

Dealing with the Downs



DOWNGRADING ■ DOWNSIZING

Using Value-Based Approaches to Effectively Manage Change

By Freda Powell

At a time when companies today face many market changes and economic challenges, the allure of reporting strong earnings sometimes leads to the implementation of downsizing strategies as a so-called necessary corporate solution to mitigate financial problems. Yet, the turbulence caused when a company downsizes its workforce, not only displaces employees, but places unusual demands on human resources personnel. For their efforts to be successful in maintaining a healthy corporate culture in such an environment, these professionals must understand the effects of downsizing

on the survivors – those employees who remain. How should human resources executives handle the impact of downsizing? What implications and strategies should be considered to demonstrate genuine interest in the development and performance of remaining employees?

Scholars define downsizing as an intentional management action involving a reduction in personnel designed to improve a company's competitive position in the marketplace. To understand the impact of downsizing in the United States, one needs only

to reflect on the news headlines of a tumultuous upward spike in downsizing episodes throughout the decade. The words on the February 2001 issue of *Newsweek*, "Laid Off: How Safe Is Your Job?" were an ominous prediction of a series of corporate downsizings.

In that *Newsweek* article, authors Daniel McGinn and Keith Naughton quoted a spokesperson for one of the firms that was laying off 400 staff. The spokesperson described the situation as "a periodic rebalancing of the skill sets of our work force." The reality

is that some companies today, when faced with poor economic performance, use downsizing as part of a cost savings strategy. For example, in December 1999, Eastman Chemical Company laid off 1,150 employees, a move that was part of an overall downsizing project by its parent company, Eastman Kodak, to decrease global staffing by 20,000. From 2001 to 2002, notable companies resorted to mass layoffs, including Boeing, American Airlines, IBM and Sears.

By the end of 2001, *Fortune* reported Fortune 500 companies with cumulative layoffs of more than 1,040,000 positions with an additional 255,260 layoffs reported by April 2002. Furthermore, this same report indicates in 2002, approximately 80 million new jobs had been created since 1982; while nearly 40 million jobs had been eliminated. Today, with the U.S. in the early stages of recession, the uncertainty of future economic growth is made more difficult with layoffs affecting even the most once prosperous companies such as Starbucks, Sprint and Wachovia.

But, behind every downsizing, there are both victims and survivors. The question human resources development professionals, in particular, must respond to moving forward is: What happens to the survivors? Companies must now focus their attention on the survivors. Organizations place priority on retention because keeping experienced and skilled employees saves on training costs. Furthermore, management needs to communicate effectively its desire and commitment to retain high-performing individuals along with those who have the greatest potential for performing in the downsized organization. Research on survivors' loyalty perceptions shows that employees stay as long as the working conditions are suitable, the pay is commensurate with the marketplace, training is available and opportunities for advancement are attainable.

As the next decade approaches, managers must concern themselves with employees' loyalty. In general, managers have been incapable of wrapping their arms around the loyalty factor. As downsizing continues, employees will challenge management and human resource managers to put a stop to declining survivor loyalty, which affects

the health of the whole organization. Downsizing has severely changed forever the work environment and how employees perceive their commitment to organizations leaving a host of real issues to contend with including employee involvement, employees regaining control and employee need for job security.

Therefore, to effectively deal with employees during downsizing engagements, companies should employ value-based management that focuses on the people. Managers should focus on certain values such as altruism, honesty, trustworthiness, open communication, autonomy, human dignity, social justice and integrity.

A SNAPSHOT OF WHO IS DOWNSIZING - THEN AND NOW			
2001	CUTS	2008	CUTS
Boeing Company	2,900	AT&T	4,600
BAE Systems	1,700	Continental Airlines	3,000
Isuzu Motors	3,300	Office Depot	2,000
IBM	1,180	Starbucks	1,000
Sears	4,900	Wachovia Corporation	6,350

SOURCE: USA TODAY, ASSOCIATED PRESS, AND MULTIPLE LOCAL NEWS SOURCES (SEE NOTES)

When Downsizing Hits Home

In talking with a friend of mine, she shared her own personal downsizing experience. She had worked for a company 12 years when management decided that it wanted to try an outsourcing engagement in order to reduce costs and increase profit. So, the company outsourced their IT division. This caused the termination of many jobs because the outsourcing company would only take the key positions and critical personnel from the client company. Several non-essential positions were eliminated. After two years, the consulting firm that acquired the client's resources decided to outsource their maintenance and support roles to India, Canada and Europe. This outsourcing decision again resulted in a downsizing and the loss of many more U.S. jobs.

For another colleague, however, his experience was different. He worked for a top Fortune 500 company. After being employed there for one year, his company cleaned house and eliminated top executives, replacing them with others to bring new ideas and new direction for the company. Their goal was to turn the company around and

look profitable again in the eyes of their stockholders.

So, with this new direction, the company underwent a major reorganization effort corporate wide. The consolidation of departments and reorganization of staff resulted in many layoffs, especially management positions. Some people had to decide whether to accept a severance package or accept being downgraded. He was also faced with this tough decision. I concluded, after talking to these two individuals and others, that one of the hardest parts of downsizing on remaining employees is the lack of attention to the remaining employee needs. This includes a lack of communication from upper

managers. This lack of communication gives way to rumors and speculation, which increases distrust for management. For both of the situations these two employees experienced, there was limited or no communication and the decisions came right out of the blue. They just hit – bam!

