

[Downsizing with Dignity](#)

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EXECUTIVE SUMMARY

- Downsizing is a toxic solution. Used sparingly and with planning it can be an organizational lifesaver, but when used repeatedly without a thoughtful strategy it can destroy an organization's effectiveness.
- One outcome of downsizing must be to preserve the organization's intellectual capital.
- How downsized employees are treated directly affects the morale and retention of valued, high-performing employees who are not downsized.
- Downsizing should never be used as a communication to financial centers or investors of the new management's tough-minded, no-nonsense style of management—the cost of downsizing far outweighs any benefits thus gained.

INTRODUCTION

Make no mistake: downsizing is extremely difficult, even in challenging financial times. It taxes all of a management team's resources, including both business acumen and humanity. No one looks forward to downsizing. Perhaps this is why so many otherwise first-rate executives downsize so poorly. They ignore all the signs pointing to a layoff until it's too late to plan adequately, then act hastily to reduce the financial drain of excess staff. The extremely difficult decisions of who must be laid off, how much notice they will be given, the amount of severance pay, and how far the company will go to help the laid-off employee find another job are given less than adequate attention. These critical decisions have as much to do with the future of the organization as they do with the future of the laid-off employees, so they must be considered carefully.

So what happens? These decisions often are handed to the legal department, whose primary objective is to reduce the risk of litigation, not to protect the morale and intellectual capital of the organization. Consequently downsizing is often executed with a brisk, compassionless efficiency that leaves laid-off employees angry and surviving employees feeling helpless, demotivated, and poorly prepared to start rebuilding the business.

Helplessness is the enemy of high achievement. It produces a work environment of withdrawal, risk-averse decisions, severely impaired morale, and excessive blaming. All of these put a stranglehold upon an organization that now desperately needs to excel. Thus downsizing becomes a contributor to an organization's downfall rather than a catalyst for growth and profitability.

AVOIDING THE PITFALLS

Ineffective methods of downsizing abound. Downsizing malpractices such as those that follow are common; they are also inefficient and very dangerous.

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Allowing Legal Concerns to Design the Layoff

Most corporate attorneys advise laying off employees on a last-hired, first-fired basis across all departments. The method for downsizing that is most clearly defensible in a court of law, for example, is to lay off 10% of employees across all departments on a seniority-only basis. This way no employee can claim to have been dismissed for discriminatory reasons. Furthermore, attorneys advise against saying anything more than what's absolutely necessary to either departing employees or survivors. This caution protects the company from making any implied or explicit promises that aren't then kept. By strictly scripting what is said, the company protects itself from verbal slips by managers who are themselves stressed at having to release valued employees.

This approach may succeed from a legal perspective, but not necessarily from the more important one of organizational health. First, laying off employees by a flat percentage across different departments is irrational. How can it be that accounting can do with the same proportion of fewer employees as human resources? Could one department be externalized and the other left intact? The decision of how many employees to lay off from each department should be based on an analysis of business needs, not an arbitrary statistic.

The concept of laying off employees strictly on the basis of seniority is also irrational. The choice of employees for a layoff should be based on a redistribution of the work, not the date the employee was hired. Sometimes an employee of 18 months has a skill far more valuable than one with 18 years' seniority.

Giving As Little Notice As Possible

Out of fear and guilt many executives choose to give employees as little forewarning as possible about an upcoming layoff. Managers fear that if employees know their fate ahead of time, they may become demoralized and unproductive—they may even sabotage the business. However, there is no documented evidence that advance notice of a layoff increases the incidence of employee sabotage.

The lack of advance notice, however, does dramatically increase mistrust of management among surviving workers. Trust is based on mutual respect. When employees discover what has been brewing without their knowledge or input (and they will when the first person is let go), they see a blatant disrespect for their integrity, destroying trust. By not giving employees information that could be enormously helpful to them in planning their own lives, management initiates a cycle of mistrust and helplessness that can be very destructive and require years to correct.

Acting As If Nothing Happened

Many managers believe that after a layoff, the less said about it the better. With luck, everyone will just forget and move on. The reality is that surviving employees will talk about what's happened whether the management team does or doesn't. The more the company tries to suppress these discussions and act as if nothing has happened, the more subversive the discussion becomes. Remaining employees will react to what has happened regardless of whether the management does.

Recovery from a layoff is greatly hastened if managers and employees are allowed to speak their minds freely about what's happened. In fact, it can be a great opportunity for the survivors to pull together and renew ties. When management refuses to acknowledge what has really taken place, it appears emphatically heartless, feeding the employees' sense of helplessness. If management won't talk about it even after the fact, what else is it hiding?

DOWNSIZING EFFECTIVELY

An organization that isn't functioning at optimal efficiency and is thinking that a layoff is needed must keep in mind a few key principles.

“To downsize effectively you have to have empathy with the people who are losing their jobs ... What you say to them has a lot to do with the attitude of the survivors: whether they see the company as a money-machine or keep their respect for it.”

