more intrusive on employees. For example, a company can have a hiring freeze, investigate areas to cut costs (limo rides, travel), reduce the workweek or offer early retirement. The pendulum of huge layoffs from the 1980’s is starting to swing the other way. Corporate America began to use downsizing as the first and easiest way to cut costs. Now some companies are showing success in avoiding layoffs. Right after the September 11th attacks, the airlines were affected in a devastating manner. Many resorted to layoffs. Not Southwest Airlines. “Growth strategies were scotched. New plane deliveries were delayed. The renovations at headquarters were scrapped” (Conlin, 2001, paragraph 6). Southwest Airlines managed to avoid a single layoff (and has never had any downsizing in its 30 years of being).

How does Southwest manage to do this? It involves the total structure of the company, not just lip service. Southwest began with a simple idea: fly people to the destination, on time, at the lowest price. Nothing fancy fits into their philosophy. Their flight attendants wear polo shirts and khaki’s, serve only peanuts and fly in planes painted like killer whales. Their employees give outstanding customer service, which pays them in return. Their net profits are the highest in the industry. Southwest boasts a low turnover of just 6.4 percent a year. Part of Southwest’s success can be credited to the loyalty management shows its employees. Layoffs just have not or will be considered. As founder Herb Kelleher states, “Our philosophy very simply is that it is a very short-term thing to do. If your focus is on the long term, the well-being of your business and its people, you don’t do it” (Freiberg, Freiberg, and Peters, 1998).
Other public companies that have avoided downsizing use different tactics. Nucor Corp reduced the workweek to four days, saving 20% from worker’s salaries, while also stopping senior management’s bonuses. “How can you build loyalty when you pat people on the back when times are good and when times are tough, you show them the door” (Armour, 2002 paragraph 3), says Nucor CEO Dan DiMicco. The law firm of Brobeck, Phleger & Harrison cut expense accounts, travel and partner retreats. The creative ways companies cut costs pay off for them. “Executives at no-layoff companies argue that maintaining their ranks even in terrible times breeds fierce loyalty, higher productivity, and the innovation needed to enable them to snap back once the economy recovers” (Conlin, paragraph 4). 47 of the 100 companies on Fortune’s 100 Best Companies to Work For have official policies barring layoffs. (Levering, Moskowitz, 2002) The battle to get and keep talent has also moved companies into the “no-layoff” arena. A Watson Wyatt study of 750 companies demonstrates that “companies with excellent recruiting and retention policies provide a nearly 8% higher return to shareholders than those who don’t” (Armour, 2002 paragraph 7). This points to a no-layoff policy as more than corporate responsibility – it produces real results.

AGILENT – CASE STORY OF A DOWNSIZING DONE RIGHT

Agilent is a spin-off of Hewlett-Packard and makes chips, electronic components, and testing and measurement devices. The company got hit hard by a general downturn in the economy and the resultant fall in business to telecoms, their biggest buyers of their products. The result is what one has come to expect: layoffs. What is not expected is the attitude and production of all its workers – included those soon to be former employees. In the midst of downsizing, Agilent managed to secure the 31st position on Fortune’s Top 100 Companies to Work For.
How did Agilent manage to do this? It starts with the company’s focus on employees in the good times and continued into the bad. Part of Agilent’s needs is a workforce that has high motivation. Since their industry is dependent on cutting-edge technology, they need people that are at the top of their game. Agilent’s management always supported this work ethic. “Agilent considers itself the true keeper of the HP way – the management objectives devised by Hewlett and Packard [HP’s founders] that spelled out how to treat customers, shareholders, and most of all employees” (Roth, 2002, p.66). Part of this ideal is the thinking that treating employees with honesty and listening to their concerns will bring a work force that works hard.

Agilent grew fast, primarily due to a photonic switch, a necessary component in optical networks. It became a $8.3 billion dollar company with 47,000 employees, and then the economy starting falling. CEO Ned Barnholt had to find ways to cut expenses fast. Owing to the HP Way, he did not want to use layoffs as the first choice. Instead he worked to cut expenses, froze hiring and cut 5,000 temporary workers. All employees were asked to watch their spending. Throughout this trying time, Agilent continually gave information to employee about why spending cuts were necessary. To spread the work, Agilent used e-mails, a bi-weekly newsletter, and regular news meetings that all managers are required to have with the subordinates. Barnholt recorded messages urging employees to keep the hard work up. These messages were then played over the public address system.

Employees responded favorably. Websites were written to avoid unnecessary paper printed, people stayed with friends on travel instead of hotels, catering was cut and people “brown bagged” during meetings. The message worked phenomenally. Without being given a fixed number from senior management to cut, employees on their own reduced travel expenses 50% and computer purchases 70%. Unfortunately it was not enough. Barnholt then instituted a temporary 10% salary cut for all employees. Stacy Yu, Agilent employee explains: “It sounds
hokey, but it’s like a family. Everyone knows that we have to chip in to make sure everyone else is okay” (Roth, 2002, p.66).

By the third quarter nearly $250 million in orders had been canceled and there was no choice left for Barnholt, he had to downsize. He gave strict orders: “Employees were to be told they were being let go only by their direct managers, and no across the board cuts were to take place” (Roth, 2002, p.66). Every division, department and employee had to be looked at.

With a quarterly loss of $219 million, Barnholt addressed employees over the P.A. system to let them know about the layoffs. He detailed the fiscal problems with the company, the steps taken to avoid downsizing and how layoffs were unavoidable. “This is the toughest decision of my career...But we’ve run out of alternatives” (Roth, 2002, p.68). This was the first step in communication. The second came directly from managers. 3,000 managers attended training sessions on how to handle informing people that they were downsized. The managers were counseled by Agilent to be honest and answer employee questions. Criteria detailing how the choices on who would be downsized were posted on the company’s website.

Agilent wound up cutting 8,000 full-time positions but kept their employees loyalty. “Even though all of us probably lost sleep worrying about our jobs...I know Ned [CEO] probably lost a lot more having to get up there in front of everybody and make this announcement and have to let go people in his family” (Roth, 2002, p.68). Even after hearing the news that their whole division would close, a factory’s production went up. The reason according to Dave Allen, the general manager explains: “We were brutally honest with them about what’s going to happen. That honesty and integrity up-front is critical” (Roth, 2002, p.68).
The success that Agilent had in keeping employee morale up can be directly related to all the steps it had taken to avoid downsizing and the communicative steps it took during the process. The one concern is the company still is not performing well financially and more cuts could very well spell the end of employee loyalty.

STOCKS & DOWNSIZING

It seems a well-known truth: a company conducts layoffs and the next day their stock prices rise. But is this relation an accurate portrayal of how much good a downsizing does for a company? A simple research study performed by John Dorfman, a Boston-based money manager, demonstrates that over time, stock performance is poorer after a downsizing. Mr. Dorfman checked the performance of 10 companies including Eastman Kodak, International Business Machines Corp and Boeing Co. He conducted his research over a period of 34 months, ending in November 1997. "Seven of the 10 trailed the Standard & Poor’s 500. Four of the 10 showed absolute losses from the time of the job cuts to date [1997]" (Dorfman, n.d., paragraph 6). Those 10 companies profiled showed an overall gain of 0.4%, which can be contrasted to the performance of the S&P 500 during the same time of 29.3%. His study also shows that the companies that showed a gain were companies that made other proactive measures in addition to the downsizing. "IBM cut a lot of costs besides payroll, made administrative changes aimed at being more responsive to customers, and bought back billions of dollars of its own stock" (Dorfman, n.d., paragraph 14). Hayes Wheel International Inc. can credit their small profit to the introduction of a lightweight aluminum wheel that they had developed.

Though Mr. Dorfman’s study was small and non-scientific, it is suggestive. It suggests that companies that resort to downsizing as a reactionary measure do not perform well in the
stock market. While companies that have used downsizing but also incorporated a solid restructuring plan performed better.

More studies point to a connection that companies that downsize actually perform worse than better. Bain & Co. shows that “Companies that laid off 15 percent or more of their work force during the last recession performed significantly below average in the following three years...” (Turner, 2001, paragraph 4) Watson Wyatt Worldwide, a D.C based human resource consulting firm found that only six out of 10 companies managed to reduce expenses after a downsizing. The report gives a good reason: “All you’ve done is decrease your work force, and when demand does turn around, you’re not in a position to take advantage of it quickly due to lack of available and trained employees” (Turner, 2001, paragraph 2).

An empirical study by Dr. Wayne Cascio of the University of Colorado, Denver, shows that “We found no significant, consistent evidence that employment downsizing led to improved financial performance” (Cascio, 2002). Dr. Cascio (along with two colleagues at the University of Colorado) studied companies from Standard & Poor’s 500 from 1982 to 1994. They found that on average companies that downsized showed less profit the year they downsized and remained less profitable for the following two years in contrast to companies that remained stable. However companies that aggressively restructured improved their profitability. “This suggests that simply laying off employees to improve financial performance may not lead to the intended improvement in a firm’s financial performance if the lay-offs are not accompanied by thoughtful restructuring of the firm’s assets”. (Cascio, 2002). Dr. Cascio’s study demonstrates that stable companies outperform companies that downsize. Therefore the intended consequence of increased profitability by downsizing is not the result.
Even more telling, companies that increased their employment "generated stock returns that were 50 percent higher than the Stable Employers" (Cascio, 2002). Even companies that remained stable, neither increasing nor decreasing their headcount, still showed less profitability than those companies that increased the number of their employees. "It would be a mistake -- a tragic mistake, indeed -- to think that the way you ignite a transition from good to great is by wantonly swinging the ax on vast numbers of hardworking people. Endless restructuring and mindless hacking were never part of a good-to-great model" (Cascio, 2002).

The evidence points to stockholders that are not viewing the entire picture. Employers that downsize do not demonstrate to stockholders a good return on investment. They actually show a significant drop in profit. Part of the problem is that management looks for a quick and tangible solution to demonstrate to stockholders that they are doing what is necessary to bring them a profit. Unfortunately the results show that this hasty reaction does not bring the financial rewards. "the evidence indicates that upsizing firms were able to please their stockholders" (Cascio, 2002) by generating stock returns that are better than those in the same industry every year during Dr. Cascio's study.

