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**MITIGATING THE DAMAGE TO TRUST  
AND EMPOWERMENT DURING  
DOWNSIZING**

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# **MITIGATING THE DAMAGE TO TRUST AND EMPOWERMENT DURING DOWNSIZING**

## **Abstract**

Since 1989, more than 3 million workers have been laid off annually from major corporations. Downsizing efforts are expected to continue, particularly in industries undergoing significant consolidation, such as aerospace, banking, and communications. While providing short-term returns to shareholders, companies are undermining the loyalty that they have built with their employees -- the loyalty that will allow them to emerge from downsizing as a leaner, more profitable company. We argue that if the implementation of the downsizing is not focused on mitigating the decay of survivors' trust and control typically incurred during downsizing, then downsizing activities are likely to impair competitive advantage rather than enhance it. This paper draws from the literature as well as from interviews of managers who have managed downsizings to identify strategies which mitigate the damage to trust and empowerment typically incurred during downsizing activities.

## MITIGATING THE DAMAGE TO TRUST AND EMPOWERMENT DURING DOWNSIZING

*"The real question is **how** downsizing is done, rather than **whether** to downsize. Companies that downsize through buyouts and attrition, that help their workers get new jobs, and that sometimes provide outplacement services, end up much better positioned than companies which simply wield the ax. (They have) a better chance of retaining the loyalty of the surviving workers. Trust is one of the most valuable yet brittle assets in any enterprise. So over the long term it's far better for companies to downsize in a humane way." --Robert Reich<sup>1</sup>*

The push for downsizing started in the late 1970s as a way to cut costs and improve the bottom line for companies in decline. Today, companies with record profits carry on the quest to become "lean and mean," anxious to "trim the fat" out of their organizations. The number of employees who have been downsized reflects the promises of higher productivity, better stock performance and more flexibility. More than 3 million jobs have been eliminated each year since 1989, for a total of 43 million jobs eliminated since 1979. To put this number in perspective, 50% more people have been victims of layoffs than victims of violent crime.<sup>2</sup> Downsizing is almost a way of life for American companies. In fact, a first round of downsizing is generally followed by a second round a short time later: 67% of firms that cut jobs in a given year do so again the following year. Government budget cuts alone have resulted in more than 1.1 million lost jobs in the defense industry since 1987, with another 700,000 cuts expected through 1998. Wholesale outsourcing of work to another company has also become commonplace. Unfortunately, the payoffs from downsizing have been sparse.<sup>3</sup>

In this paper, we explore the reasons why the pay-offs from downsizing have not been achieved by companies. We seek to gain a better understanding of the key issues for the successful implementation of organizational downsizing. Trust and empowerment are argued to be critical for competitive advantage in today's business environment, but they are often decimated during organizational downsizing. In this paper, we seek to learn from a review of the literature and series of interviews with managers and executives who have been previously involved in downsizing if and how trust and empowerment can be preserved in the process of downsizing.

### **Losing the muscle**

The promised payoffs of downsizing have been mixed at best. Studies have found that 1) a 10% reduction in people has only resulted in a 1.5% reduction in costs, 2) the average downsized firm stock price has risen 4.7% over 3 years as compared to 34.3% for matched firms that did not downsize, 3) profitability is up in only 1/2 of firms that downsized, and 4) the results on productivity are not conclusive.<sup>4</sup> Why have researchers found such mixed results?

**Financial Costs.** Downsizing costs money. Rather than being directed at revitalizing the organization, resources are often directed at the implementation of the downsizing process and at potential lawsuits for discrimination in administering the layoffs. Separated employees receive an average severance check that includes one week of pay for every year of service, their accrued vacation and sick pay, supplemental unemployment benefits, and outplacement benefits which

can be as high as 15% of their salaries.<sup>5</sup> In some cases, companies may decide to refill positions with less expensive or temporary employees, but such replacement hiring has costs as well. One study estimated the cost to replace an employee with a salary of \$70,000 at \$25,000 while Hewlett-Packard has estimated the cost to replace an engineer is \$150,000 with a 25 month learning curve.<sup>6</sup> Clearly, downsizing is not a cost-free exercise.

**Loss of Key Talent.** Indiscriminate downsizing can result in the loss of an organization's "best and brightest" employees who choose to leave the organization. This is often the case because the high-performing employees have the most attractive external options available to them. In addition, many of those employees have specialized knowledge about the organization and its processes which acts as lubricant to smooth the functioning of the organization. One study estimates that companies can lose 10-20% of that knowledge and experience every year.<sup>7</sup> More than half of firms who downsized cut too much of their workforce and actually have had to re-hire their employees back as consultants to continue projects that they had worked on before the layoff.<sup>8</sup> In addition to the direct hiring costs, there are the indirect but significant costs of foregone opportunities while searching to replace lost talent. Thus, companies may be losing the employees most able to contribute to the organization's competitive advantage.

**Survivor Angst.** Downsizing has shaken the loyalty and dedication of the survivors. A survey by Right Associates found that only 31% of survivors agreed that employees' trust in the organization was intact after downsizing.<sup>9</sup> Emotional and physical responses affect not only the survivor's family but the community as well. Studies have shown that survivors go through the stages of grief, resistance to change, fear, distrust, denial, lack of loyalty and distrust. They also exhibit physical reactions to the stress of the downsizing including depression, insomnia, and high blood pressure. Survivors may exhibit denial or anger over the cuts that have been made and may feel guilt in remaining behind. They return to work with an ever-present fear that downsizing will be repeated and that they may be next. They also may experience cynicism or burnout when the intended impact does not appear as quickly as promised or when their workload doubles or triples as their department is shrunk by half to two-thirds.<sup>10</sup> The bottom line is that those employees who survive a downsizing may be less productive and/or innovative than before the downsizing.

