“Rightsizing” the Right Way

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A recent spate of newspaper headlines has proclaimed the woes of businesses across the nation. Not surprisingly, companies are responding to the economic slowdown by scrambling to show Wall Street that they can control costs. Unfortunately for many Americans, the one sure way to reduce overhead quickly and grab Wall Street's attention is to reduce the workforce. The headlines appear even more dramatic than similar announcements in the late 1980s and early 1990s, for a variety of reasons. For one, there were so many companies announcing layoffs in those years that the American people became somewhat inured to the process. Also, we have just completed one of the longest periods of economic growth this country has ever seen. In fact, no American under the age of 30 with a four-year college degree has ever endured a recession from the nerve-racking and helpless perspective of an employee. For the past ten years the only worries many of these employees had were how much of a signing bonus to hold out for, how much to stash in the 401(k), and when to exercise their stock options.

It's not just our collective loss of memory that has magnified the psychological impact of the latest spate of layoffs. After the large-scale layoffs of the nineties, many business consultants proclaimed we would probably never see such bloodletting again, because companies had learned the lessons of being lean and mean. Global competition would ensure against bloated organizational structures. Now we are forced to reexamine these assumptions.

It is time for American businesses to rethink their layoff strategies as well. You might expect that the experiences of the nineties would have taught us a few things, and maybe they have, but media reports certainly don't reflect those lessons. Take, for example, an article in The New York Times quoting a spokesperson for a union of technical workers in Seattle, who describes the "dot-com layoff formula": "misleading company statements; inappropriate notification; impersonal, en-masse layoffs; and utter disregard for employees' feelings."\(^1\)

But those are just a bunch of renegade start-ups that don't know any better, right? Maybe so, but for larger employers the issues associated with layoffs take on a significance proportionate to the size of the company. Take the issue of timing. When Daimler-Chrysler AG, Nortel Networks, Procter & Gamble, Cisco Systems, and General Electric, among others, announce layoffs months before they know when or how many workers will be let go, hundreds of thousands of workers are affected by the ensuing apprehension and anxiety.
Which is not to say that an early announcement is always wrong. Some companies make that decision based on a clear-headed strategy for engaging employees early in the reinvention of the company (see sidebar), and/or an ethical commitment to providing as much notice as possible. But others go right to the media, in a rush to show Wall Street they are taking tough approaches to overcoming a troubled stock market. Still others are just complying with the federal Worker Adjustment and Retraining Notification Act (WARN). And then there are those companies and leaders so new to the whole process that they tend to proceed from a base of ignorance as to what impact their actions will have on future relations with employees.

**An OD Approach**

Mass layoffs go by many names—downsizing, rightsizing, restructuring—but regardless of the moniker, they should be thought of as a change process, to be implemented with the same thoughtful, systems approach as any other major organizational development (OD) initiative. Don't simply say "We need to reduce head count." Take the time to see how you can best achieve the goals of the reduction (lower operating costs, increased efficiency and effectiveness of services, streamlined hierarchy) given the company's culture, heritage, and business cycle, and the talent it needs to go forward.

Through this whole process, but especially during the initial stages, HR executives can play a valuable role by helping the organization think through questions such as these:

- How will employee morale be addressed during this process?
- How will life be different for the survivors?
- Is this a one-time deal, or will there be several iterations to go through?
- What will happen to the company's development programming and succession planning?
- How will the reorganization affect authority structures?
- What will happen to the company's image and management credibility?
- How vulnerable to legal challenges will the company be?
- How will jobs change? Will the work itself change? Does the company have the right staff for the remaining work?
- How will the stockholders respond, especially if a large percentage of them are employees?
- Will the contemplated actions make a positive difference?

**Downsizing Strategy**
What can the HR executive actually do to guide the organization through a downsizing process that is smooth, humane, and, most important, effective in achieving the company's goals? Here are some step-by-step guidelines.

1. **Clarify the desired end state.**

Verify that downsizing is really the best solution and, if it is, how the organization will change to get the most out of it. Facilitate meetings with senior management to review the corporation's mission and strategic direction. Determine, as best as you can, whether the situation provoking the layoffs is a temporary reaction to market factors or a longer-term business challenge to the strategic direction of the business. Challenge management to define the situation and how their decisions will address the problem areas being faced by the company. Encourage them to think beyond mere head-count reductions; this is an opportunity to reposition the company to meet future business demands. The goal should be to become more competitive, not just smaller.

Do some "visioning" exercises with senior management. Get them to articulate how the company will look and perform after the changes and why that will be better than what they currently have. Don't be afraid to challenge them to do some real breakthrough thinking. Talk to them about discontinuous futures and reengineering work processes. Help them see the full consequences of the various options open to them. Don't let them get away with assuming that they will just do the same things but with fewer people. Also, discuss the corporation's values in the context of the downsizing and how those values will guide your actions.