QUANTITATIVE & QUALITATIVE WAYS DOWNSIZING AFFECTS A COMPANY

There are many quantitative and qualitative reasons that downsizing does not bring the expected profits. Let's take a look at the quantitative. The U.S. Department of Labor lists factors that are direct costs associated with downsizing. These are "severance pay, accrued vacation and sick pay, supplemental unemployment benefits, outplacement, pension and benefit payoffs, and administrative expenses" ("Alternatives to layoffs", 1996, paragraph 3). Therefore a considerable amount is spent just to sever the employment relationship. These are mostly expenses that will
have to be paid up front and all at once. The quarter in which a downsizing happens will have
profits negatively affected if not in the red. In many cases, employers will continue to pay (under
COBRA) for an employee’s health care cost over an extended period of time.

The qualitative impact can be quite extensive. Employers who downsize, in effect
lessening their loyalty, find that it is a two-way street. Employees often feel less loyal to a
company after a downsizing. The biggest possible loss is a company’s superstars. An
organization thrives on its superstars; these are the people with huge talent and drive. They push
the organization forward. When faced with a company that has conducted a downsizing in an
inferior way, many opt to leave with their considerable talents. Some companies forget or
arrogantly disregard that the downsizing has affected their remaining employees. These
employees may not have the mindset that they should be “thankful” to have a job. This attitude
drives many people, especially the superstars, to seek employment elsewhere. “The first people to
leave due to uncertainty in the company are the best people, because they can always get another
job somewhere else” (Reh, 2001, paragraph 10)

The survivor employees – the ones who are entrusted to rebuild the company, often judge
the company on how the downsizing was constructed. If they feel their downsized colleagues
were treated unfairly, their loyalty and productivity will drop. “The internal turmoil caused by
these firings reduces the performance of everyone involved, from the employees who have to
pick up the workload of the fired employees to the Human Resources people who have to not
only find replacements, but document the validity of the initial firings as well” (Reh, 2001,
paragraph 7). What companies need (and should realize) is the long-term capital investment they
make with their employees. The trust that employees have in their employee can easily and
irreparably be harmed through downsizing.
The ability to recruit talented staff is affected. If a company has the tarnished image of a "downsizer", often up-and-coming talent will shy away. "The economy will recover. The talent shortage will not" (Turner, 2001, paragraph 8) says Richard Wellins, a senior vice president of Development Dimension International, a human resources consulting firm. Continuing he says, "It is estimated that 20 percent to 50 percent of the current leadership will retire in the next five to eight years. Therefore, one negative consequence of wholesale downsizing is that organizations will not be able to replace talent when they need it" (Turner, 2001, paragraph 8).

An additional liability is that downsized companies lack flexibility and a company’s ability to quickly adjust to changes in the market. "To a great extent, flexibility depends on the firm having some excess capacity, or slack" (Cascio, 2002). In other words, if a company does not have the resources, i.e. the people to make change possible, they will find themselves behind the times. In order to facilitate change, personnel to bring it through to fruition are necessary. With an overworked, resentful staff, this just will not happen.

The workplace effect, employee morale can not be discounted in judging whether a downsizing is effective. Employees who have seen their colleagues dismissed often feel out of place, lack loyalty and motivation to continue doing a good job. "downsizings that involve hasty layoffs usually haul down growth and productivity...Such staff cuts also disrupt work and hurt the morale, loyalty, and productivity of remaining employees" ("Alternatives to layoffs", 1996, paragraph 5). The decline in productivity is a serious, unwanted result of a company placing too much emphasis on reducing headcount. Both the quantitative and qualitative results negate much of what a downsizing was supposed to bring about.
Chapter III

PERSONAL DOWNSIZING STORIES

While some companies are instituting a no-layoff policy, the fact remains that downsizing is still a popular choice for companies grappling with financial trouble. The author's personal experience is already stated, and along that line, she has had no trouble finding individuals who are willing to discuss their own experiences with layoffs. The author would like to share some of these stories to give the reader the human side to what is too often considered solely a financial issue.

While the author strove to find a balance in personal stories, the majority of downsizings were performed in a poor manner resulting in many people who had bad memories of an unpleasant time made worse by employers lacking respect. What these stories demonstrate is what happens when companies do not take the time and initiative to treat the downsizing as an emotional, traumatic occurrence in a person's life. What they show is that too many companies are interested in treating people as commodities that are no longer useful. The quicker, the better, out of office, out of mind.

WILLIAM K.'S STORY

William K. has worked for Mercedes-Benz USA for the past 24 years. During his time with them, he has been through three major downsizings (additionally, there have been several smaller layoffs affecting about 10 people at a time). He was not downsized during the first lay off in 1991. At this layoff, security guards escorted other people in his department into a separate room and "basically they were gone." No information was given to the survivors on why the downsizing was necessary. For a few weeks before the layoff, he kept hearing rumors. He tried to
keep himself busy because it "was stressful waiting for the axe to fall." Reductions were made across the board. One or two people's positions from each department were eliminated. Those chosen to go had the least seniority. This made the workload double for him, as the workload was not restructured, just the amount of people diminished. There were about 100 people laid off in a company that had about 700 employees at the time. The announcement of the layoff fell on a Tuesday. It is still remembered, 11 years later as "Black Tuesday". The atmosphere for the survivor's was "down, everybody was depressed. Which was understandable. There was some anger." An e-mail was sent afterwards throughout the company stating that there was a lay-off. This was the only immediate communication. Several weeks later, they had a group meeting off-site. There the survivors were informed no more layoffs planned. That lasted about a year.

The second layoff came in March of 1993. He was laid off this time. At the beginning of the workday, everyone was locked out of their computers. This was the hint that there was something major about to happen to employees. His manager stopped by and told him 'That we're going to have to let you go'. He was crying. You could tell he was very upset.' All those who were losing their jobs were brought into the cafeteria and told that they no longer had a job. Representatives from human resources gave people their severance package. Present was the security personnel, "just in case", immediately afterward they themselves were laid off. Security would no longer be a part of Mercedes but an outsourced function. More money was offered to William as a "bonus" though, if he would agree to stay a few more weeks to clean things up. Others were told to leave without being allowed back to their work areas. They did not have an opportunity to see and speak with their colleagues. It was a larger layoff then the last one, about 160 people.

William had nowhere else to go so he decided to stay the extra 8 weeks offered to him.

Even while Mercedes-Benz was laying people off, they were still hiring elsewhere in the
company. William felt staying would give him an opportunity to find another job within the company, a place where people knew him. Instead of placing people elsewhere in the company, people who were laid off were given priority in being rehired. Their job applications were blue instead of the usual white, to let a hiring manager know that they were one of the people downsized. People were told that their jobs had been “eliminated”. It does not seem the downsizing was well planned. People, like William, who were asked to stay a few weeks found themselves not laid off. “They just said, ‘you know what, forget the layoff’, and they never got their severance package because they never left. I don’t think they planned it. And they didn’t realize until afterward that there were critical areas affected. I think they asked themselves ‘How is all the work going to get done?’”

William found another job within the company. Because he never had officially severed his relationship, he kept his seniority. Other people however did leave and were later hired back – for less pay and no seniority, they had to start over from scratch. It seems to William that the layoff was more about bringing people in at a cheaper price than the current employees as there were many downsized positions refilled soon afterwards. In fact, all the positions were refilled within two years.

Again, a year after in 1994 was another downsizing. William was not laid off but a friend of his who had been laid off then rehired was laid off again. Morale at this point “wasn’t good, it was downright awful.” There was not much work being done. Everybody kept discussing the layoffs, three in as many years. The anxiety level was very high. “The anticipation was just too much.” This time people volunteered to take a cut in pay. However, Mercedes said no, they were eliminating positions. Having seen so much destruction to people’s lives, William wishes that companies would have looked into other cost-cutting measures to “save a few jobs.” He is more than willing to tighten his belt for the overall good of the company and its people. Mercedes did
not look into alternatives to downsizing. William remains with the company not out of loyalty but convenience. “It’s just a job. It used to feel like being part of a family before the layoffs but not any more.”

Mercedes improved and expanded their model line in the United States, after this period of layoffs, sales expanded and there have been no more major layoffs since 1994. Headcount is approximately 1,500 people. They expand when necessary (a recent department formed is e-commerce) and keep a flat organization. Still in order to outsource functions, at different times they have quietly reduced headcount. Just this April, they laid off people in the mailroom. The next person’s story involves this lay off.

KEVIN M.’S STORY

Kevin M. has worked in the mailroom of Mercedes-Benz since April of 1997. At first he was an employee of Sodexho, which Mercedes used as some of their staff for the mailroom. In October of 1998 he was brought on board as a full-time Mercedes employee. The author personally knows Kevin as an exemplary employee. He was very pro-Mercedes and long before the layoff and told her that he planned on being with Mercedes for a long time. For some time Kevin had been hearing rumors about changes to the mailroom. His supervisor never addressed those rumors to the staff.

In January of 2002, the department manager of human resources, who rarely had direct contact with the staff, informed them that the entire mailroom would be outsourced by March. The manager said, “I’m sure your supervisor has kept you up to date on what’s happening.” Kevin told him that no one received any information. The manager then explained that Mercedes had decided to use a different company in place of Sodexho and that he also did not want a mix of
Mercedes and different employees in the mail room. Sodexo and Mercedes employees would have an opportunity to interview with the new company. From that point “We were on our own. He waited a month to come back and give us an update.” They were told that they still had not decided on who the new company would be. “We knew that was lies. We saw the jobs posted on Monster.com”. The jobs were significantly less then what they were earning. “That told us not many people would be staying. Not to do the same job for less money.” To add insult to injury, the mailroom was given more work responsibilities. “Morale is already low enough, now they’re telling us to do more work?” Kevin felt that nobody in the company cared about the mailroom. “We’re the lowest level employees, why bother?”

He wondered why Mercedes told them that is was not economically feasible to keep them after they had spent $80,000 on an x-ray machine right after the anthrax scares. “The ATF told them that Mercedes was not threatened but they bought the machine anyway.” He feels that this is a part of the problem with corporations that lead to downsizing. Companies spending large amounts of money on unnecessary items. Why didn’t the company ask higher-level employees to save money? Instead of allowing managers to stay in a Hyatt, why couldn’t they stay at a less expensive hotel, he wonders. “These are things that lead to people getting laid off.”