Percy Barnevik

Is the problem too many people or too little profit?

This is the critical first question to ask before any layoff. Using a layoff as a cost-cutting measure is utterly foolish: throwing away valuable talent and organizational learning only makes a bad situation worse. When your business lacks revenue, annihilating intellectual capital and thus reducing the efficiency of remaining resources as well as the potential for future growth is not the solution.

If the answer is too many employees, then you've begun the process of a well-thought-out strategy for change. To legitimately determine if you have too many employees, look at the organization's business plan, not its head count. What product and services will you offer? Which of these products and services is likely to be profitable? What talent will you need to run the new organization? These questions will help you plan for the future after layoffs. These issues will enable a quick turnaround from the inevitably negative effects of downsizing to positive growth in value and efficiency.

What will the post-layoff company look like?

Having a clear, well-defined vision of the new company is imperative *before the layoff is executed*. Management should know what it wants to accomplish, where the emphasis will be in the new organization, and what staff will be needed.

If not directed according to a clear vision of the future, the new organization is likely to carry forward some of the same problems that initially created the need for the layoff. Unfortunately, many managers underestimate the momentum of the old organization to recreate the same problems. Without a clearly defined, shared vision of the new company among the entire management team, the past will be likely to sabotage the future and create a cycle of repeated layoffs with little improvement in organizational efficiency.

Always respect people's dignity

The methods employed in many poorly-executed layoffs treat employees like children. Information is withheld and doled out. Managers' control over their employees is violated. Human resource representatives scurry from one hush-hush meeting to another. How management treats laid-off employees is how it vicariously treats the remaining employees—in a successful layoff, everything is done in the arena, with everyone observing.

Why does this matter? Because careful planning will keep the new organization going and improve its results. You must keep exceptional talent, who are also the employees most marketable to other organizations. When they see the company treating laid-off employees poorly, they'll start looking for a better place to work.

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Respect the law

While it's important not to allow the legal department to design a layoff, it's nevertheless important to respect the employment laws. In different countries such laws include entitlements tied to civil rights, age discrimination, disabilities, worked adjustment, and retraining. These laws should be respected for what they intend as well as what they prescribe—or proscribe. If you plan your layoff according to business needs, and not on head count or seniority, you should have no problem upholding the law. You will almost always find yourself in legal trouble when you base your layoff on factors other than business needs.

MINI-CASES

Good examples

During the merger of *BB&T Financial Corporation* and *Southern National Corporation*, redundant positions were eliminated through the strategic use of a hiring freeze.

Hewlett-Packard implemented a so-called fortnight program in which all employees were asked to take one day off without pay every two weeks until business revenue increased. Similarly, during 2009 when auto manufacturers worldwide were struggling with falling demand for their vehicles, several major corporations (such as *Honda*) asked workers to take time off on reduced pay, in the hope of weathering the recessionary storm and retaining the skills that they would need when the business cycle improved.

Bad examples

Eastman Kodak has laid off thousands of employees in the past 20 years without seeing any significant rise in productivity or profitability as a result. Virtually all the layoffs were administered by company-wide mandated percentage of employees to be laid off.

Perhaps the classic bad-case example remains *Scott Paper*. It conducted a layoff of 10,500 employees in the mid-1990s. In the years that followed Scott was unable to introduce any new products and saw a dramatic decrease in profitability, until it was eventually bought out by competitor *Kimberly-Clark*.

MAKING IT HAPPEN



- Plan for the future, including a shared vision of the company post-layoff. Consider how best to motivate and reward employees after downsizing and how to retain the most talented and valuable employees.
- Treat all employees with dignity and respect. Communicate too much rather than withholding information.
- Research applicable laws and follow the spirit of the legislation.
- Afterward, give employees the psychological space to accept and discuss what has happened.
- Understand what the downsizing process must achieve—and what it must avoid.

CONCLUSION

There are two important factors to keep in mind when planning a layoff: respecting employee dignity,

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and business planning. No one, from the mailroom to the boardroom, enjoys downsizing; but when it is unavoidable, a layoff can be accomplished in such a way that the problem is fixed and the organization excels.

See also:

★ [Finding and Keeping Top Talent](#)

★ [Response Ability—How Managers Stay Up When Times Are Down](#)





★ [Viewpoint: Christopher Bartlett](#)

“To downsize effectively you have to have empathy with the people who are losing their jobs ... What you say to them has a lot to do with the attitude of the survivors: whether they see the company as a money-machine or keep their respect for it.”

Percy Barnevik

FOR MORE INFORMATION

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- Palca, Julia; Catherine Taylor. *Employment Law Checklists 2009*. 4th ed. OUP Oxford, 2009. 
- *Essentials of Employment Law*. Chartered Institute of Personnel Development London, 2008. 
- Marchington, Mick; Adrian Wilkinson. *Human Resources Management at Work*. 4th ed. Chartered Institute of Personnel Development London, 2008. 

Web Sites:

- American Management Association: www.amanet.org.
- Human Resource Planning Society: www.hrps.org.

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