**Flabby muscles, weak hearts.** Many companies lose the loyalty and commitment of its employees. Even survivors know that they, too, could be cut at any time, and exhibit less enthusiasm and dedication to the firm. They leave "on time" and spend what used to be "unofficial overtime" with their family. They may just "go through the motions" at work. One vice president of Chase acknowledged that the merger and impending restructuring "eliminated for me a certain motivation and all risk-taking."<sup>11</sup> Those managers whose job it is to announce the layoffs suffer too. Some dream about whether they said the right thing and worry about the impact they might have had on others' lives. A company may see an increase in voluntary turnover as well. Some survivors may decide to leave the company rather than remain with a fear of future layoffs. In some cases, generational animosity appears as a result of replacing older more experienced employees with younger and less expensive ones. At the extreme, survivors may be prone to acts of sabotage, vandalism, or even violence. In the end, corporate America has lost the muscle it needs to sustain itself. Moreover, it has performed a partial lobotomy as some

of its best talent has left, taking years of knowledge and inimitable skills with it. The irony is that companies obsessed with being thin, unwittingly emphasize total quality management and employee involvement while simultaneously destroying the very qualities they need for competitive advantage, namely *trust* and *empowerment*.

**Collateral damage from downsizing.** Survivor angst spills over to other family members who share the impact of increased working hours, reduced earnings, and increased stress. Almost 75 percent of all households have had an encounter with layoffs since 1980, with a family member losing a job in one-third of all homes. Marriages commonly dissolve as a result of this work overload and financial stress occurs. Indeed, the divorce rate is 50% higher than the national average where the employee laid-off was the primary breadwinner.<sup>12</sup> For those employees who actually leave the company, the Labor Department found that only about 35% of those laid-off actually found jobs that pay as much or more than their previous job; most made 10% less. Layoff victims suffer physically and mentally, too. One physician compares the personal suffering to a sort of post-traumatic stress syndrome, in which people who were once respected in the community take that job loss personally and now feel disrespected. Victims blame themselves and must deal with a sense of loss of identity, power and control.<sup>13</sup>

Finally, the community loses the energy and dedication of those who previously volunteered but now have no free time or energy to devote to community causes, exacerbating tax revenue losses as jobs are lost. Those once dedicated volunteers, if not unemployed, are working longer hours to keep up with the same amount of work to be done by fewer people. Some workers, in order to be employed but not uproot their families, are flying to jobs in other cities on Monday and returning home Friday night exhausted. If survivors or the laid-off are not too exhausted to volunteer, they are also less concerned about the communities that also suffer, preferring to spend any leisure time promoting narrow business interests instead of civic causes.<sup>14</sup>

### **Collision course: The decimating effects of downsizing on trust and empowerment**

Trust is an individual's willingness to be vulnerable to another based on the belief that another party is competent, honest, reliable, and concerned about the individual's own interests. Trust between managers and employees is critical for effective work relationships. Empowerment reflects a proactive orientation to one's work. Empowered employees experiences a sense of meaning, competence, self-determination, and impact. Empowerment becomes critical because it is a prerequisite for employee risk taking and proactivity.<sup>15</sup> Downsized organizations in particular depend on empowerment and trust as hierarchies are dismantled and fewer managers remain to monitor and control the actions of employees. This is especially in the 1990s when white-collar rather than blue-collar work force reductions are the norm.<sup>16</sup> With weakening hierarchies, individuals are increasingly faced with situations in which "formal controls and sanctions do not exist" and where trust is essential to coordinated action. Empowerment, with its concomitant self-control and self-direction, may also become an essential means by which concerted action takes place in organizations. Indeed some scholars have argued that trust and empowerment are replacing hierarchy and transactional contracts as central control mechanisms in organizations.<sup>17</sup>

While employee trust and empowerment are critical for effectiveness in today's environment, they are likely to decline considerably during downsizing efforts. Trust suffers

during downsizing for a variety of reasons. Trust suffers because survivors do not believe that top management communication is credible or that information is being withheld. As a result, survivors may distort information provided to them, bolstering favorable data and discounting unfavorable data. Survivors' trust may also deteriorate if they feel that management is not acting in the best interests of the entire organization, or that survivor welfare has been sacrificed for that of top management. Trust may also suffer to the extent that survivors blame the downsizing on past managerial mistakes, or because repeated downsizings have left them sensing that management has run out of new ideas for turning the organization around.<sup>18</sup>

Survivors' sense of empowerment also typically suffers during organizational downsizing. As survivors become increasingly suspicious of management, they may increasingly come to see themselves as independent contractors, viewing the organization in purely instrumental terms, and refusing to integrate themselves into the work culture. Empowerment also languishes as survivors' sense of meaning is lost due to inauthentic or insufficient communication by top management. Survivors' sense of control may also suffer in response to unclear or constantly changing job responsibilities, or frequent layoffs that leave survivors wondering if they will be next. Not surprisingly, their willingness to take risks may decline, and they may become more resistant to change and less innovative. Finally, survivors' sense of impact on the organization's outcomes may decline as top management tends to centralize decision making.<sup>19</sup>

### **Fending off the collision: Reducing the damage to trust and empowerment while downsizing**

Given that the key question for corporate America is not whether to downsize, but how to downsize, we wanted to identify processes for downsizing that mitigate the destruction of trust and empowerment which is so common during downsizing. In this vein, we conducted an extensive literature review of both the popular business press and the academic literature on downsizing. As part of our ongoing research, we conducted interviews with more than 100 senior executives, managers, and employees in the aerospace, automotive, consumer products, tobacco, and steel industries who have been involved with, or who had managed, previous downsizing activities, including facility rationalizations, plant closures, and reductions in force. We also conducted extensive survey research, obtaining responses from 500 top managers and 3000 employees in more than 90 different organizations undergoing downsizing. Our primary research question focused on whether trust and empowerment could be preserved during downsizing. Was it possible? The two downsizing firms described below suggest that it is possible to mitigate the trust and empowerment reducing effects of downsizing.