At the time of the interview Kevin was three weeks shy of his layoff date. He still had not been told of the severance issues. He was not sure about anything. Would he receive severance pay? What about his 401K? He was leasing a car from the company and would have to return it on his last day. Mercedes was paying his tuition to go to college. Now he would not have the money to finish his Bachelor’s. The only good thing about the layoff, he felt, was that they let everyone know three months ahead of time.
He feels the layoff could have been handled more professionally. Mercedes could have offered more support. He suggests that management should have kept the lines of communication open. "Not to give people the cold shoulder and silent treatment. That's wrong." He suggests access to counselors, computers to job hunt and a willingness to help. While layoffs may be necessary financially, if a company shows respect and helpfulness, then he would be more understanding. Otherwise people feel as if they do not count and never did, that they were just a body to do work.

Kevin decided to look elsewhere for a job. He felt insulted that he was counseled to act professional so the he could have an opportunity to interview for his job, for less money. At this point he was down on corporate America. He started investing more time in his part-time photography business. "I don't have to hear from somebody that there isn't enough money for more film. I can take care of it myself." His family used to not support his part-time work because he was "safe and secure" at Mercedes. Now feelings have changed. Now not one person is safe in corporate America.

ANA E.'S STORY

Ana worked for Sanyo-Fisher USA just shy of five years. Through those five years she went through four downsizings, in the last one she was laid off. The first one was the worst. At the end of the day, people were called into two separate rooms. The executives just addressed those employees who still had a job. The human resource representative spoke with the people who were laid off. "That angered a lot of people. Were our executives such cowards that they couldn't address the very people who they were laying off?" The next day management wanted to act as if nothing had happened. Of course people just kept talking clandestinely. "No work got done that day, people were still in shock." The anger lasted the entire time she worked there.
Aside from the brief communication given by the executives, that was the last time the downsizing was mentioned.

A year later it happened again. "This time there was not as many people and it was kind of expected. As the anniversary to the first layoff approached people thought another one would happen." The business had not been restructured. There were no plans to take it in a different direction. Business practices stayed the same, just with fewer people. "A lot of stuff just fell by the wayside. Work could not humanly get finished." Sales continued to drop. This time only the people being laid off were addressed. Those that were staying heard the news directly from the people themselves. They were given a month's notice. "A woman came up to me and said 'Well I just have one more month left here', I asked what was going on, and she said several people were asked to leave". It was not completely secret. Once people started being called into human resources, the rumor mill started. Work ceased for the day as people waited by their phone wondering if they would be called next.

"The first time the lay offs happened I was glad I still had a job, by the second round I really began not to care. The company didn't care about the employees so why should I care about the company?" She still stayed with the company only because she felt it easy. She was a single mother and did not want to start over somewhere else. Her work performance dropped to just what was necessary. "Going above and beyond [the job description] left my motivation." The following year, the same thing happened. Nobody was surprised by the news. In fact, everyone was waiting for it. "It became almost a game. There were a lot of people there for many years. If they could just hold out, they would get a good severance package." By this time the newer, young employees had left. The company did not offer any reason for them to stay. It became a waiting game.
Finally Ana had made up her mind to find another job. The company was down to its bare bones with still no new direction to follow. She started sending her resume out. Then, it started again. “Executives would leave one office and go into another. All the time with the doors shut and shades drawn.” Everyone knew what was going on but when would the news be communicated to them? After a week, those left (the company had gone from 100 people to 45) were told they were being let go in a month. Ana felt relieved. Working for the company had gone from a decent job to a place that nobody could tolerate. “This one woman, who worked her entire professional life actually squealed when she got notified. Everyone just wanted to get out of there”.

Ana is very distrustful of corporate America. “It’s not about people at all, it’s every person for themselves”. She has been working for another company for two years now where things seem to be okay. She still keeps her ear to the ground. “Many people say don’t listen to rumors, but it’s been my experience that those rumors have some truth to them.” Though there are no financial problems with the company on the horizon she is prepared to leave if she notices change. After all, this company also has had layoffs in the past and she expects they will do it again without hesitation.

ADDITIONAL ANECDOTES

Though not interviewed, several respondents to a survey given in conjunction with this study offered their feelings on being involved in a downsizing.

“It was absolutely awful. The tension was huge. Administration just dropped boxes in the middle of the floor so people could pack up.”
"I was told my job was eliminated. I was in shock, surprise and disbelief. In 15 minutes I was gone. From desk to Manager’s office, to human resources and out the door."

"Rumors abounded for months. People are stressed over the impending layoff. People are less productive. Companies should know the loss of a job has the same cycle of emotions as the loss of a loved one. To repeatedly put employees through this is cruel and unconscionable."

"The aftermaths of the layoffs were depressing. To see co-workers, that you are fond of, being terminated and being devastated by job loss is unbelievable painful to witness."

"Emotionally: extremely depressing, draining, disappointing."

"There wasn’t a lot of communication from senior management."

"Emotionally I am angry with the company because of their dishonesty and my negative attitude is reflected when speaking about the company."

"It is becoming a way of life in industry – it’s now commonplace for companies to downsize or merge."

"My husband was forced to take early retirement in 1990 and became depressed for months before the actual termination. When I was let go in 1993, I became depressed with low self-esteem."

"It has made me more aware of the economic situations. Also, to develop a plan or alternatives if the economic outlook is not good."
“It was a very emotional time. Many people let go were friends. A feeling of “guilt” for not being let go was felt by many as well as a ‘thank goodness it wasn’t me’ feeling. Morale was really horrible – took a while to get back on-track.”

“The company downsized and reorganized instead of better utilizing employees. The took the workforce out of key areas to keep the headquarters running in a state too far from the most important sales/service regions.”
The Right Way to Restructure
Where to Go

Alternatives to Layoffs
Steps to take before downsizing

Downsizing Process
What to expect, what to anticipate

Communication Plan for Downsizing
Addressing all constituents

After a Downsizing
Measuring effectiveness
Chapter IV

THE RIGHT WAY TO RESTRUCTURE; THE MORAL, ETHICAL AND PROACTIVE WAY TO BRING ABOUT CHANGE IN AN ORGANIZATION.

-- Part One --

INTRODUCTION

Your company may be in a financial position where business cannot continue as usual, or the business profit has taken a dip, or investors are clamoring for even more return on investment. Probably the first thought to correct the situation on any leaders’ mind is layoffs. Consider also that many companies feel huge pressure to placate Wall Street, and laying off employees seems the quickest way to affect the bottom-line.

This strategy needs to be rethought. First and foremost executives in charge of the company’s well-being need to look into other avenues that truly fall under the heading “restructuring”. Instead of solely focusing on the bottom-line, alternatives do exist to give a company competitive advantages that do not entail mass layoffs. Before looking at layoffs as the first way to save money, think bigger and ask, “What are the possibilities that will enable us to keep our talent that we have already paid to hire, train and retain”? Many companies have
reduced head count to get a quick payoff and watched as their business significantly dropped off afterwards. There is a connection. Less people means less ability to produce at high levels. Cutting costs via layoffs is, of course, just a reactive and simple measure. Long-range planning and investment in the future takes more energy and smarts but companies that invest in these ideas are better off.

Additionally, the sense of unease, the loss of trust stems from layoffs and especially poorly done layoffs. Many organizations would not announce a coming layoff for fear of employee sabotage, of employees leaving quickly and the thought that employees would reduce their work efforts. And these are all justified fears. Layoffs, no matter how performed, will always affect a company in a detrimental way. This is unavoidable and the dirty side to focusing solely on the bottom-line. So it must be acknowledged that layoffs will hurt the company immediately (and often for years afterwards), but the “quick and swift axe” method is the worst way to perform layoffs.

Part one of this handbook will address many alternatives that companies can proactively institute to cut costs without involving any employee losing their job. Part two explores the overall change process and will examine ways to effectively communicate layoffs when all other cost cutting measures are not enough or simply when a company is restructuring its business.
Less Intrusive Measures

- Reduce Operating Costs
- Limit/Reduce Temporary Employees
- Transfer/Retrain Employees
- Restrict Overtime
- Reduce Pay Increase
- Reduce/Eliminate Annual Bonus
- Increase Employee Contributions
- Offer Early-Retirement
- Freeze Hiring/Use Attrition
- Use Voluntary Separation
More Intrusive Measures

- Voluntary Furloughs
- Mandatory Vacations
- "True" Layoffs
- Reduce 401k Contributions
- Reduce Workweek
- Reduce Pay
NECESSARY STRATEGIC DEVELOPMENTS: ALTERNATIVES TO DOWNSIZING

It is imperative that executives and corporate leaders look into a vast array of alternatives before considering layoffs as the only way to save money or affect “the bottom-line”. The following measures are proactive and a way to prevent layoffs. The alternatives flow from measures that are less intrusive and easier to implement on employees and the company to more intrusive measures. Start from the less intrusive measures and work your way down. Often companies will find the less intrusive measures adequate enough to have an effect on “the bottom line”. They are also easier to reverse when financial times turn around.

Less Intrusive Measures

- Reduce operating costs
- Limit/Reduce temporary workers
- Transfer/retrain current employees
- Restrict overtime
- Reduce pay increases
- Reduce/eliminate annual bonus
- Increase employee contribution to health insurance
- Offer early-retirement packages
- Freeze hiring freezes/use attrition
- Use voluntary separation

More Intrusive Measures (to be used as a last resort)

- Voluntary furloughs
- Reduce 401k matching contribution
- Mandatory vacations
- "True" layoffs
- Reduce workweek
- Reduce pay

Reduce operating costs

During good times, companies spend a lot of money in all areas. These include travel, entertainment, printing costs, and office supplies. If times are tough, look at these areas first to reduce expenses. Travel can easily get out of hand. Put policies in effect that reduce travel to trips that are truly necessary. Look into other ways of doing business such as video conferencing that can be just as effective as flying many employees around. Entertainment costs can quickly consume budgets. The idea behind cutting expenses in not to turn your company into a scrooge-like workplace but to logistically look into areas that get bloated when times are good and need to be trimmed when necessary. Don't take away employee's free coffee but if your company has been the kind to offer Starbuck's for free, look into this area first.

Limit/Reduce temporary workers

Often the use of temporary workers is looked upon as a way to save costs. After all these people are workers who do not have any of the benefits given to full-time employees. But the true use of temporary employees is to help a company through a project or time where extra manpower is necessary. In the period of restructuring, it is better for a company to use their existing full-time employees and shift their work to areas that need extra help. This is truly a win-win situation. Employees do not get laid off, and they can expand their experience, while companies get to retain workers they have paid to hire and train and get a more experienced employee out of it.
Transfer/retrain current employees

In the same vain as above, companies need to be cognizant of the costs they have spent to hire, train and retain their employees. Companies usually have a large stock of good performing people and these people know the company’s culture, contacts and ways. If an area needs to be reduced or eliminated, the people who are already in those areas are an excellent source of talent to be used elsewhere in the company. Many employees already have diversified talents that can be used in other areas of the company. The cost to retrain current employees in other areas in much lower in contrast to severance and hiring of new employees.