Then distill these discussions into a statement of goals and principles that will serve as management's touchstone throughout the downsizing process. For example, "We will conduct the business with concern for employees while maximizing productivity and return to shareholders." From here on out, every decision should be tested against this statement.

Look at alternatives to downsizing before automatically concluding that you need fewer people in the organization. A Wall Street Journal article in the early nineties quoted a survey among more than 1,200 companies that when it came to restructuring, laying off employees was the number-one method utilized. Only 6 percent of the survey respondents had first tried cutting pay, while 9 percent had shortened the workweek and 14 percent had developed job-sharing plans. Given today's economic climate, we doubt that the figures would be any different.

If you must cut jobs, be realistic about the numbers. Serial job cuts, prominent in the nineties, is a strategy best avoided if at all possible. For example, Xerox eliminated 2,000
jobs between October and December 2000. Since then, the company has announced that it would eliminate another 4,000 jobs by the end of the first quarter of 2001, and that there will probably be more cuts as the year unfolds. While there may be good business reasons to phase the layoffs, for employees it is a real demoralizer.

2. **Take the human element into account.**

Once financial decisions have been made, consider the human element with the same degree of intensity. Typically, business executives believe they can and should approach downsizing as a mathematical exercise, but, apart from the ethical considerations, business realities make attention to human concerns a critical step in the ultimate success of the program. For one thing, the job market is still relatively tight, especially with respect to certain skills. If surviving employees don't perceive that their former colleagues are being treated with dignity, they will soon express their dissatisfaction, possibly by leaving the company. And if the layoff is motivated by a short-term downturn, when the company's fortunes reverse you may need to rehire many of those you just laid off. Those who left with their pride intact will be more likely to consider favorably an offer to return.

Many approaches can be offered on a voluntary basis. Older workers and second-income earners may like the idea of working a reduced workweek. Offering early-out programs is also popular, especially for those nearing retirement. And don't forget that nineties buzzword—"reengineering." It just may be that operations did become a bit bureaucratic during the past ten years.

3. **Develop a communications plan and designate someone as the sole contact.**

The statement of principles will be a central feature of initial communications, which should publicize reasons for the change and position it as a positive, even creative, activity. But don't expect to be able to spin away unpleasantness. Acknowledge the pain, while being clear about why it is necessary and what the ultimate payoff will be.

The intent here is to preempt misinformation, both internally and externally. Steve Grady, Emusic's senior vice president of marketing, concedes that Emusic didn't do the best job of internal communication during its first round of layoffs last year. Consequently, the company spent most of its energy dealing with those being let go. When more layoffs became necessary in January, management approached them as a hardship for the entire company. "We wanted everyone to understand why the cuts were needed and how the decisions were made," Grady says. This approach is in sharp contrast to that experienced by employees of PricewaterhouseCoopers who got pink slips in January of this year. Complaints on Internet message boards from former PWC consultants describe a lack of
communications from partners, short notice, and the indignity of being escorted out of the building the same day.²

4. Make "who goes and who stays" decisions judiciously.
Do compatibility studies. Identify employees who fit the new organization and can thrive in it and why. Discuss what to do about those who don't fit. Remember, not all jobs diminish in the same ratio to revenue decline. Can those who continue with the company handle the accompanying stress and new directions that may be required?

Review performance records, development plans, and HR records with an eye on affirmative action, age discrimination, and other areas of potential legal impact. Results of this review will affect almost every HR decision to be made from this point on.

When faced with the need for layoffs, unfortunately, many companies have felt that they needed something other than their ongoing performance appraisal system to guide them. Apparently the regular performance appraisal process in these companies didn't provide enough differentiation among employees, making layoff decisions difficult. Consequently, some companies are instituting the popular approach of forced rankings. If rankings are used, however, make sure they are not applied to groups that are too small and that criteria are clear and job related. Ideally, any revisions of the evaluation process should happen before there is a crisis. The danger of changing the evaluative process in midstream should be obvious. Any incongruities with past ratings that are part of the employee's personnel file are an open invitation to problems, including potential legal action.

This doesn't mean that one should not look at alternative means for ranking employees or using some other means for determining who will be laid off and who will stay. It simply means that one needs to conduct thorough reviews of managers' "layoff lists" for potential legal exposure.