#### **"Turning Dregs into Stars"**

Craig Parr forged his people philosophy in the 1980s and early 1990s by running, and all-too-often, closing assembly plants for General Motors (GM). In 1986, shortly after Parr assumed the plant manager position of the Pontiac-Central Assembly plant, GM's top brass informed him that the plant was to be shut down within two years. Immediately many high potential managers and staffers began looking for jobs at other GM facilities or at other firms. Parr didn't have the luxury of looking for greener pastures. His bosses had made it clear that his future at GM

depended on his ability to close the plant without disrupting GM's production schedules or failing to satisfy the customers who were still buying Pontiac Central's parts and trucks.

Although many managers would have done their best to persuade these high-potential employees to remain, Parr saw one of his key roles as an outplacement specialist. It was not surprising that Parr took on this responsibility in addition to his general manager role. After all, he continues to be a card-carrying member of the Teamsters since he joined GM as an eighteen year-old truck driver. Parr enthusiastically worked to get his people the best jobs available within or outside of GM. Because of this, he learned some important lessons about motivating people even when downsizing has to take place.

The first lesson is that people will achieve seemingly impossible goals even during the worst of organizational upheaval, but first they have to be asked, and then they have to be motivated to believe (again and again) that they are capable of doing so. Many of the salaried people that remained at Pontiac Central had been formally and informally classified as "dregs" or "bottom-of-the-barrel" by their managers. As a result, they had poor performance ratings, small raises, and low career potential ratings to "prove it." Many of the hourly employees had been similarly labeled by their supervisors. Parr refused to accept these assessments as reality. He simply went out and demanded that these remaining employees prove GM wrong. He said, "we're going to show those hi-pots and bureaucrats that the 'worst' GM has in terms of people, plant, and equipment can still turn out the very best products."

Once the "stars" had departed for better opportunities, these salaried and hourly dregs achieved record levels of quality and productivity, and in the process became stars themselves. Medium-duty truck customers in particular were amazed at the reductions in defects and level of service they were receiving from Pontiac Central, and helped delay the shutdown by more than two years to the end of 1990. These quality and productivity improvements occurred even as GM continued to re-allocate capital away from Pontiac Central -- financial resources that could have been used to upgrade equipment, improve plant layouts, and modernize facilities.

Parr did not simply empower these "dregs" by fiat. If they were good enough to be asked to do the impossible, they were good enough to invest in. Funds for training were obtained by working with local union leaders and the International UAW. Parr deemed painting the plant to also be critical to morale, but because the plant was being closed, GM wouldn't approve the expense. He did it anyway, hiding the expense within existing maintenance budgets. Finally, Parr upgraded as much equipment as he could through jaw-boning divisional and corporate management to give back some of the money they continued to take away each quarter.

Parr also learned that the performance appraisal, promotion, and career planning systems developed by corporate bureaucrats were insidious. Top management assumed that these systems empowered employees by helping them achieve an ideal fit with the organization. As the downsizing progressed and the former stars left, however, Parr realized that these systems were embedded in prejudice and stereotypes that in effect said, "once a loser, always a loser." Once the barriers to excellence were removed, people naturally rose to the challenges set before them. People learned to do jobs that they had been told they could not do. As a result, Parr sought to rebuild trust by instituting a system of flat percentage raises for all salaried employees. Parr was not surprised that the employees widely praised the new system.

Another way Parr worked to rebuild their trust was to communicate as frequently and visibly as possible. When Parr was still at GM, our interviews with him invariably took place in his working office, the plant cafeteria. (His official office was your typical GM plant manager's

office: wood-paneled, gargantuan, and resembling a mausoleum.) While opening his mail and doing paperwork there each morning, he engaged with scores of employees, hearing their concerns and complaints and promising to take action where appropriate. As Parr told us several years after Pontiac Central finally closed:

*The greatest thing I tried to do was tell the folks as candidly as I could what the next steps were, and if I didn't know, I told them I didn't know. For example, the plant closing date for Pontiac Central slipped for years, every month it slipped. I told them that 'regarding the date I just gave you about the plant closing, you just have to understand that I may come back to you tomorrow with a different story. It's not because I'm bullshitting you today. It's because something changed.' I could have said, 'I won't tell you a damn thing. That way you'll never get upset because things change.' But I chose instead to tell them exactly what's going on and that they'll just have to understand that next week something is going to be different.*

A final lesson Parr may have learned was that to earn back the trust of his employees and to get them to achieve beyond the normal, he had to run the risk that his superiors might come to trust him less:

*I was probably less trusted by the upper levels for the very reasons I earned the trust of my people. When you're closing a facility, some things you just know have to be done, but they don't fit the rules. You just do them. I also had to be much more open to employees in terms of my thought process than top management wanted me to be. I didn't want to be openly defiant but sometimes it was just absolutely necessary. I learned that you get only as much loyalty from your people as you give them.*

### **High-Wire Act at High-Steel Structures**

Founded in 1931, Hi-Steel Structures of Lancaster, PA is leader in the bridge-building industry. Their "High Philosophy" befits a company involved in constructing and rehabilitating structures that people depend on every day to be safe. Trust and empowerment are core aspects of this philosophy. After 61 years without a layoff, this philosophy was tested in 1992 when an industry downturn forced them to downsize. Ongoing communication with all of the employees affected by the downsizing was critical to securing their commitment as the news went from bad to worse. When moving from three shifts to two shifts at their facilities failed to be enough, management reluctantly made the decision that their Williamsport, PA facility would have to be closed. Robert Kase, Vice-President for Fabrication, described the process by which they kept employees informed and motivated:

*We sat down quarterly with all the remaining folks and let them know what the status was. This was in addition to information they saw weekly regarding work contracts we had received. So, in their minds, as I perceived it, they knew our destiny is not good here. Something is going to happen. Pat made the announcement that if things don't improve we'll have to shut down. Then their questions became "When is that going to occur?" The other questions were, "Could the market turn around?" Those questions were intense, but you had to answer them.*

*The easiest thing to do would have been to avoid going up there. But, the intensity increased to the point where we could have lost the ball game if the folks took on the attitude that no one cares about us. Everything could have gone to pot -- quality, efficiency, safety. None of that happened because we just took the approach that even though we'd recently purchased this facility from*



*another company, that Williamsport is part of same organization. We've got to deal with the people that are remaining.*

*While we were downsizing the facility, we reached two years with no loss time accidents. The first year they did that, two of us were up there personally cooking steaks for all the 200 employees. It was great. The president was serving them the meals, and we had the dining room set up with table cloths, and the employees came in from the shop, and we just served them a good steak dinner. The second year they did that, it would have been easy to say, "Well, it's just a small group." No, no, no, we promised them something better. What we promised them was surf and turf. If you accomplish another year of perfect safety, no matter how small the workforce, it doesn't make any difference, we'll be there again. We're up there making steaks again, the president's serving shrimp cocktails. I think all these little things helped. They realized, well somebody really does care about us, we're not forgotten. They're down there scheming to get rid of us. They're down there working hard not to lose us.*

*When it finally got to the point of where we did have to shut the place down, we decided who we needed as a core group that would help close the facility and if way off in the horizon might someday help us reopen it. Call it super-seniority or whatever. Of course, you're going to lose some of the folks that are going to be looking for other jobs. They can't just sit around for an organization to come back. But at least if you have a core group, you can come back faster, stronger and quicker. That had an amazing affect on the individuals because they saw our sincere effort for the long-run.*

As it turned out, the market did rebound, and within six months of closing the Williamsport facility, they saw the need to reopen it. Not only did the core group of employees return, even though they had found jobs at other companies, but so did many of the others who had been laid off earlier. These employees' critical knowledge about how to run the plant safely and efficiently, based on the company's efforts to maintain their skills and morale during the downsizing, was instrumental in successfully reopening the facility.

The stories of the two firms indicate that it is possible to mitigate the damage to basic levels of trust and empowerment during downsizing. Our second research question then was to identify generalizable action steps that managers can take to preserve trust and empowerment during downsizing. Once we had assembled our initial set of action steps from the literature and interviews, we sought a reality check from practitioners who had recent experience with downsizings. A panel of practitioners from the aerospace industry who had been involved in earlier downsizings was convened to review the findings and provide constructive criticism. The panel included a senior-vice-president, a Vice-President of operations, and several other directors of operations, human resources, organizational development, public affairs, and legal affairs. These individuals were able to provide valuable feedback from a variety of functional perspectives. Additional feedback was solicited from human resource and manufacturing executives in a series of joint academic-industry forums conducted at Pennsylvania State University and the University of Southern California. Each of these groups provided an important reality check and helped us to make sense of our findings.

**A Timeline for Downsizing.** A key finding was that a successful downsizing process requires planning long before the formal announcement that a downsizing is imminent. Unfortunately, many organizations practice primarily damage control, reacting to negative employee reactions following an announcement rather than proactively planning the downsizing

to minimize human angst and preserve trust and empowerment. We found that effective downsizings comprise four distinct stages (see Figure 1):

- **Stage One:** Making the decision to downsize,
- **Stage Two:** Planning before the downsizing announcement is made public to employees and other stakeholders,
- **Stage Three:** The downsizing announcement,
- **Stage Four:** On-going communication and follow-up in the months the downsizing is implemented.

Many organizations place little emphasis on stages one and two and focus most of their attention on damage control in stages three and four. Effective downsizings, however, require close attention to all four stages. Moreover, different elements of trust and empowerment are critical at each of the four stages, as described below.

### **Stage One: Making the Decision to Downsize**

The decision to downsize is never easy or without pain, but must be made with care. Just because an organization's competition has downsized is not a viable reason to downsize. What is most critical is the preservation of employee trust by showing concern for the needs of employees, whether survivors or victims. Employees will only feel as though they are valued assets of the company if alternatives to downsizing are exhausted prior to the decision to downsize. A second critical issue is how to keep employees feeling empowered rather than helpless. Employees will not feel empowered unless they see a future for the organization -- a strategy for revitalizing the organization through the downsizing activity. The following two sets of managerial actions will help mitigate the pressures on trust and empowerment during stage one.

*Use downsizing as a last resort.* Ultimately, downsizing solely through the elimination of people is seen by employees as a failure on the part of top management. Downsizing represents a failure to control costs and hiring in the first place. Downsizing reflects a failure to trust employees to identify and implement other means of cost reduction. Finally, downsizing represents a failure to account for people as assets, in which investments are thrown away -- instead they are being viewed simply as costs.

Because of the substantial financial and psychological costs of downsizing, it should not be used until other less costly options have been tried. For short-term declines, some companies have successfully implemented hiring freezes, salary freezes, overtime restrictions, pay cuts, elimination of bonuses, shortened work weeks, or unpaid vacations. One company, Rhino Foods, even lent out several of its key employees to customers and suppliers until its business turned around. During difficult times, these options can be used successfully for short periods of time but can be demotivating if used for extended time periods. Alternatively, companies can offer employees voluntary separations with severance benefits or early retirements. Some employees welcome the opportunity to change employment or switch to consultant status. However, a real danger is that the best performers have the most attractive employment alternatives and may be the first to leave. Thus, voluntary separations must be managed carefully to avoid losing individuals with key skills or competencies. Only after these other options have been ruled out should involuntary layoffs be considered. Using downsizing as a last resort preserves employees' trust that management is concerned about their interests.