Restrict overtime

Some hourly employees routinely work overtime. Because of their status, by law, the company must pay them overtime. Look into this area and see if the overtime is necessary or merely convenient. If necessary, perhaps the employee needs to be promoted into an exempt position. Otherwise, supervisors need to be aware of their employees’ workload and adjust accordingly to keep overtime costs down.

Reduce pay increases

When times are good all employees come to expect some type of raise annually. What happens is usually all employees will receive about the same pay increase. Now is the time to stop this. Pay increases should be scaled to individual performance. Top performers should receive the highest increase affordable, while low performers should receive no increase. This does not stop with employees alone, all members of the organization should be held to this principal including managers and executives. At no time during a financial crisis (and especially
during layoffs) should executives receive pay increases based on their position alone. This only serves to destroy employee morale.

**Reduce/eliminate annual bonus**

Just as annual increases are expected, so are bonuses. Again, use the same principals for bonuses as you would raises.

**Increase employee contribution to health insurance**

Health insurance costs are a major cost to an organization. In the past, companies covered the entire cost of the premiums. With the escalating costs, employees were expected to contribute to the cost. This became the norm. Look into this area and find a fair and equitable way to increase employee contribution. For example, have the contribution based on the employee’s salary and number of family members insured. While this is a great area to save money for the company be sure not to burden your employees to where they will be unable to partake in the program. The idea is to spread the cost between employee and employer not to have employees take over the payments.

**Offer early-retirement packages**

Offer early-retirement packages to eligible employees. Make the program strictly voluntary without pressure to comply. Incentives should consist of allowing extra credit for age and years of service so people under the age of 62 will become eligible without losing pension money.
Freeze hiring / Use attrition

Should be thought of as a temporary solution. As with traditional layoffs, do not get complacent into thinking the same work will get done with less people. The company needs to be truly restructuring its ways while freezing hiring.

Use voluntary separation

Works the same as an early-retirement. The company needs to see which areas can be trimmed voluntarily. What is an added bonus? Employees, who are low performers, mostly dislike the company; will usually be the first to go. Again, this will work only while looking at the overall picture and getting the company into "rightsizing".

More Intrusive Measures (to be used last)

Voluntary furloughs

There will always be a section of employees that would like to take considerable time off from work. The reasons are as diverse as the employees. Perhaps they always wanted to take a month-long cruise, or have an automotive project sitting in their garage for years. For these employees though, taking time off is usually not available. Companies can take advantage of these employees by giving them the option of having time off from work and still keep their tenure, their rank and health benefits. The company can offer various levels of support, from continuing to pay health care, to providing a percentage of the employees’ salary. Determine the monetary savings needed by the company to decide how long a leave and what level benefits to extend employees.
Mandatory vacations

Many employees will not use all of their vacation in a year’s time. Often, especially long-time employees, will stockpile their vacation. Requiring employees to use their vacation time will have the company save money in the long-term by not having to pay out at the end of a long-tenure at a higher pay scale. A company should also have a “use it or lose it” policy where employees can only save their vacation days for a set amount of time (say two years).

“True layoffs”

The word "layoffs" now usually means permanent severance from the company. It is time to get back to the true use of the word. While still used by unionized companies, most companies can benefit by laying off their employees for a set amount of time. Again, with the choice of a percentage of salary still paid or not. These employees will not lose their rank or tenure. The company can benefit by keeping on their roles employees that they have already trained and can call them back when the company is in a better financial position.

Reduce 401k matching contribution

With the elimination (or severely pared down) of company pensions, 401k’s became the way for employees to be responsible for their own retirement fund. Many companies match dollar for dollar to what the employee contributes up to a percentage. Look into this area to reduce expenses. Perhaps .75 to the dollar up to 5%, etc.

Reduce workweek

Can be a very positive way to avoid layoffs. Employees need to understand the necessity of reducing the workweek and the fact that their jobs will not be in jeopardy.
Reduce pay

This should be conducted from the top down. Executives and managers should be the first personnel to have salary reductions. Simply put, they are the ones who make the most money and a reduction in their pay will have a significant effect on the bottom-line. Secondly, this sends a message to employees that “we are in this all the way” and does not promote an "us vs. them" mentality. If necessary, reduce the salaries of regular workers.

Overall employees will understand that some belt-tightening is necessary and needed for the company’s well being (and perhaps continuance). A few will gripe but overall people will be happy to cut back if they understand the necessity (and this entails good communication from the top). And certainly these type of reductions are more palatable than to mass layoffs.

These initiatives can control costs significantly. But make sure that when you decide to go this route, the cuts are good enough to help the company financially and not shallow enough where further cuts will be necessary. A reduction in benefits should happen just once or risk a worsening effect on employee morale (which ultimately does effect the bottom-line).

Benefit reductions/cost-reduction initiatives should be given serious thought and analysis before concentrating on solely reducing head count. Working in tandem with true restructuring plans will enable the company to keep morale up and most importantly keep skilled workers. Remember that while the market right now may be a buyer’s market, historically the economic cycle has nine good years to one recession. You want to keep your skilled and trained workers. It just makes economic sense. When a company decides it is necessary to restructure it is imperative to “think outside the box”. Case study after case study demonstrates that while layoffs will immediately affect the bottom line they do not ensure a bright future.
When it is shown that layoffs are the only way to keep the company solvent, then it is imperative that company leaders do so in a humane, just fashion. This is not just about the employees who are staying now, or those that are leaving, but the company’s future overall. We look to have the company in a better financial position and hopefully, for growth in the future. A bad layoff will eternally affect the company. Not just in the press but deep inside the corporation. It will affect employees that stay over a long period of time (who will be sure to let new employees know what happened). It will also affect the caliber of employees attracted to your company. No person will want to be associated with a company that has a historically bad track record.
Questions to answer in restructuring:

- What areas will stay the same?
- Which employees can make a transition to a new area?
- What areas will need new employees?
- What areas need to be cut?
WHEN DOWNSIZING BECOMES NECESSARY (AS PART OF A RESTRUCTURING)

An overview of instituting a restructuring is reviewed here. However, a full model of restructuring is beyond the scope of this handbook.

Downsizing should only be necessary as part of a company’s reorganization. Downsizing alone should not be used as a way to save costs, and then have the expectation that business will be the same as usual just with less people. This is unrealistic and nonproductive. Downsizing needs to be a part of the company’s total strategy. If you have determined that downsizing will be necessary for the business to continue, then the very reasons for the need for downsizing must be the pathway to the strategy.

For example, Company A has long been in the business of manufacturing shoes and selling them to companies that slap their label on them. For the past several years, instead of merely selling the shoes as a supplier, Company A has been directly selling their shoes to several retailers. The business in this area has enlarged, while their traditional business has declined. The company has been losing money and change is absolutely necessary for survival. The company’s executives have decided to focus their business on directly selling their shoes under their own label. In order to accomplish this, downsizing must happen. But, instead of only focusing on laying off employees, the company needs to incorporate this strategy to fit in with the larger picture. Several things needs to happen:

- Determine which areas will need to keep employees in their current positions.
- What employees can make the transition to other areas?
• What areas will need new employees?
• What areas need to be cut?

The company is still manufacturing shoes, just at a lower pace. Therefore, there is still a need to keep employees in the same position. Since the company will not be manufacturing at the same level, some employees will need to be laid off in this area. There is a small marketing department that is focused on marketing the company’s shoes directly to other labels. Many of these employees have transferable skills. They can be used now to market directly to retailers. The company never had much of a need for a sales department, and this area will need to be enlarged. This will call for new hiring and again, the company will look at their current employees to see if there are any matches in this area. The area that will need to be downsized the most is the manufacturing area. Layoffs will be concentrated here.

This example shows that the company is being progressive and active. The executives have a plan for change, and will use downsizing to fulfill it. It is not merely a knee-jerk reaction to the need to cut costs. The company that uses downsizing as part of an overall restructuring plan has a much better chance for success than a company that does not change and just cuts costs. This may seem self-evident, yet many companies have done just this. A pretty well known consumer electronics company for over five years continually downsized. The problem was it did not change its way of doing business. It kept the status quo. At the end of five years hundreds of employees had been downsized, many had voluntarily left and those that remained had huge problems with the company. And why not? The company kept cutting employees without any plan to bring the company around. It continued to react instead of plan. The company is still in business – but just barely.
While the cliché “change is good” has been around a long time, it can be true. Change can be good (and necessary) for a company. But it must be a progressive change that looks at the big picture. The thought that “we have always done things this way” will not work. The company that downsizes but does not change will have many problems (if it stays in business) with the employees, customers, stockholders, suppliers and community. Avoid major problems and plan for the future.

**The Change Process**

While consciously we can acknowledge that change is necessary and often positive, in our guts change is scary and something to be resisted. This relates to every aspect of every human’s life. From buying a house, to getting married, having children, changing jobs, changing careers to truly horrifying change, such as American’s feelings from secure to uncertain after September 11th, we all have events that transform our lives. And no matter how many times we encounter it, we resist it to varying degrees. Why?

For one, we get into habits. As we are aware, sometimes painfully, habits are very powerful. We get up in the morning, shower, brush our teeth, and eat breakfast. We don’t even think about it. What we do is a habit. Personal hygiene are good habits. But what about smoking? Smoking, while certainly is addictive, it also becomes a habit for a smoker. The smoker will automatically light up when talking on the phone for example, again without thinking about their actions. Stephen Covey recognized how controlling habits are and wrote the best selling “7 Habits of Effective People”, to show people how to get into good habits. The definition of habits though is something that we do without any conscious thought – and corporations, made up of humans, get into their own habits.
Sometimes this is okay, and the flow of work continues at a steady pace. When change is necessary though, habits so deeply entrenched, are difficult to change. Simply, people who work in a certain organization get used to doing things in a certain way, without thinking about what they are doing. A person goes to work in the morning, gets a cup of coffee and checks their e-mail. They do this everyday for years. It's familiar, it's something they can do easily, there is no learning curve, and they can perform this function without thought. But tell this person instead of checking their e-mail first thing in the morning; they must file a new report. Forget it! They want to check their e-mail, they always have, and why change now?