5. Manage the rumor mill.
By this point, the employee population will be buzzing. It's important that the organization take steps to control the amount of misinformation. This will most likely become a function of your communications department, which means that you will have to take them into your confidence and keep them fully informed about what is happening. Remember, the employee population will fill any communication voids left by management. Approaches needn't be limited to a hot line, supervisory meetings, or special newsletters. You've asked others to be innovative, so let your communications group have the same freedom.
Daimler-Chrysler AG's U.S. unit, which intends to lay off 20 percent of its workforce, amounting to 26,000 people, over the next three years, is using a wide array of internal outlets—including an internal television network, daily newsletter, and bimonthly "tabloid" magazine—to communicate details of its plans. Salaried employees can also get information through the company's intranet service. The intranet can also be an effective tool for monitoring employee reactions and intercepting rumors before they get out of control. Some companies establish a bulletin board where employees can post their comments, complaints, or anxieties about the downsizing. On a regular basis, a company representative reviews the postings and issues explanations. A word of caution, though: Don't use this approach if you are easily offended. Intranet anonymity gives some employees the feeling that they can readily vent on the bulletin boards. Four-letter words and other unkind epithets are common. After all, most people don't look forward to being laid off.

6. **Provide a road map to follow.**

How are people going to know when they've gotten there if they don't know where they're going? Like any journey, this one calls for a road map—all the more so because the quality of the experience along the way will determine whether or not the destination is ever arrived at. Without an itinerary and road markers, unit managers will head off in their own direction, making attainment of the mission and restructuring plan more of a miracle.

Successful road maps include performance evaluation and review techniques (PERT), GANTT charts, procedural manuals, or other formal documents outlining steps to be taken, by when, and by whom. Make sure your documents spell out specific review steps and authority parameters. The time for innovation was back in the planning stages. Once you set your managers on the road, you want them to stick to a direction and timetable.

7. **Develop systems to smooth transitions.**

As with any change process, there are going to be some turbulent times ahead, for individuals and for business units. To minimize them, you need to have your systems in place and ready to help employees and managers with the transition. Each system must be flexible enough to allow for the variables that will undoubtedly come into play.

Transitional programs to be considered include

- Early retirement: policies and window periods, financial-planning support
- Termination policies and procedures: severance pay, release documents, removal of personal property, continuation of salary and benefits
- Outplacement assistance for those leaving the company
• Career development for those staying: selection processes for retraining opportunities, training and education in competencies required by the new environment
• Staffing: procedures for filling jobs that have been redesigned or vacated voluntarily, revised job and competency descriptions taking into account demands of the new environment
• Coordinated salary programs to allow divisional/unit transfers

This is also a good time to ask whether any managers are thinking of allowing some employees to have extended termination dates because of business necessity, or whether they are thinking about bringing back laid-off employees in temporary or consulting positions. If so, you will need written guidelines. A further word about outplacement assistance: Whatever extra help you can give terminated employees in finding new jobs usually pays off in public relations. Some companies reach out to other employers in the community. At one of its manufacturing plants Motorola teamed up with the local economic-development committee to find job leads for affected employees, and hosted a job fair with more than 40 local employers. When Hallmark Cards had to reduce its workforce at a manufacturing facility in a small town in Kansas, it had the state's job service people on premise the day layoffs were announced. A small employer in New Jersey even convinced the state unemployment people to come in at midnight to talk to the third shift. These extra efforts went a long way toward creating goodwill with the local community and the affected employees.

8. Do it!
Whatever your organization has decided to do, do it and do it swiftly. With all the advance planning completed and communications underway, now is not the time to vacillate. Employees can sense when something is about to happen. If the process drags on, morale and productivity will suffer even more.

Designate an overall coordinator for the implementation plan. This person becomes the focal point for ensuring that everything occurs on schedule and according to plan. Remember, though, Murphy is alive and well and will undoubtedly surface. Above all, your coordinator needs flexibility.

If the coordinator (or, in a large organization, the coordinator and his or her lieutenants) needs some room to make adjustments for unforeseen circumstances, managers implementing the restructuring throughout the organization must ensure consistency and equity. Publish your strategies along with the policy and procedure manuals. Then train your key implementation staff on what to do and how and when to do it, including how the downsizing policies are to be integrated with other business policies. Lucent
Technologies now requires managers to attend formerly voluntary training on how to conduct layoffs. For its recent round of layoffs Getronics Government Solutions devised a rigorous 50-day schedule during which executives learned how to break the news sensitively and to deal with the emotional reactions of layoff victims.

Most outplacement consultants agree that it is best to talk to affected employees face to face before they find out their fate from some other source. Even so, we still hear stories like the ones from Amazon.com, which used E-mail to lay off some telecommuters, and from a New York Times Company subsidiary, where employees heard about layoffs in their unit by reading an article—in The New York Times! Certainly you don't want your downsizing to be the stuff of media stories about insensitive corporate employers.