***Craft a credible vision for the future.*** Downsizing should never be viewed as a short-term fix. Instead, management must be careful to integrate the decision to downsize into a well-crafted and credible vision for the future. It should be clear how the downsizing activity will help create a competitive advantage for the future. The downsizing effort must be part of a corporate improvement plan and should be integrated into the firm's overall strategic position.<sup>20</sup> This will help reinforce employees' trust in top management as competent leaders of the firm. Such a vision will also be critical for employees to maintain a sense of empowerment about their future as the downsizing is implemented. If a credible vision is not crafted, employees will instead feel helpless -- that key parts of the business are being sold off with little hope for the future.

Thus, the first stage in an effective downsizing involves managers ruling out all other alternatives to downsizing and then focusing careful attention on crafting a credible vision for the revitalization of the organization.

## **Stage Two: Planning the Downsizing Process**

The key issue in stage two of the downsizing process is to create a plan for the implementation of the downsizing -- a plan that employees can understand and trust. The plan must take into consideration the needs of all stakeholders. This is crucial for preserving the trust of employees and helping them to feel empowered. Whether victims or survivors, employees must believe that management cares about their needs, rather than just the needs of shareholders. Management must also provide for the needs of employees. This provision of employee needs is essential for them to feel in control of their destiny, even if that destiny involves layoffs.

Our research shows that almost 50% of the preparation to implement downsizing should be done ***prior*** to the downsizing announcement itself. Well-trained, well-respected managers who know the business and its people must invest time in planning the downsizing process. A downsizing effort without planning can make managers look less competent and will damage employee trust. Without a comprehensive plan, managers react and initiate random cuts rather than thoughtful ones. Careless planning costs companies some of their most skilled middle managers and impairs organizational performance. This planning phase typically takes at least two months. Moreover, until the official announcement is made, confidentiality must be maintained. Thus, managers may prefer to communicate face-to-face, through secured channels, or in off-site meetings, rather than through memos or faxes which can easily be intercepted. Several specific action steps are important in planning how the downsizing should be carried out.

***Employ a cross-functional team to plan the downsizing announcement and implementation.*** A cross-functional team should be formed to represent the interests of all members of the organization in the planning process. At a minimum this team should include representatives from Human Resources, Labor Relations, Operations, Finance, Public Relations, and Legal Affairs. In addition, there should be linkages to technical and customer relations, key issues which can determine the success of a downsizing activity. Divide up responsibility for communication to stakeholders among the members of the team. For example, the employees should always hear downsizing information from their general manager and the media should always receive their information from the public relations officer. The team should also have a clear agreement on the rationale for downsizing. Greater resistance among the workforce will result if disagreements within the team are perceived. Having a team which represents the

interests of all stakeholders will enhance the trust of employees that management cares about the interests of all its stakeholders.

***Utilize outside experts to help make the transition smooth.*** While an internal team should plan and execute the downsizing, there will be some areas that are better out-sourced, such as placement and counseling. The Job Training and Partnership Act (JTPA) provides federal funds to states for worker readjustment efforts, including training, job development, and job placement. The application process takes about 60 days so it pays to start this process early. Having more resources available to employees will help employees feel more in control of their destiny and thus mitigate some of the disempowering effects of downsizing.

***Identify all possible constituents of the downsizing process.*** This should be done so that you can plan to address each constituent's concerns in your on-going communications. Relevant constituents include:

- Your firm's employees: employees who will be separated, surviving employees, corporate staff, any other facility receiving a transfer of people, machinery or business.
- The community: families of your employees, community leaders and local businesses.
- Both the local and national press, and
- Any government agencies who might be involved, such as local politicians, any community services, and the private industry council.

Once all affected constituents are identified, then identify their needs, potential risks, and an action plan for dealing with each one (see Table 1 for an example). Not considering all stakeholders can lead to bad publicity, a poor image for the organization, and will break down employee trust in management. Adequately addressing the needs of all stakeholders will work to enhance employee trust in management.

***Provide training.*** Training should be provided for the cross-functional planning team as well as the managers who will implement layoffs. It should include information on how to communicate the downsizing announcement in an empathetic and convincing manner. It should also include training in personal counseling and stress management. Such training will give managers new tools to deal with the typical feelings of being out of control during a downsizing and preserve employees' feelings of empowerment.

***Continue to present information on the state of the business.*** Employees want to know that there is a purpose for their continued employment and participation in the on-going business of the facility. Any changes in market share or profitability will enable them to understand the business rationale for the downsizing decision much better when it is announced in stage three. Research suggests that when workers have a premonition about a future plant closings, they are able to devise coping mechanisms that reduce the frequency of stressful life events.<sup>21</sup> This information may help stakeholders to arrive at their own conclusions about the industry or company situation and to prepare themselves for potential layoffs. With prior information, downsizing becomes less of a crisis, and more of a logical path for the organization to take. No downsizing announcement should ever come as a surprise to employees. Having full information about the financial state of the organization and industry helps employees to maintain a sense of trust and empowerment in the face of uncertainty. Providing sensitive financial or competitive information ensures employees that management can be trusted to be open.

Each of these stage two actions will contribute to a well thought-out planning process for a downsizing activity that preserves the trust and empowerment of employees.

### Stage Three: Making the Announcement

The third stage of the downsizing process involves announcing the decision to downsize to relevant stakeholders. Stage three of the downsizing process involves not only showing concern for the needs of employees (whether survivors or victims), but also being open and honest about the reasons for the downsizing and the process by which the downsizing will be implemented -- thus preserving employee trust in management. Stage three also includes communicating a credible vision for the future of the organization so that survivors can have a sense of hope about the future and thus feel empowered. Offering severance packages and other benefits to the victims of the downsizing are also critical in helping the victims to feel that they can regroup and find gainful employment elsewhere.