This leads into another reason people are resistant to change, familiarity. The person knows and is quite comfortable with the e-mail system. Maybe though, the report encompasses the need to learn a new software system. They are resistant to this change. The report symbolizes many things. New software that must be learned, wonder if it's not easy? How long will it take me to learn it? I already know this software, why can't I use that? Familiarity is comfortable; it's easy, almost effortless. Most people like comfort, that's why companies are so successful in selling it. The everyday, the boring, the mundane, perhaps pejorative words, but ones that people gravitate towards nevertheless.

Since it seems people are programmed to be opposed to change, what can an organization do to help change along? The psychologist, Kurt Lewin, came up with a behavior paradigm, "force field model" that details the steps needed for the change process. It has three steps, consisting of unfreezing, movement and freezing.

Unfreezing is where change begins. First the need for change must be acknowledged. The need may be blatantly apparent -- increased competition, reduced sales, etc. Management recognizes that business cannot continue as it has been. Then the groundwork for change must be
laid out. For an organization that is going through restructuring, this is a crucial step. How will he restructuring proceed? Where are we and where are we going? Where do we want to be? All these questions must be answered. Communication to all constituents is absolutely necessary and essential. Poor communication is the harbinger of doom and the downfall of many companies. Without it, there will be more problems than the restructuring was trying to fix. Developing a communication plan for restructuring will be covered in chapter 3.

Movement is simply the implementation of the unfreezing plan. Simple, in thought, but complicated if the unfreezing plan has not been thoroughly thought out and planned. Finally the third phase is freezing. This is after the change has been implemented, and stabilization occurs. While freezing is necessary -- people cannot be expected to always be on edge, developing a culture where change is more readily acceptable is needed. Workers will more readily adopt a culture of change if they see that management will support change. This is not to say that layoffs will ever be accepted by employees, nor should they, but that changes in how the organization does business is often necessary, progressive and active. Getting this acceptance goes beyond a reorganization. It covers everything from new software packages, to benefits changes. (Stroh, 2002)

During the unfreezing time, while planning the restructuring, focus on several areas:

- Company direction
- Employee Morale (survivors)
- Laid off employees
- Company Image
- Customers
- Stock holders
Company Direction

Where is the company headed? Where does it want to go? What areas do we need to invest more in? Less? The overall change process starts here. A plan for the future must be set and everything that follows stems from the plan. The most time and energy will be put into this step. The idea is to come up with a proactive strategy, not just fixate on numbers. It is not wise to give your managers a set percentage of people to cut. Truly look at the big picture and restructure smartly, not reactively. Simply setting your managers to cut the bottom 10%, will automatically give you another bottom 10% and perhaps the first 10% were all able workers. (Savage, 2001, paragraph 4) Some may have been in the wrong area, and have huge potential somewhere else in the company. Take for example a receptionist, who consistently answers less phone calls than other receptionist and spends more time which each call. Find out why. The person may be spending their time answering customer questions and caring enough to find answers and help. This person's talents will make them more productive in customer service but if just using a percentage may find themselves out of a job.

Take the following steps:

- Review your entire organization structure

- Make sure the right people are in the right jobs. Ask employees to evaluate their skills and talents. Make note of people whose skills can translate into other areas.

- Count hours worked, not just people. Do some people use excessive overtime? Perhaps they are not performing at a high level or this is an area that needs more employees, not less.

- Track productivity. Employees should write down and track everything they do during a workday. Job descriptions usually cover only 60 – 70% of what people do. This area is
not to pinpoint who should go but help determine several things. Is equipment out of date and slowing productivity? Do some employees need more, better training? Are some people being pulled away from their jobs to do other tasks? The point is to benchmark positions, not single people out.

- Notice areas that are overstaffed as well as understaffed
- What areas need more productivity? (Maguire, 2001, paragraph 7)
- How can we flatten the organization?
- What is our overall plan?
- What is the end result?

Executive management will naturally be the most involved in this process. Other areas that will provide needed input include human resources, legal department and senior level managers. What is driving the need for restructuring will provide the direction the company will be taking. Have the members of the restructuring team meet together to brainstorm. How is the company changing? What areas need improvement? What are the consequences of the changes? Have a “vision” statement that will encompass the goals and means of the process and stick to it (Becker, 2001, paragraph 8).

**Employee Morale**

A pejorative yet accurate word, and a word that people will use naturally, the “survivors”. The employees that you are looking for to take your company in a new direction. An area that absolutely cannot be paid enough attention to. The key to addressing these people is communication, communication, and communication. In every way possible communicate the company’s direction, what is happening during the restructuring and what is planned to happen following downsizing. Share the overall picture down to the last details. This cannot be stressed
enough. If information is not provided for my management, than the rumor mill will more than make up for it.

Downsizing affects survivor employees greatly, in many ways to the same degree as the laid off employees. When something of the magnitude is happening, people want and cannot get enough of information. Consider every avenue of communication that has been used successfully by the company in the past and investigate new avenues. This includes, e-mail, memos, town hall meetings, small impromptu meetings and the avenue most employees feel the most confident about, directly from their supervisors.

Pay particular attention to what has been coined “layoff survivor sickness”. Coined by David Noer, a professional that has spent the past 15 years studying this syndrome, he states that “layoff survivor sickness [is] a major barrier to productivity gains” (Gowing, Kraft and Quick, 1997). As discussed in chapter one, layoffs have a huge impact on productivity of an organization. While this is to be expected, a good communication plan and dealing with the survivors, will reduce the impact of downsizing.

People who survive layoffs will have in common many of the same feelings. These include:

Fear. When will it be my turn?

Anger. How could the company do this to loyal workers?

Guilt. How could Bob be laid off but not me?

Distrust. How do I know the company won’t do layoffs again?

Stemming from the feelings, are then behaviors:

Risk-taking. Forget about thinking outside the box, I better keep to the status quo.

Productivity. I can’t forget what happened. I’m not motivated to try harder.
Blame. Management should have taken a different approach to layoffs.

Survival. Keep up appearances and send the resume out.

Downsizing is very painful for all those involved. It is imperative that management acknowledges the feelings that employees will have. The resultant behavior from these feelings is very real and tangible. But what can be done to help employees that stay? As stated above, communication is the number one offense given to management. Make the communication easily accessible and totally honest. Any miscommunication will come back to haunt management many times over. Since hearing directly from their supervisors is recommended, make sure that supervisors feel comfortable in answering any questions. There is nothing worse than giving employees information that is totally scripted. The information should be natural and not sound as if the legal department drafted every sentence. More on the legalities of downsizing will be discussed later in this chapter.

Good communication will go a long way in helping employees. But accessibility to professional help can be a tremendous boost. Surviving employees will certainly grieve for fellow colleagues that will not be with them in the new organization. Many people have strong working relationships with their colleagues and also true friendships that carry outside of work. Having professional people available to talk with will give employees an avenue to vent as well as gain some control over the downsizing event. (Gowing, Kraft and Quick, 1997).

Finally let employees know and understand where their place will be in the new organization. Don’t make promises that you cannot keep (No more layoffs ever), be realistic and understanding of the trauma related to downsizing. And yes, be patient. While a company will look at reorganization as something in which every staying employees should jump on the bandwagon and quick, this is unrealistic. A company is not a machine and employees are not
androids. Real emotions will intervene every time. Management will do itself and the company’s future much good if they acknowledge emotions and behaviors accompanying a downsizing that survivor employees will have.

**Laid off employees**

Respect. Always, in everything you do, treat the employees that will be laid off with respect. Do not for one minute give these people less time, attention or consideration. Just because they will involuntarily be leaving your organization does not mean that they should leave with a total bad taste in their mouths. These people have friends and colleagues that will still be with your company, people who work in the industry and up and coming talent. Some companies that have handled layoffs poorly now have to pay 20% more to attract new hires because of their poor reputation.

Employees who are being downsized will naturally have many mixed emotions and thoughts. How will I pay my mortgage? What will my spouse think? Say? What do I tell my children? How long will my savings last? Should I still take that planned vacation? Considering the impact on being told you are losing your job, the idea that notification should come late on Friday afternoon is not productive. Better to give notice at the beginning of the week if layoffs are imminent, months ahead of time if carefully scheduled. This gives people time to collect their thoughts, speak with managers and colleagues and allow them to absorb all the severance issues.

What areas need to be planned for laid off employees?

- Counseling
- Reason (including the overall restructuring and why this particular employee was laid off)
• Severance details
• Health care coverage availability (including COBRA)
• Outplacement availability – a must!

Company Image

Yes, lay offs have become commonplace but this does not excuse your company from bad press or pressure from the world at large. Announcement of layoffs, even within a total restructuring plan, will make headlines in national and local areas. Public relations is essential to any company’s well being. A public relations plan must be in effect to counteract the bad press you will be sure to receive. This plan must be honest, to the point and without anything to hide. There is nothing worse, in the publics’ eye, then to see a company firing everyday workers with top management reaping phenomenal financial gains. It is not just bad publicity, but bad morals. Your employees are also part of the public and the fiasco that will entail is not one to be welcomed. Plan accordingly.

Customers

Every company is consumer dependent, just in different ways. Your main customers may be another company or you can be selling direct to the public. Layoffs, done poorly, will have a negative effect on your customers. Stories abound of the poor treatment and quality that customers receive after a layoff. This is directly related to laying off the very people who represented your company to the outside world. Do you want the end result to be customers calling and being trapped in “voice-mail hell”? Or customers wandering your store wondering where the help is? Nobody needs to remind you of the stiff competition that exists. If you cannot provide the proper services, somebody else will. The simple way to avoid any problems is to keep
the personnel that interact with your customers. Never look to cut costs in this area. Your customers will only be loyal up to a point.

**Stockholders**

How will the restructuring plan affect shareholders? It has long been held a solid truth – downsizing will bring about higher stock prices. This is a falsity. “Stock prices do tend to spike upwards on the day downsizing is announced, but over time such gains do not persist” (Groarke, 1998). This mostly pertains to companies that just downsize without having an overall proactive plan for the future. Stockholders are becoming very wary of companies that use downsizing ineffectively. Also the makeup of stockholders has changed drastically. From the image of the dour old man counting his stock certificates comes the new investor, which includes your employees and people like them. The middle class has finally got into the act by becoming major stockholders themselves. These people, often personally affected by layoffs, will not look at your company in a positive light *unless* it is clearly communicated the steps the company is taking and demonstrates downsizing as one of those steps.