How the actual severance process is handled is extremely important to both the departing employee and the survivors. Treat those leaving with respect and consideration. Conduct exit interviews to review severance information and benefits continuation plans and to answer questions. Above all, promise only what you can deliver. And remember that bad individual experiences during the layoff process occasionally lead to devastating workplace violence. While such incidents are rare, they are too real a risk to ignore.

9. Attend to morale of surviving employees.

A natural depression, even guilt, settles over survivors of any disaster—which is how employees view mass layoffs. Expect them to grieve the loss of friends. Expect them to feel guilty about being a survivor. Expect that productivity may suffer for a period of time. The challenge at this point is to minimize the grief and the resulting loss of productivity.

This is not the time for management to go into hiding. People are looking for reassurance, and management is in the best position to provide information on the future of the business. Get your top executives visible to the rank and file. Send a memo to every employee stating that the layoffs are over (if that is truly the case). Re-explain why the layoffs were necessary and the role of the survivors in moving the company forward.

If possible, conduct information sessions, such as auditorium-style employee meetings or web casts, where large numbers of employees can hear the same message at the same time. These large-group meetings can be supplemented by small-group sessions where surviving employees can vent their concerns and ask questions they might not ask in larger group. To prevent chaos, however, make sure that a skilled facilitator is in charge.

Continue with your other communications programs started earlier in this process, especially rumor control. Keep in mind that the integrity of the organization is represented in each answer, so answer all questions honestly, forthrightly, and accurately.
There is a delicate balance between positioning events in a positive light and acknowledging legitimate employee concerns. Employees have very finely tuned "spin" meters. Company pep talks will be shrugged off as so much more bull if they ignore employees' doubts and concerns about such real organizational issues as depleted resources, overwork, or insecurity about the future.

10. **Check results, celebrate achievements.**
Companies typically measure the success of their downsizing processes by the number of lawsuits they receive for wrongful discharge or discrimination, the number of essential managers who resign or stay, the attitude of released workers, and the cost of the entire process. While these are important considerations, other measures distinguish the world-class organization. You can claim true success for your restructuring if

- The human resources development was strengthened during the transition.
- Management and authority structures were integrated rapidly and with minimal disruption to the organization.
- Productivity has increased through a better match of employee skills and organizational needs.
- Management credibility and company image were preserved.
- The way in which work is done has become more efficient, while interactions with customers were maintained or even enhanced.

Throughout the process, keep employees informed of the progress the company is making toward meeting its mission statement and business plan.

Finally, take time to celebrate. While that may seem strange under the circumstances, it's important that surviving employees be able to rally around positive accomplishments. Let people know that milestones are being achieved, and recognize and reward them for individual efforts.

Corporate downsizing is a painful process. The goal is to create an organization capable of meeting the competitive needs of the world marketplace while minimizing human suffering. Human Resources involvement from the onset of planning is crucial to a successful change process. By adhering to the mission of change and the organization's overall strategic plan, HR can address employees' concerns about the company's future while encouraging their commitment to making the process work.
A Case In Point

When Tom Stephens took the reins as CEO of MacMillan Bloedel, one of Canada's largest forest-products companies, he faced high labor costs, a dysfunctional labor relations environment, and a terrible safety record. As a result of poor economic conditions and low productivity, the company was "bleeding red ink." Stephens determined that to regain profitability, the company would need to go through some painful restructuring that would include job cuts.

Stephens was careful to announce the decision to employees first, before talking to any outside media. He promised that the number of job cuts would not be arbitrary, but determined by careful planning. He pledged not to drag out the changes. Most important, perhaps, he was very clear that the downsizing was part of a bigger strategy to turn the company around.

From the beginning, the MacMillan Bloedel internal communications strategy stressed dialogue. The communications department set out to "establish a culture of two-way communication through the direct, face-to-face engagement of management at all levels," starting with the CEO. Stephens visited sites unannounced and met with employees individually. He also posted his voice-mail number, responding to many of the employees who left messages with personal phone calls to their homes. All others received personal letters responding to their concerns.

Meanwhile, the communications department used a variety of vehicles to report progress of the restructuring program. They established a rumor hot line to respond quickly to the grapevine. Through it all, the watchwords were speed, fairness, and respect.

And employees responded. The company soon reversed its performance, leading the industry in safety and posting eight consecutive profitable quarters (despite declining prices and demand) before being acquired by Weyerhaeuser, which apparently recognized a good business when it saw one.

What are the lessons to be drawn from MacMillan Bloedel's experience? Virginia Aulin, who led communications efforts during this time, points to four:

- Communicate the business necessity behind the strategy.
- Be very open about why downsizing is necessary by sharing facts and financials.
- Start communicating as soon as the need for downsizing is apparent, even if you don't know all the details.
- Develop themes and communicate them consistently.