One of the hardest parts for the remaining employees was not knowing what was going on and not knowing if something was going to happen to them or how it would impact their role with the organization. This is why open communication must be valued.

In looking at open communication, we find that communication should be open, appropriate and timely. Communication should encourage open discussion even if the issues presented are controversial and contrary to management's point of view.

Ken Blanchard asserts that through values-based approaches to management, managers know communication is the oil that keeps the company operating smoothly. They seek to communicate frequently to employees

at all levels of the organization and to allow optimal opportunity for employees to communicate in any direction within the organization.

Downgrading Impacts Productivity

During a downsizing exercise, especially in information technology departments, many times the positions that are impacted the most are those where efforts are duplicated as a result of reorganizing staff and consolidating divisions, departments and roles. Also, non-billable positions with excessive overhead such as the support roles or core positions that are not billable to projects, and top-heavy management positions are impacted as well. This is to level or flatten the organization and reduce cost.

What about morale? When downsizing occurs, there is low morale on the teams. This often results from workload increases for those left behind. In some cases, the surviving employees consider the present work environment to be difficult and insecure. Survivors indicate that job insecurity is a major job related concern. Out of guilt for the downsized or downgraded staff members, they are concerned about job security, lack of stability and impact from constant change. In other words, those remaining in the organization feel stress about their jobs.

However, the aftermath of downsizing can also provide employees with greater autonomy and participation in decision-making, which leads to more interesting work and greater job satisfaction. As Jim Clark and Richard Koonce indicate in their article on organization survivors, effective survivor programs will focus on employee empowerment and reestablishing loyalty. To foster organizational loyalty, management must consider effective methods to meet survivors' needs, they must communicate with them, they must allow them to participate in right decisions, and they must recognize, develop, and continue to motivate survivors.

Importance of Value-Based Management

To empower employees and cultivate loyalty, management needs to employ values such as altruism, human dignity and social justice. Through altruism,

managers show concern for the welfare of others and give full attention to the employees during change. Managers should work with professional support networks such as human resource partners, training and development, and employee relations personnel to meet the holistic needs of the employees. They should show empathy, respectfulness and enhance their self-esteem through words and actions.

The value of social justice is also important because managers' actions should be guided by moral, legal and human principles. During a downsizing engagement, they should provide equal treatment to all their employees. When a person is downgraded, there may be feelings of disloyalty. The employee feels that they may have done something wrong or they may feel embarrassment.



Their productivity may diminish as they start focusing more on themselves and not the job. They may focus their energies on reevaluating their careers and aspirations. They may start thinking of leaving the company because they feel cheated and that they have been wronged. Some even think of changing careers altogether.

By employing the values of integrity, honesty, accountability and commitment to learning, HRD professionals and should use this as an opportunity for people to be mentored and coached. They should be open to people pursuing avenues of interest. If the company supports its people during this period, they will be surprised how they may become more loyal to the company for allowing them to expand their skills and develop themselves.

Researches find that workers' satisfaction and commitment persist as long as the form of employee involvement in place

increases worker input and control in their jobs; and as long as management is perceived to be making clear efforts to enhance the future security of employee positions. In return for their commitment, survivors want management to provide avenues to discuss employment and solutions to employment issues. To that end, HRD professionals are key in helping managers cultivate programs that focus on empowerment, reestablish loyalty and assist managers with job designs that promote empowerment and internal motivation for remaining employees.

Workers must be trained to accept greater autonomy. They must have the skills necessary to increase skill variety and they must be capable of understanding and interpreting the feedback given to them. Furthermore, managers must be trained in how to develop the skills needed to empower workers effectively, provide feedback and redesign jobs so that a greater variety of skills can be utilized.

Empowered individuals believe that they are autonomous, that they have an impact and therefore tend to perform at higher levels. Managers who design jobs that create a greater degree of empowerment will likely increase motivation in the workplace and produce desirable results.

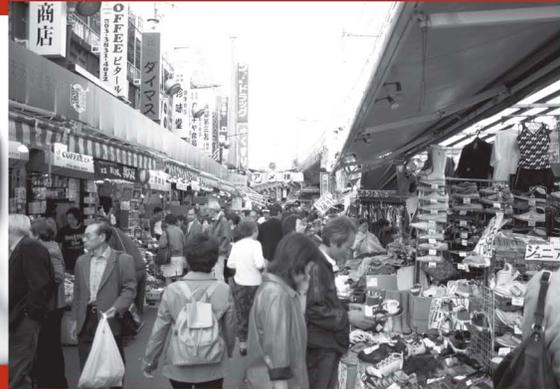
HRD professionals are essential in helping managers understand that a job design promoting empowerment and intrinsic motivation is more important than the impact of past or threat of future downsizing. They have a challenging role ahead of them in helping manage change effectively when downsizing occurs. Yet through continued research, dialogue and sound practice, they will be more capable at advising organization leaders in creating approaches to authentically deal with surviving employees of downsized organizations.

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Notes

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