**Make Downsizing A One Time Step**

It has been decided that downsizing is a necessary component of the company’s restructuring. Then do it right and do it once. There is nothing worse to the morale of a company than to have employees go through downsizing several times. This is not to say that it cannot occur in phases. Just make sure the phasing of the layoffs is planned then this is what is communicated. A good, proactive restructuring plan will make sure downsizing will only occur a single time. The total restructuring plan is for the future. Making sure the downsizing process only occurs once does not mean that the company will not need to continually revive itself in the coming years. Downsizing is for when the company is making major changes, not small incremental changes that the future will hold if the company will continue to be proactive. That
said, it is imperative that management take steps to ensure the downsizing is deep enough that it will not be necessary to downsize again. Conversely, making the cuts to deep will put the company in a position of having to re-staff (expecting the current staff to work 16 hour days is not only unrealistic but unethical). (Lombardi, 1997)

**Legal Issues**

Legal issues exacerbate the difficulty of downsizing. Anytime a company is severing itself from its employees (through individual firing to larger layoffs) legalities will necessarily intrude. This is one area not to skimp on. If done in a moral, careful way, downsizing should bring a minimum of legal troubles. Done incorrectly, you will face a tidal wave of litigation. Lawyers that are experienced in this area are a must and they should be involved in the total process (though not to the extent that everything from executive management sounds as if a lawyer is communicating everything). There are two bodies of law that will affect the company – state and federal. Your lawyers need to be proficient in both. Be aware of several key federal laws:

- **Title VII of the Civil Rights Act (1964)** which prohibits discrimination based on race, color, religion and national origin
- **The Age Discrimination in Employment Act (1967)** which prohibits discrimination against employees over 40 years of age
- **The Americans with Disabilities Act (1990)** that prohibits discrimination against individuals with disabilities (as determined by law). (Beecher and Schaeffer, 2001 paragraph 2)
Depending on the amount of people being laid off the company can be subject to class action suits (if for example the majority of your workers being laid off are over 50). The company will need plenty of data to support their decisions.
Focus on These Areas During Restructuring:

- Company Direction
- Employee Morale
- Laid Off Employees
- Company Image
- Customers
- Stock Holders
How a company handles the downsizing process is essential to the company's well being. The effects of downsizing will reverberate for years afterwards. The author's recent interviews with one company support this. 10 years after this particular company's downsizing, these survivors had extreme memories of what happened. The downsizing, to this day, still affected how they performed their jobs, the attitudes towards the company, and their overall relationship with the company. These people also are the carriers of the company's history, and in the course of working, would relate stories of the downsizing to employees who came after it. It must be stated that, in this particular case, the downsizing was done irresponsibly, unprofessionally and with many, many mistakes. The purpose of this chapter is to show how you can avoid these mistakes. But it must be acknowledged that no matter how well done a downsizing is conducted there will still be aftereffects. Doing it correctly will definitely help reduce these effects.

Where to begin?

As discussed in the previous chapter, the reasons and rationale for the restructuring will be the guide through the downsizing process. You have already determined what areas will need to be trimmed. Now comes the extremely hard part – who will be the employees to be let go?

Avoid common downsizing techniques such as strict percentage cuts (5% reduction across the board) or last hired, first fired. These techniques are merely reactionary and done with no thought whatsoever. A company that cannot think through this process is a company that does not have much of a future. While these measures can be considered rational – after all every department will be affected, not just certain areas. People, who have the least amount of time with the company, also have the least attachment. The message given to employees though is that the
company is restructuring, not just downsizing. Make sure this is not just lip service. The restructuring plan calls for intelligent downsizing.

Let’s go back to our shoe-manufacturing company. Company A is looking to sell their shoes directly to retailers instead of being an OEM. They will need to trim their manufacturing area because of the reduced amount of shoes being made. How will they determine which employee’s in this area to let go?

- Review employees who are eligible for early-retirement
- Review employees that have cross-departmental skills
- Review which employees are “problem” employees
- Review employees with low-rating reviews

Employees who are eligible for early-retirement should be offered such. Employees who can transfer their skills should first be seen if they could fit elsewhere in the organization. As for the next two areas: this is rightly considered “getting rid of deadwood”. However it must be emphasized that employees that fall into these categories should be, at all times, and not just during a restructuring, dealt with. After selecting employees that fall into these categories, what are left are employees that simply do their job. Some may be stellar, others performers. The difficulty is then in determining which individuals within the selected area must be downsized. A reality of downsizing is that it affects people who normally would be welcomed to stay with the company. Therefore, there is no easy answer in determining who will be laid-off. What must be done though is to make sure employees are downsized without regard to their tenure, rank, political connections, ethnicity, age, religion, etc.
That said, legalities will enter the picture. While the company must strive to make cuts without regard to the above, it also must make sure that it is not unknowingly reducing staff along certain lines. For example, your laid-off employee should not be overwhelmingly 50 plus in age. Lawyers will necessarily have to become involved. However if the company is conducting the downsizing according to set plans with demonstrated need, in an ethical manner, the threat of lawsuits is reduced.

After the determination of who will be the downsized employees, a plan must come into effect that will communicate effectively the entire downsizing process.

Preparation Managers

Senior management will be the people who are leading the restructuring. It is not only possible but also necessary for cuts in this area, as well as in the lower ranks. Asking people to engineer what may be their own job loss is difficult at best. It may be necessary to bring in outside help, consultants that are experienced in such matters. Keep in mind though consultants that have a reputation as “hatchet-men”. Consultants can certainly help in a variety of areas after being given the restructuring plan by senior management. These areas include: helping with organizing the communication plan, public relations (to employees, stock-holders, press and customers), administering the plan, and being a sounding board to senior management (Knowdell, Branstead and Moravec, 1994).

The CEO and senior management will be the first ones to bring about the restructuring message. It must be comprehensive, organized and truthful. In this communication effort include:

- What the company has faced in the market
- The company’s reaction and steps taken to the changing market
• The company’s direction

• The steps the company has taken to date to prevent layoffs

• The reasoning behind layoffs becoming necessary

• What the company will be doing for employees that will be laid off

• What the company is doing for the employees that will be staying

• Most importantly, the truthful, empathetic feelings that senior management has about the downsizing. (Knowdell, Branstead and Moravec, 1994)

Middle managers and supervisors will have the task of delivering the message to the rank and file employees. This will inevitably be an extremely stressful time, one most managers are not schooled or prepared for. They will need the support and leadership from senior management to help bring about the restructuring plan. It is also entirely possible that these people are not only delivering the message but also will be downsized themselves. In addition to the above information given from senior management, middle managers will need to know who specifically in their department is being affected, what other departments are affected and what their new role in the reorganized company will be (if they will be staying with the company) (Knowdell, Branstead and Moravec, 1994). In many cases, the middle manager will be helping to select which employees will be let go. This will put a tremendous amount of guilt and stress on their shoulders. At all times, as with all employees, professional counseling should be readily available. Additionally, they will be the front-line is controlling rumors, dealing with emotional employees and often the drop in morale and productivity. Many managers will want to avoid the responsibility of directly notifying employees, but again, to leave this just to the human resource department is a poor idea. No matter how bad the news, coming from someone they know well will be better than an acquaintance.
The manager should be prepared with relaying, once again, what the company’s problems are, the steps it is taking and the direction it is heading in. While senior management has already communicated this, hearing it over and over is not redundant, but a help in letting the reality of the situation sink in. Middle managers need to be prepared to answer tough questions that they will surely be confronted with. Such as:

- Why as I picked to be laid off? (Or why was I picked to stay?)
- Who else is being downsized?
- What is the effect on our department?
- What is the effect on other departments?
- How many people are being let go company wide?
- How were people selected to be laid off? (Was it objective and non-political?)
- What are the chances for the company’s success?
- Will this happen again?
- When are the layoffs effective?
- What is included in my severance package?
- When is my last day of work?

And they should be prepared for emotional questions such as:

- How will I pay my mortgage?
- What will my spouse/children think?
- How come senior management is so incompetent that they must resort to layoffs?
Middle managers will be confronted with a mix of emotions from employees that are laid off. They should be prepared for this and directed to be honest and supportive. Some emotions and their respective behavior are outlined below:

<table>
<thead>
<tr>
<th>Emotional</th>
<th>Behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shock</td>
<td>Silence</td>
</tr>
<tr>
<td>Immobilization</td>
<td>Blank look, tears</td>
</tr>
<tr>
<td>Disbelief</td>
<td>Shocked questioning</td>
</tr>
<tr>
<td>Denial</td>
<td>Debate, argument</td>
</tr>
<tr>
<td>Anger</td>
<td>Automatic verbal outburst</td>
</tr>
<tr>
<td>Bargaining</td>
<td>Pleading</td>
</tr>
<tr>
<td>Frustration</td>
<td>Depression</td>
</tr>
<tr>
<td>Grieving</td>
<td>Opening up/looking ahead</td>
</tr>
<tr>
<td>Resolution</td>
<td>Letting go</td>
</tr>
</tbody>
</table>

(In Knowdell, Branstead and Moravec, 1994)

In order for managers to handle the layoff notification, ample amount of information, support and training will be necessary. These managers should have time from their being notified of the downsizing, to the actual layoff notification. Professional consultants can help in the training. It is unwise to merely let the managers loose without any previous support. While an added expense, this training is well worth the money.
Downsizing Checklist

☐ Prepare Notice Letter
☐ Prepare Notification Timing
☐ Prepare Notification Area
☐ Prepare Severance Package
☐ Communication to Survivors
☐ Meeting for Survivors
☐ Notify Media
Conducting the Downsizing

Notice Letter

To begin with, a letter explaining and detailing the restructuring must be given to all employees from the president of the company, never from human resources. In this letter, individuals and areas that will be downsized will not be mentioned. This letter should come shortly before the actual downsizing is announced to affected employees. The time between original notice and implementation should be days, not weeks. In this letter, the day that people will be notified should be mentioned. When this original letter is released, employees will naturally be shocked. They will begin wondering and waiting. No work will be done. Every person will be thinking of themselves and their future. It is unproductive to the company and very bad for the mental health of people. On the other hand, not given some notice and having people report to work and be axed is also a morale-killer.