***Explain your business rationale for implementing the downsizing.*** Provide employees with "a rational explanation for what's taking place and where the company is headed."<sup>22</sup> By emphasizing the business necessity due to market changes or unanticipated decreases in product demand, employees will not see the downsizing as a reflection of their contribution to the organization. One manager stated "I never tried to leave employees with the impression that they were burdened with the responsibility of the plant closing in the sense that they caused it." Or, as one ex-aerospace employee said "It's like the company telling you that you're no damn good."<sup>23</sup> Helping employees to see how the downsizing fits into a credible vision of the future will help them feel in more in control of their destiny and thus help to preserve their sense of empowerment.

***Senior management should be present on the day of the downsizing announcement to answer questions.*** The presence of senior management tells employees that they, too, are concerned about the well-being of their employees and facility -- that they are "in this together." Predict the ten most frequently asked questions and prepare answers for each set of constituents in advance. The presence of top management available for answering questions about the announcement will enhance employee trust in management as being open and forthcoming with information.

***Provide advance notification.*** The 1988 WARN Act required 60 days of advance notice to employee when closing a facility or implementing a major layoff. Advance notice reduces unemployment by 27.5% and reduced the median length of unemployment by approximately 4 weeks. Studies have shown that employees with advance notification of a layoff are more loyal to that organization and will delay starting a new position until the appropriate time. Kimberly-Clark went one step further and announced all expected cuts at once to prevent "12 months of people wondering" what will happen to them. Advance notice helps employees to feel more empowered and enhances their trust that management is open and willing to share sensitive information.<sup>24</sup>

***Be as specific as you can and time it appropriately.*** Employees do not want to hear about their company's downsizing in the local newspaper or on television. They want to hear it from the organization itself. Thus, it is critical to communicate the downsizing announcement simultaneously to all affected constituencies. The announcement should be made early in the week and early in the day so as to allow stakeholders to digest this information and use the resources available immediately. Fridays and the day before a major holiday are not the time to make such an announcement because they don't leave people with time to ask questions and get answers. The announcement also should provide a timeline for completion, if known, to dispel

further panic. Finally, include information about the separation process and the benefits and services available to those losing their jobs. Such information will enhance employees' feelings of control over what is to come and mitigate some of the disempowering effects of downsizing. Finally, have the actual wording of the announcement carefully prepared -- the first few minutes of the announcement will have the most impact.

***Offer employees the day off after the announcement has been made.*** This allows them time to absorb what they have learned and to begin to take responsibility for themselves. Once your employees receive notification of the layoff, they must now tell their families that life as they have known it will change. The time off will enhance feelings of trust that top management is operating in employees' best interests.

Each of the actions in stage three will help managers to make an empathetic downsizing announcement that is credible to employees and thus mitigate some of the trust and empowerment reducing effects of downsizing.

#### **Stage Four: Implementing the Downsizing**

While the earlier three stages are critically important to an effective downsizing, this last stage must be implemented with care and concern to avoid decimating the trust and empowerment of survivors. Stage four emphasizes maintaining openness and honesty during the implementation as well as following through on promises made during the announcement to take care of both survivors and victims. Reneging on promises devastates employee trust in management. Stage four also emphasizes the involvement of survivors in the implementation process so that they can have input regarding how the implementation is handled. Of special importance is offering training so that survivors feel competent in the changing organization. Moreover, to mitigate the disempowering effects of downsizing on victims, it is important to assist them however possible in finding attractive employment elsewhere. Taking care of victims helps to preserve feelings of trust and empowerment among survivors as well. Several action steps provide more specifics on how to reduce the costs to trust and empowerment during the implementation of the downsizing.

***Tell the truth and over-communicate.*** Anticipate employees questions and provide answers throughout the implementation because there will be a constant hunger for information. One organization used a drop-box for employees to submit anonymous questions about the implementation of layoffs. Management was able to "take the pulse" of the organization and to clear up any misunderstandings. Sometimes the awkward situation of a downsizing or a plant closing can cause management to avoid communication saying too little, too late. Frequent communication prevents rumors from taking hold. It also places you, not the media, in control of the process. Moreover, face-to-face communication more effectively resolves misunderstandings and conveys more nuances than e-mail communications or communication through newsletters or by fax.

Information should include the timing of future separations, the possibility that future downsizings may occur, and your own sadness over having to conduct the downsizing at all. Craig Parr<sup>25</sup> said "I tried to tell the folks, as candidly as I could what the next steps were. If I didn't know, I told them I didn't know." Open and honest face-to-face communication helps to preserve and build trust after the downsizing by showing management's true intentions undistorted by rumor or third-party interpretation (such as by the press).

***Help departing employees to find other jobs.*** The crisis is not over until departing employees are gainfully re-employed. Those employees with greater seniority may need the most assistance. After all, the longer they have been with your company, the longer it has been since they a) wrote a resume, b) had an interview, and c) networked. AT&T publicized a job bank to encourage other companies to hire their laid-off employees.<sup>26</sup> Securing alternative employment helps to preserve victims' sense of empowerment and well-being.

***Make subsequent announcements of specific separations as planned.*** Once you have set a timetable in place, you will be trusted to keep your promises if you make announcements as planned. Your employees will be counting the days until a specific announcement is made. If it comes early, they will be shocked. If it comes late, you will lose your credibility to fulfill subsequent promises. Reliable actions help to build employees' trust in management.

***Be fair in implementing the separations and generous to victims.*** The survivors will judge your future interaction with them based on how fairly you treat those being separated. Fair procedures require that the selection process focuses on merit, or some other objective criteria, and that such criteria fit with your vision of the future. Various benefits can be provided to help victims make a successful transition. Severance benefits typically include at least one week of salary for every year on the job. Medical and dental benefits should at a minimum conform to COBRA requirements. Outplacement services can include career counseling, stress management, skills assessments, retraining reimbursement, as well as job placement assistance such as secretarial support, job fairs, resume preparation, interview training, and the like. Some companies offer incentives for victims to remain on the job until the doors are closed. More generous benefits to victims repay themselves in more positive survivor responses to the downsizing.

