Downsizing: Looking Beyond The Crisis

The current economic conditions are bound to create sizable reductions in force as companies adjust to the financial realities of recent events. Downsizing can shake the foundations of an organization, especially if the focus and resources are limited to financial and structural issues. However, the result can actually be positive to the organization and its people if there also is emphasis on:

1. An approach that is future directed rather than targeted solely on the immediate financial crisis.
2. The host of psychological issues that are predictable during each phase.

Based on over 60 years of experience and research, we have identified three stages to a successful downsizing process: Strategic Planning, Implementation, and Regrouping. Each stage contains predictable psychological issues. By acknowledging these issues and recognizing their effects, managers can navigate through the process more effectively.

Strategic Planning Stage

As the process begins, top executives in the organization must reach agreement regarding the need for downsizing, its scope and an optimal target date for full implementation. They need to consider what the company should look like in the future for maximum productivity as well as opportunities to be exploited during the upturn.

Once the need, scope and vision are agreed upon, the structural approach must be determined. Options include one or more of the following:

1. Squeeze fat from the existing organization (four engineers will do the job of five).
2. Change the organizational structure to one that is more efficient.
3. Divest a portion of the business (product line, sales territory, or an entire division).

As part of the strategic planning process, leaders need to re-examine the organization's mission and guiding principles. New objectives must be agreed upon and cultural implications identified, e.g., we no longer are an employer for life.

Facing negative news and committing to a major change is difficult and highly stressful for most people. Responses can range from dogged resistance to impulsive overreaction. Executives will typically seek to protect their own turf or deny the scope of the problem and seek a "quick fix" that will have limited impact. As the focus extends from the financial to the human resource arena, executives begin to realize that "real people" will be affected by their actions. At this critical step, the thinking needs to shift from a solely reactive mode to one that is also future oriented. This is very difficult because it takes considerable energy at a time when the focus is on the immediate crisis. It can be extraordinarily draining.

Implementation Stage

Once a solid base of strategic planning has been established, company leadership must determine the actual method(s) that will be used to resize the organization. Options include:

1. Hiring freezes.
2. Open window early retirement.
3. Selective early retirement.
4. Reassignment.
5. Job elimination.

Key executives can experience a wide array of feelings when faced with the reality of these decisions. Some might be paralyzed by guilt and unable to act. Others may deny any responsibility, either for employees who will be directly affected or for the overall psychological health of the organization.

Next, middle managers are now typically brought into the picture to identify the skills and talents for each position needed under the new organizational structure. Objective employee evaluations determine who best meets the skill/talent needs, assuring a method that is 1) accurate, 2) fair, and 3) legal.

For the first time, specific names go on the list. Objectivity is very difficult, especially when "good people" are affected. "Turfism" frequently runs rampant. Occasionally, a manager will try to show strength by cutting more than he/she should. Naturally, there is great anxiety among the rank and file, who are waiting to find out what will happen next. Rumors abound during this stage.

And when the talent requirements and personnel selections are complete, managers must communicate the change to those personally affected, those not directly affected, and external constituencies, e.g., community, shareholders, customers.

Those who lose their jobs typically react with feelings of panic, fear, anxiety and anger. By the same token, communicating the news is extremely stressful for most managers. Unless support is provided, they can feel like unwilling executioners. Survivors will often seek a specific executive to blame. There also is heightened sensitivity to any inconsistencies between what is communicated internally vs. to external constituencies. Depending on how the total communication takes place and what is said, overall morale can dip…or plummet. Managers must be sensitive to this, but avoid falling into a siege mentality; business must continue.

Note: If outplacement support is provided, response can be very positive if the service is seen as helpful. If it is perceived as lip-service, the effort can backfire.

Regrouping Stage

As this stage begins, objectives can still seem uncertain. The normal communication channels (formal and informal) have been broken. Many employees feel demoted because they are asked to do more with less. They wonder if additional cut-backs are coming. Stress at all levels is high.

Ambiguity, a major source of anxiety and poor morale, should be reduced as this phase proceeds and people gain a clearer perspective of the direction the company is taking and what is expected of them. Management should now begin to focus on the future by implementing succession and development plans. This becomes especially important if organizational layers have been stripped away, since people no longer can progress through small-step promotions.

As momentum builds, the motivational tide should begin to turn for most people. The forward-looking talent management programs are a clear signal to key employees that the organization cares about them, a significant step in rebuilding their loyalty.

If not monitored closely, managers will tend to add back positions after a few months. A variety of checks should be implemented to assure that cost-cutting objectives are maintained and that any new positions are tied to specific needs.

As the downsizing program begins to wind down, company leadership must commit to an assessment of the revised structure and systems to determine if the new objectives are being met. A common response is to avoid this step for fear that it will reopen a “can of worms.” Unfortunately, unless executives are willing to take a pulse reading on an ongoing basis, they will have little opportunity to fine tune their responses to what is needed to maintain and grow productivity.

Moving Forward

It takes foresight for an organization’s executives to work through a downsizing effort in a systematic way as outlined in this article. It also takes courage to be willing to address the psychological issues associated with such a wrenching process. However, by doing both, an organization can recover much more quickly and launch itself positively into the future.