Timing of Notice

The downsizing should be conducting early in the week, and as early in the day as possible. Employees should be given the option of staying to say goodbye to their colleagues and to collect their things. There really is no rush to get the downsized employee out of the building as quickly as possible. The fear of sabotage is for the most part unsubstantiated. There is nothing worse that to leave your remaining employees the image of their colleagues being escorted out of the building by security. It robs people, previously a part of the family and a trusted employee, of dignity. Avoid this.
Where to Conduct the Notice

Notice should be given on an individual basis by the employees' direct supervisor. The tales of masses of people being called into a conference room and given notice consists of people who are anger, shocked and embarrassed with a bad view of the company. It steals a person's dignity to be told that they are downsized in front of many, sometimes hundreds, of people. This is a time for privacy. The office (and make sure it is an office with a closeable door without windows) where the notice is given should be a neutral place preferably not in the human resources department.

After Notice is Given

No matter the number of employees that are downsized, a strict adherence to a time schedule is bothersome. Downsized employees should be given all the time they need to let what has happened sink in, ask all the questions they want, and discussed the reason behind their being downsized. The person who is giving the notification should be the direct supervisors and as such will have a relationship with the employee. The supervisor should give the reasons behind the downsizing, why the employee was picked and what they can expect (details can be given by human resources). The supervisor should have permission to be honest and forthright and their feeling should be allowed to show. This is an emotional time for everyone involved and pretending that they are automatons is nonproductive. The supervisor should show compassion and state how they will be able to help the employee (often the supervisor has contacts in other companies and can put the employee in contact with those people). Besides detailing the severance verbally, make sure the supervisor has the appropriate details in writing. An employee who has just been downsized will often not absorb many details about what was told.
The Severance Package

By this it is meant the actual material package given to a downsized employee that they will take home to examine. In it should be:

- A personalized letter from the supervisor detailing the reasons behind the downsizing and the reason this person was affected. (sample letter - appendix)
- Date that employment terminates/last day of work
- Severance details (severance pay, pay due, vacation and sick pay-out, benefits and how long the company will provide them, COBRA details)
- 401k details
- Outplacement services available
- Counseling availability
- Letter of recommendation from supervisor
- Unemployment insurance options  (Knowdell, Branstead and Moravec, 1994)

Severance details/Benchmarking

The Lee Hecht Harrison Company has conducted downsizing surveys for the past 7 years nationwide. They have tallied the various severance packages given to the downsized workforce from a collection of various types and sizes of companies. Their findings include:

- Seventy-nine percent of organizations have severance policies or practices, and full-time employees at all levels are generally eligible.
- Severance tends to be based on a formula including years of service, although the higher the employee's level the more likely severance will be negotiated or specified in the employment agreement.
• When severance is based on years of service only, one week's salary per year of service is typical for exempt and non-exempt employees, while two weeks' per year of service is the median given to officers, senior executives and executives.

• Two-thirds of those companies set minimum severance payouts, with two weeks of pay the median for non-exempt (hourly) employees, three weeks of pay for exempts (managers, other salaried staff) and four weeks of pay for executives (VP, department head, directory, senior executives (EVP, SVP or equivalent) and officers (CEO, President, CIO, CFO, COO). ("Severance and Separation", 2001, paragraph 5)

Additionally, the finding of Drake Beam Morin (the number 1 rated outplacement firm) finds the following 6 areas in the majority of severance packages:

• Severance Pay

• Outplacement Services

• Medical Insurance Availability (paid for a period of time under COBRA)

• Vacation Pay (all unused vacation pay is awarded)

• Retirement Bridging (for employees nearing retirement, a few years will be added to their eligibility, for example 3 years awarded for service and 3 years for age)

• Stock Options (the ability to exercise vested stock options within a period of time).

("Seven Elements", 2002, paragraph 2)

With the majority of employers giving detailed severance packages, it is imperative that you notice what other companies are doing and follow the example. Use the above examples to benchmark your own severance package. Make sure it is compatible with what is being offered with your industry and what corporate America is offering.
Outplacement Services

The company should secure the services of an outplacement company. An outplacement company will not find new jobs for a downsized employee. An outplacement firm will, though, teach newly downsized employees effective means of finding new employment. In selecting an outplacement firm (or career transition firm) be sure to find one that is compatible with your workforce. An outplacement firm that does not have much geographic experience, for example, in your area will not be much of a learning opportunity for your downsized employees. It is best to find a company in your area that has knowledge of your company’s field. If perhaps the majority of workers downsized are technical, a technical outplacement firm is appropriate.

There exists many outplacement firms and you should be aware of the “big three”. They are of Drake Beam Morin, Right Management Consultants and Lee Hecht Harrison. Besides offering companies a myriad of services, these three deal with downsized employees in a professional manner. There are many different levels available. From group-type classes to one-on-one counseling. Depending on your employees needs, you will choose different packages. On every level, employees will be given lessons on how to effectively search for a new job (and perhaps a new career). Among the many areas covered are: exploring options, networking, resume writing, targeting employers, writing cover letters, follow-up, getting interviews, conducting interviews, evaluating job offers and list the goes on. Make sure that whichever firm you decide on, that they offer all employees the basics in teaching job search skills.

For more senior level employees, your company may want to enlist even more help since senior-level jobs typically take longer to attain than lower-level ones. For example, outplacement firms offer individual consulting, remote services and on-site administrative help for a longer duration of time. Take the time to invest in a good outplacement firm. The support they will
provide your employees and yourself is invaluable. Depending on your needs, you may enlist their help from start to finish.

Again, benchmark what other companies are doing in the outplacement area. Be aware that:

- Most organizations provide outplacement benefits to some employees at all levels.

- At a typical company, officers and executives are still given 6-month or 12-month programs, the majority of exempt employees are still given three-month programs or less; and most non-exempts receive group programs.

- Nearly half of organizations (49%) require employees to begin their outplacement services within a specific time frame, most commonly within 30 days.

(“Severance and Separation”, 2001, paragraph 9)

**Counseling options**

On a different level than career counseling, you may wish to provide employees on-going psychological counseling. We have discussed the need to have a counselor on hand at the time of downsizing, and it is important that people continue to receive care for this very difficult time in their lives. Most companies provide health insurance with mental health included. If this is the case for your company, then make sure your employees are aware of it. Health insurance is typically a continued covered benefit to downsized employees. Additionally, your company may already have an "employee assistance program". This would be an excellent time to use this service. Communicate to all employees (downsized and remaining) that these services are available for their use. If neither of these options is available it would be a good idea to retain a counselor to help for a short extended period of time (perhaps three months).
Communication Plan for Survivors

While the focus may be on the employees who are being downsized, the people who are being asked to stay with the company need to be involved in the entire process. This entails a strong communication plan. Just as there is never enough communication with downsized employees the same is with employees who are staying. Since these are the people who will be working and re-building the company, they are very important constituents.

We have already discussed many aspects of the change process and “layoff survivor sickness”. Now is the time to take proactive steps in laying out an effective communication plan for “survivors”. Before the actual downsizing is effected, all employees will be receiving the same type of communication. This communication details what is happening, where the company is going and how employees will be affected. Those employees directly affected by the downsizing received their own individual communications. After the downsizing, the surviving employees still need to be communicated with. Immediately after the downsizing is not the time for “work to continue as usual”. Work cannot be conducted as usual. People who are staying with the company will have many unanswered questions – some perhaps unanswerable at this time. Such as “will more lay-offs be happening?” If there are no more expected layoffs (and this should be communicated at the time of decision) then answer that. If there may be the possibility of layoffs in the future (and no matter how well done a reorganization is -- layoffs are always possible) then answer honestly. No more layoffs are planned but business changes may require more in the future. People want to know if layoffs are imminent in the future. Inevitably some employees will leave because of the downsizing but for many reasons employees will stay. It is now time to convince them there are good reasons to stay with the company. The need is to move people from being a “survivor”, to an employee that belongs to a redefined workplace.
Survivor Meetings

The initial survivor meeting may best be conducted by an external, neutral source. There will be many strong feelings and the need to express them. Having an internal human resource person present may distract people, cause them to be less outspoken or even react hostilely. If possible, have a representative from an outplacement firm available. In most cases this person will be experienced in dealing with survivors and the emotional aftereffects. There needs to be respect that job loss is among 3 major traumatic events that occur in people's lives. The other 2 being death and divorce (Knowdell, Branstead and Moravec, 1994). Along this line there is a psychological model by Elisabeth Kuebler-Ross that encompasses the “5 stages” stages of grief. These stages are denial, anger, bargaining, depression and acceptance. While survivors will still have their jobs to some effect the downsizing is like death in way. They mourn the “loss” of their colleagues. Having survivor meetings can facilitate healing and move the company forward. (Knowdell, Branstead and Moravec, 1994)

Survivor meetings should be limited to about 20 people. The company’s president should make the effort to address each meeting personally. At this time, the president should reiterate all the steps that were taken to avoid downsizing, what the company has and is doing for downsized employees and the new direction the company will be taking. The exchange should be honest and forthright. Any questions that are unanswerable at the time should be written down and answered when possible. The president then should be available for questions. After the question period, the president should leave so the meeting can be conducted in private. Now is the time for survivors to vent. The consultant can be passive or proactive if necessary and mitigate the exchange. Employees should feel comfortable in expressing their thoughts and feelings towards the company and their downsized colleagues.
The second step to the survivor meeting is “where do we go from here?” Clearly the outline of where the company is heading has been produced and communicated ahead of the downsizing. With the blueprint in hand the group (or groups) will need specific direction. The department managers that will be spearheading the reorganization are the ideal people to gather with the survivors. Keep in mind that these same department managers will also be going through the same turmoil as all the employees. The department managers will be matched with their new (or staying) subordinates and the purpose of this part of the meeting is to establish guidelines for going forward. Each individual, in many if not all cases, will be asked to reinterpret and redevelop their respective jobs.

After a restructuring, business should not be as usual. Everyone involved in the effort to change the company will need to be flexible about their work situations. This time should be viewed as a way for employees to be involved in proactive changes. If perhaps Fred always wanted to try his hand at marketing but previously he was in sales, this would be a good time to see if Fred’s talents are compatible in this new area. As the meeting progresses, employees should have the sense of a new challenge for themselves and career. While the changes will not always be welcomed, if the company views itself and employees as ambassadors for a new way of working, positive change will be happening.