This is also the time for senior management to show that they are sharing in the burden of the downsizing. This is not the time to announce record bonuses to top management. AT&T angered a variety of stakeholders when they publicized record pay raises for its CEO at the same time it has downsized 125,000 people since 1986.<sup>27</sup> Fair procedures and being generous to victims helps to enhance employees' sense of trust that management is operating in the best interests of employees.

***Allow for voluntary separations.*** Voluntary separations maintain the morale of both survivors and victims, providing them with control over their destinies. People want to walk out, not be pushed out the door. There is always the concern that too many employees will take an early buyout but our research and others' shows that employees will reward you with their loyalty until the end if you provide them with advanced notice. In addition, by providing voluntary separations while providing continuing updates on the progress of the restructuring and your long-term vision for the facility, the good employees will often stay, able to envision their place in the new organization. Without providing for voluntary separations, you run the risk of spending time and money on wrongful discharge suits.<sup>28</sup>

***Involve employees in the downsizing implementation.*** When the restructuring process involved job redesign, allowing employees to participate in this effort helps them develop new competencies. Your employees will have ideas about restructuring their jobs and ways to improve internal processes. This will give them an opportunity to feel that they are making a contribution in developing the new organization. Mercedes-Benz Credit Corp., the U.S. finance unit of Daimler-Benz did just that and went one step further: it guaranteed employees a new job if they could find a way to eliminate their present one.<sup>29</sup> It ultimately resulted in better

communication, faster decisions, and finally, more customers. This involvement helps survivors to feel more empowered as the downsizing is being implemented.

***Provide career counseling.*** Career counseling to both victims and survivors helps employees to feel more in control of their own destiny. This can be provided through internal counseling, like Chevron or Ray-Chem who both have developed internal career development offices, or through external career counselors. Providing laid-off workers adequate support to pursue future careers can be critical factor in maintaining, if not enhancing the loyalty, productivity and commitment of the remaining workforce.<sup>30</sup> In short, career counseling helps employees to feel more empowered and in control of their destiny.

***Provide training to survivors.*** The aim of this training is to enhance the performance of survivors. It is easy to assume that the survivors will know how to carry out their responsibilities after the workforce is downsized. The reality is that they may feel overburdened to do "more with less." Training should provide them with a new set of skills that will give them the confidence they need to work in a new environment. Finally, it will encourage employees to aspire to management positions, instead of avoiding them. There is a risk that firms may cut too far and lose people with expertise which may lead to less informed or riskier decision making. Management positions lose appeal because of eroding job security, which results in a reduction in job commitment and encourages job hopping. This sort of training will help employees to feel more empowered as they grapple with the uncertainty of downsizing and their future in the company.

## **Conclusion**

The above strategies for downsizing organized across four stages each work to reduce the destruction of employee trust and empowerment, so common during downsizing. Implementing a restructuring process or downsizing is a stressful event for both managers and employees and is never without pain. We often tend to think about it as a crisis, implying that it is a temporary phenomenon. Downsizing is not a temporary phenomenon however, but has become the *modus operandi* of corporate management. Nevertheless, trust and empowerment increasingly will become sources of competitive advantage in environments characterized by uncertainty and rapid change. Whatever actions we take today as managers will live on in our organizations in the memory of the survivors. How a downsizing is planned, announced, and implemented will have an impact on the contribution they are willing to make to the future of the organization. For any future crisis, whether it be downsizing or a fire, employees will remember how they were treated and how the implementation was managed, and that will determine their ability to trust in the organization and empower themselves to build a better, more effective organization.

A fire did occur at a Malden Mills plant owned by Mr. Aaron Feuerstein. When his Boston textile plant burned last December, Mr. Feuerstein pledged to continue to pay his 3,000 workers while the buildings were being rebuilt. In one brave act, he built trust and empowerment with his workforce by showing concern for their well-being and by showing respect for the meaning his employees had in that company. In his words, "the trust and loyalty I have from my company is something I will not break. It was for that trust and loyalty that I did what I did after the fire."<sup>31</sup> While most companies are not able to go the lengths that Mr. Feuerstein did, they can begin to move in that direction by following the recommendations we have made across each of the four downsizing stages.