Ideally the survivor’s meeting will take place the day following the downsizing. Realistically, the meeting will take place the entire day. While a good beginning, it certainly will not be possible to cement plans for individual’s workloads in one day. It will be a continuing process with trial and error. Know this and continue to hold progress meetings. Eventually the workday will begin to feel normal again instead of jarring. The major mistake companies make after a downsizing is to have surviving employees show up the next day as if nothing had happened. It is unfair, unrealistic and cruel to continue this charade. Whether addressed by the
company or not, employees will be sure to discuss the downsizing amongst themselves. It is better, more proactive and useful to hold an initial meeting after the downsizing. The first part will entail discussion of the employees' feelings, the second part the action plan. Both parts are equally important. Done correctly and respectfully, surviving employees will feel more included rather than a potential victim.

**Notification of the Media**

Though downsizing has become an almost ubiquitous happening, regardless of the size of a company the news media will be involved. If a local company is downsizing, the local media will be involved. If a larger company is involved local and national media will pay attention. If your downsizing is handled correctly there is not much to fear. If done poorly, a reporter will outline how badly done it was along with a personal story (or stories) of employees affected. The potential backlash is what companies will want to avoid.

First, before any media notification, all employees should be told well ahead of time. There have been too many instances where employees have found out about imminent downsizing by reading the morning paper. The best scenario is for employees to be told that downsizing will happen in the near future (and a specific date is best). Then the media can be notified. The worst scenario is to tell employees that day and have them pack their bags. This will let surely give reporters a lot of interviews.

Keeping these ideas in mind, how best to notify the media? A short news release is the best answer. If necessary (depending on company size or local impact) the president will need to be available for a press conference and/or interviews. The news release should be to the point and specific. It should detail how many employees were affected, what steps the company took to avoid layoffs (and there should be several), how the company is helping those employees and a
sincere statement that the president regrets the need to downsize. The news release should be professional written and careful to avoid anything incendiary. The media in all likelihood will directly use a quotation from it or paraphrase the news release. It does not matter who your customers are (the general public or other companies), they will be listening to the media. It is best to be proactive to control rumors. Any poor public relations will be detrimental to the company.

CONCLUSION -- What Happens Now?

The company has gone through a downsizing. Things are not the same (and never will be) but business is progressing in a new area. It may be simple to breath a sigh of relief and press onward. Not so fast. How effective was the downsizing? Did employees receive proper communication? What is the status of employee morale? Is our company now on the right track? What can we do to prevent downsizing in the future? All these questions need to be evaluated and paid attention to.

First the communication process can be analogous to a public relations campaign. The simplest way to measure effectiveness is to ask. Ask employees that have been downsized how they feel about how the downsizing was communicated. Not how they feel about being downsized but about the information they received. Did it give them adequate information? Did they understand the steps taken to avoid it? Do they feel it was equitable? Do they understand why their particular job was affected? These questions will provide invaluable information on how well the downsizing was done. If there was an area that was neglected this will jump out quite clearly. The reason behind these questions is for the good of the company’s future. Remember that the downsizing can reverberate for years to come. Demonstrating a willingness to learn will reward the company and avoid a dreaded reputation.
The second step is to address the employees that are staying. Ask similar questions about their communication experience. Additionally add if they understand where the company is heading? Do they know their new duties? A company-wide confidential survey should be undertaken at different times. A few weeks afterward, six months and again a year afterward. Is the morale improving? Getting worse? How is the workload? Overworked? Under? A bona fide fear of employees is that they will be overworked for the same pay. A good restructuring plan should provide to avoid this. Yet it is important to make sure this is the reality.

Questions should be pointed to the outside as well. Are your customers being serviced properly? How do they feel about how they are being attended to? How does the media now view our company? Potential employees? Continue to ask these questions. Evaluate the company on a regular basis.

These questions encompass the qualitative area. But do not forget the quantitative. Use this means to measure the effective of the restructuring also. Depending on what area the restructuring focused on is where you will want to point you attention too. How quickly are customers addressed? Has sales increased? Are our customers receiving their goods on time? Have expenses been reduced? Are profits up, down or stagnate? Benchmark your company against others in your industry. Ask, as the former Mayor of New York City was famous for “How am I doing?”

A final step is to ensure a need for downsizing in the future is avoided. Perhaps the downsizing came about because the company became bloated. Focus to keep headcount on a realistic basis. Not too many employees but not too few that you have accompany of exhausted, disgruntled workers. Of course businesses need to be ever evolving, sometimes because of a need
to go in a different direction a company needs to restructure. While restructuring downsizing may be necessary. But as it has been said before take the steps to avoid downsizing. You have hired, trained and retained valuable employees. Have a work atmosphere that promotes flexibility, movement and cross-skills for several areas. Invest in employees and you will have a workforce that can accomplish a great deal. Avoid investment and be prepared to have a dysfunctional company.

The future of the workforce in the United States is steadily progressing away from a “father” type relationship to one where workers are in charge of their own careers. This will make it more difficult for employers to hire highly skilled and experienced people. How can a company retain high quality people?

- Cross training on the job
- Temporary assignments in another company location
- Career assessment and planning workshops
- Rotating team assignments
- Task force leadership (chairing a charity campaign)
- Mentoring
- Involvement in special projects (Knowdell, Branstead and Moravec, 1994)

Move the company from a paternalistic to a self-empowering one. This will help bring and retain the proper talent that the company needs as it moves forward into a new and healthy future.
Handbook Appendix

Sample Downsizing Notice Letter

From: CEO/President

To: All Employees

Date: April 30, 2002

Subject: Notice of need for Downsizing

It is with sadness that I need to inform you that XYZ Corporation has to take the step of employee layoffs. As you are aware, business has continually been poor. We have recorded a loss of $24 million this past quarter, following a loss of $10 million the previous quarter. This deficit stems from the overall economy and specifically the loss of Widgets Inc. as our primary customer.

We have taken many steps to avoid this position including:

- No discretionary spending
- Only essential business travel
- Managers have taken a 10% pay cut
- No hiring of temporary workers
Though these measures have helped, unfortunately they are not enough. In order to keep being in business we must take the necessary step of reducing staff.

I want you all to know that I personally will help in anyway possible. We have a team of people that are skilled in this area and they too will ensure that this transition is as painless as possible.

It is my heartfelt appreciation that all of you have tried so hard to make XYZ’s continuation a reality. I want to thank you for your efforts and continued support.

CEO/President
Sample Employee Notice Letter

May 5, 2002

John Doe
Address

Dear John,

Following the extreme downturn in business, we have no choice but to eliminate your position effective May 6, 2002. Please be assured that this layoff is in no way a reflection of your commitment to your job. We appreciate the hardwork that you have given us during your tenure here.

In recognition of your service please be aware of your severance details:

$8,000  For 2 years service (2 weeks/year)
$2,000  Pay due
$1,500  Unused Vacation/Sick (6 days)
$11,500  Total

You will be receiving your severance payment on your last day. Additionally we will be covering your health insurance for two months after which time you may elect to continue coverage under
COBRA. The amount for your coverage is $220/month. Attached please find the details on COBRA.

We have also enlisted the help of Drake Beam Morin, who can help you with your job search. A 3 day conference is scheduled for next week. Attached are the full details.

I want to personally thank you for all that you have given this company and I wish you well for the future.

CEO/President
Chapter V

SUMMARY

At the beginning of this research project, the author had her own opinion on how a downsizing should be conducted. The author is happy to see the research supported her hypothesis. Additionally, the author hopes that corporate America and its personnel have seen enough of an unthinking reaction to fiscal problems being a downsizing. She has uncovered many various ideas that a company can try before a downsizing is necessary. Many employees have given her feedback that they are more than willing to do what it takes to keep the company in business and also keep people’s jobs. This encompasses even such drastic measures as salary cuts or reduced workweeks. The caveat is that senior management must be willing to do the same.

Conceding that downsizing may be necessary for a company’s future the key to a “good” downsizing versus a “bad” one lies in one simple word: communication. Companies that took extreme steps to communicate about the downsizing, though few, fared much better than companies who kept the downsizing secret. Besides communication, companies must have respect. Many companies feel that as long as they are paying severance, that is the only step they must take. Nothing can be further from the truth. Having worked for a company that had downsizing 10 years prior to her arrival, the author was struck by how strongly people still felt about the downsizing. It was still having an effect on employees a decade later. For those employees who had survived the layoffs, there was no trust for the company. In essence the company had many employees who had zero loyalty to the company and looked at their place with them only as a job. Why did these people stay? For the most part these are people entering their retirement years and being in their fifties at the time of the downsizing felt their opportunities poor elsewhere.
This company though having a decent severance package, shrouded their downsizing in secrecy and little respect. People were either told their job was eliminated or not told anything at all. They were literally out the door in under 15 minutes. No reason for the downsizing was ever clearly communicated. This, the author feels, is a major reason this company still has very poor employee morale.

Having also personally survived several downsizings (until finally downsized herself) the author can without question see how a poorly handled layoff affects the remaining employees. This particular company is a shell of its former self and still heading downward. Downsizing is a tremendously stressful event for people and corporate America’s almost laissez faire attitude towards conducting downsizing is disheartening.

Stockholders seem to drive the pressure for layoffs. Since more people are stockholders themselves they should realize that they have some responsibility in the prolificness of downsizings. As stated earlier, this upswing following a downsizing is temporary. Most companies do not give a good return on investment after a downsizing.

Change towards the need for downsizing does seem to be in the air though it may be many years before the majority of corporations realize the advantage towards alternatives. Hopefully in the near future the popularity of downsizing will be looked at as a bad late 20th/early 21st century exercise in futility.

Future Study

A large ethical question looming among the downsizing phenomenon is the connection between an ever-increasing CEO salary not being balanced by employee work security. Future
study should involve how and why the CEO’s of corporation can command such huge salaries and benefits while slashing their employees’ jobs. The first step to stopping the hemorrhages of jobs in corporate America should be the accountability of CEO’s to their employees’ livelihood. Secondly, the changing face of employment in the United States. More and more people are becoming self-employed. Whether as business owners themselves or as consultants. The biggest drawback and the one large reason many people are not free agents are the need for health care. Since health care is such as large expense it is difficult if not impossible for people to sever their ties totally with corporations. Study in this area is also warranted.


http://www.time.com/time/archive/preview/0,10987,1101010416-105617,00.html?CJOID=


http://www.businessweek.com/print/magazine/content/01_41/b3752712.htm?mainwindow


Cascio, W. Author.