**FIGURE 1: THE DECISION TO DOWNSIZE**

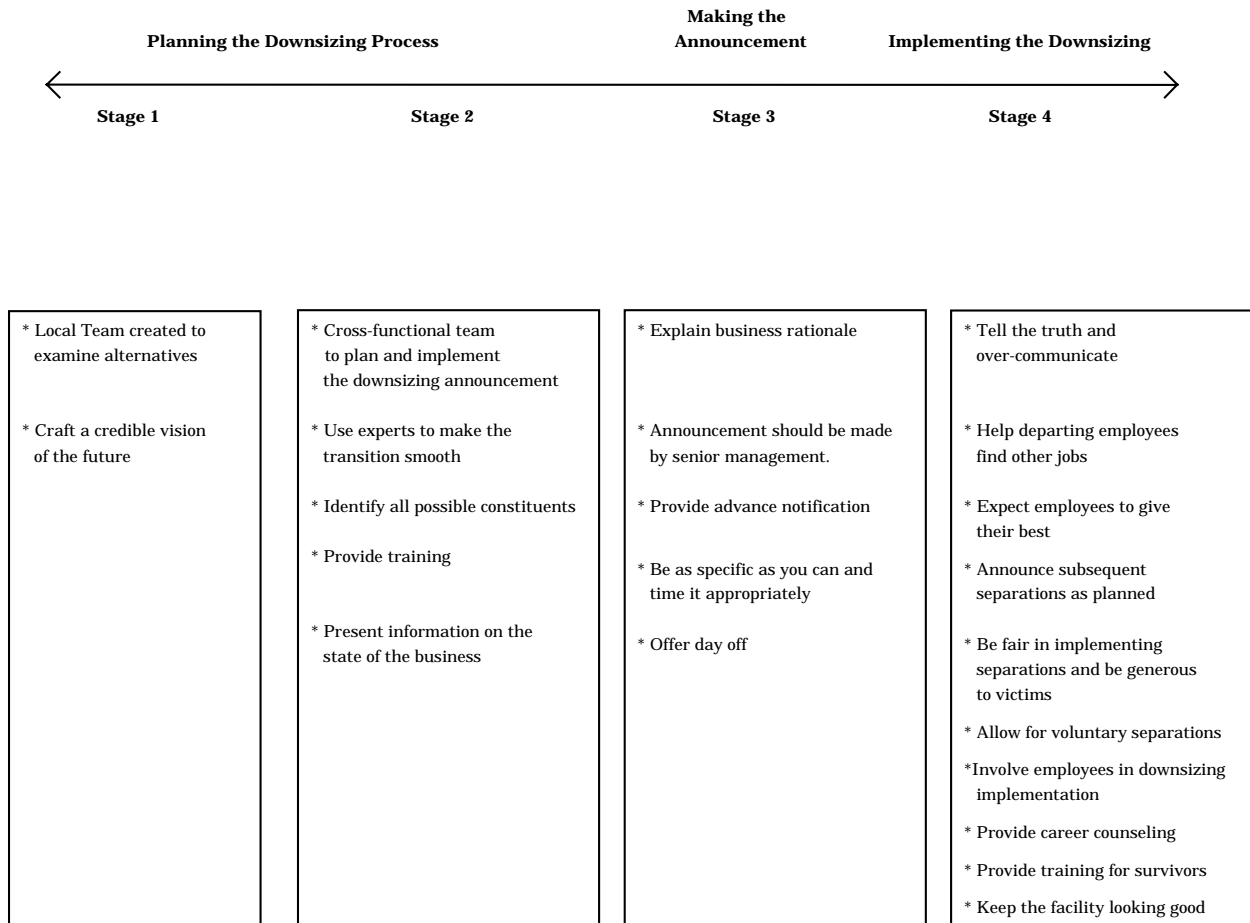


Table 1

<u>CONSTITUENT</u>	<u>NEEDS/RISKS</u>	<u>POTENTIAL ACTION PLAN</u>
<b>Employees</b> * Separated	Stress	Offer personal counseling and stress management workshops
	Advance Notice	Decide what is appropriate
	Reemployment & Retraining	Develop a career transition model in conjunction with Human Resources. Work with an outplacement firm or local economic development firm to look for potential replacement jobs. Offer on-site outplacement services. Local community colleges can also participate.
	Benefits	Provide employees with a detailed letter outlining benefits and/or individual meetings to describe them.
	Burnout	Provide managers with counseling or resources to help them help their employees.
	Training	Provide training for managers on the selection process to determine who will/will not be retained.
	Control over their lives	The more information you can provide, the more in control employees will feel.
	Union	Contact appropriate Labor Relations personnel regarding effects bargaining.

<b><u>CONSTITUENT</u></b>	<b><u>NEEDS/RISKS</u></b>	<b><u>POTENTIAL ACTION PLAN</u></b>
* Survivors	Stress	Offer personal counseling
	Poor morale	Morale will be affected by how displaced employees are being treated  Provide challenging goals, recognition and rewards
	Turnover	Consider incentives for them to stay
	Burnout	Redesign jobs and eliminate unnecessary work to reduce burnout
<b>Other Company Constituents</b>		
* Corporate/Divisional Staff	Process on schedule	Communicate rationalization plan
	Bonus compensation	Corporate staff may want to continue providing bonuses as compensation. Be sensitive to public disclosure and timing. Be prepared to address with media.
* Facility receiving transfer of	Work Methods	Develop manual to incorporate knowledge of people/machinery/business of (undocumented) work methods. Utilize joint team to manage operations and customer issues. Identify employees with highly specialized knowledge.
<b>Community</b>		
* Community Leaders and Local Business	Concerned about impact on city	Develop database of key community leaders  Identify which team members will contact which community leaders  Options to consider: 1) offer surplus buildings to local economic development agency. 2) provide grant to attract new industry
	Hiring	Invite local employers in search of employees to set up interviews on-site
* Families	Their future	Include spouses in on-site meetings that describe benefits and the facility rationalization

<b><u>CONSTITUENT</u></b>	<b><u>NEEDS/RISKS</u></b>	<b><u>POTENTIAL ACTION PLAN</u></b>
<b>Media</b>		
* Local Press	Concerned with local economic and human impact	Distribute press releases which emphasize ways your organization is helping employees with job transition
* National Press	Concerned with impact on Corporation	Distribute press releases which discuss how this will make your firm more competitive in the long run
<b>Government Agencies</b>		
* Local, state and federal	Timely Information	Include them in your information dissemination so that they can provide any services needed by employees in a timely manner
	Local Impact	In some rare instances, companies provide indemnity payments to the local government that will be experiencing lost tax revenue attributable to a shutdown.
* Government Reps and politicians	Timely Information	Share business rationale as well as action plans you are taking for employees to assure them that you are acting in the best interests of your employees in this situation
* Private Industry Council and JTPA Funding	Early Involvement	Develop career transition program
* Community Services	Access to people	Invite them on-site to describe their services, such as financial planning, reemployment specialists and community services, so that employees are aware of them.

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<sup>5</sup> See W.F. Cascio, *Guide to responsible restructuring*. (Washington, D.C.: U.S. Department of Labor. Office of the American Workplace, 1995), p. 5.

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