

How Companies Reduce the Downside of Downsizing

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Workforce reductions are sometimes inevitable, but the accompanying pain is not. Careful planning by senior leaders and attentive implementation by managers, with a focus on all the groups affected by the action, can speed individuals' and the organization's transition to the future state. The author discusses the negative ramifications of downsizing, the three core groups of employees most affected, and the types of resistance to change that prolong their emotional pain and pose barriers to moving forward. She also presents a change management plan for minimizing the pain and details the communication, learning, and rewards and reinforcement elements important for effectively managing downsizing. © 2009 Wiley Periodicals, Inc.

Orders are down due to less demand for your company's products or services. Margins are disappearing as the economy prevents passing through any cost increases to customers. You have trimmed costs by reducing pay, shortening work schedules, and even shutting down operations for a few weeks—but the recession continues to worsen, and now the company is looking at its only remaining option, the grisly task of amputating part of its workforce. The only consolation, if there is one, is that you are not alone. Many more companies around the world are in the same boat as you are, navigating the turmoil of organizational downsizing. Thousands of executives and managers like you wish they could say, "Just wake me when it's over."

But this most disruptive of organizational changes is no time to be looking for the easiest way out. Companies don't make a decision of this magnitude lightly, but unfortunately, they don't always implement it with sufficient thoughtfulness regarding the scope and depth of its emotional impact. Lack of at-

tention to implementation is not done out of malice or carelessness, but rather because this unwelcome action is so painful to senior leaders that they just want it finished quickly, and in many cases, they don't know how to make it any less painful for the rest of the organization. But failure to minimize the dislocation and pain of a downsizing and its aftermath can endanger the very objective of reducing headcount: getting the work out with lower labor costs and positioning the company for a recovery.

What Are the Downsides?

Downsizing causes many emotions in those affected: anger, fear, frustration, and feelings of betrayal, abandonment, and loss. It shakes people to their core, causing them to challenge their image of themselves at work, their capabilities, and their future. Such emotions can have many unintended consequences—all of them bad—for the individuals affected and for the organization that hopes to realize a financial benefit from its decision to trim its workforce.

- *People who are experiencing strong emotions cannot perform at their optimum level.* While the downsizing is being implemented, many people who should be working are instead staring at the wall, or huddling in small groups around the coffee machine speculating about the decision and sharing the rumors they have heard. Production, quality, and customer service may all decrease, sometimes dramatically, because employees are unable to give their work the energy and concentration it needs.
- *People affected by the downsizing look for ways to make this change go away.* These might be delaying tactics that slow the process down and thus postpone the cost reductions the organization

so desperately needs. Sometimes these tactics can be as dramatic and draconian as lawsuits that claim unfair age discrimination, which carry the risk of potentially large additional costs for the company.

- *The image of the company is battered because of this most negative of actions.* Employees, customers, other stakeholders, and the general public all hold opinions about the company—opinions that will be tainted if a downsizing is implemented without careful attention to the needs of those affected.

In fact, the downside of downsizing can be much larger than the anticipated upside (gains). The net results can be excessive implementation costs, reduced productivity, and a gray cloud over the company, its management, and its image in the marketplace, which can lead to a loss of product/service and employer brand loyalty.

Downsizing may be one of the most disruptive changes an organization can experience. But, through careful change management, it is possible to minimize the downsides in order to achieve all the intended benefits. As a first step, the organization must understand who will be affected by this change, and in what ways.

Who Is Affected by Downsizing—and How?

It is easy but deceptive to conclude that all the people affected by workforce cuts will soon be leaving the company, thus making the downsides very short-term. While senior leaders realize that there are others in the company who will also feel the effects, they may not take the time to identify these people and their reactions and needs in this situation.

In fact, three core groups will experience significant impacts:

- the downsized—those laid off or fired;
- the survivors—those left behind; and

- those who manage the downsized and the survivors.

The Downsized

For more than two years, Rachel's employer had not been performing well, and during recent months the market for their product was rapidly collapsing. Nearly every day at the lunch table, people talked about the likelihood that the company would have to cut back staff. There was a lot of fat in the organization, they reasoned, and now would be the time to trim. Rachel agreed but never imagined her area would be affected. Her group was too vital to the business; it was lean and mean—everyone knew that. Then last Friday afternoon, Rachel's boss called her into her office and told her she was terminated as of that day. A week later, Rachel still couldn't understand why it had happened to her.

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The impact of losing a job is obvious. In today's marketplace, the probability that these individuals will find another job, especially one at the same pay level and with the same degree of professional responsibility, is low. Naturally, they are very worried about their ability to pay their mortgage and feed their family. This is a primal fear that goes to the heart of who we are. The need to put a roof over our heads and food on our table is basic not only to physical well-being, but also to how we define ourselves, our personal identity. Being suddenly unable to meet those core needs shakes us to the core and challenges our views of our value as human beings.

Countless questions surface as the shock of the news and the initial emotional numbness wear off. Why is this happening? Why is it happening to *me*? Am I just

a number that came up in the lottery drawing, or was this a deliberate decision to let me go instead of the person in the next cubicle? How was this decision made? If not satisfactorily answered, these questions will gnaw at the person and fester, generating anger on top of the fear.

The Survivors

Although he had never received a formal review, Gino always felt that he was a good worker, and his boss seemed happy with him. But Kelly, his best friend at work, had clearly been a better and smarter worker. The boss certainly thought so as well. You could see it in the way he treated Kelly. Now Kelly was gone. Yesterday they called him in and told him to pack up and leave. Gino was stunned. How could that happen? Why Kelly? Why not *him*? And Gino, the single guy, wondered how Kelly was going to explain to his wife that he had been fired. What would they tell their three kids?

The employees who remain after a downsizing are frequently overlooked or their concerns dismissed. Since they are the “lucky” ones who survived the cuts, it is assumed they will be grateful and buckle down to work. But they face several problems that can get in the way of their coping with the changes that come in the wake of a workforce reduction.

Grief and Uncertainty. The loss of colleagues who are leaving the company, many of whom may also be good friends, disrupts important relationships that may have been in place for years. Some level of grief is a natural response to their departure. It is also inevitable that those left behind will wonder if there is another downsizing coming that will hand them a similar fate.

Survivor Syndrome. They survived. Why them? What if the person in the next cubicle who was let go was the better performer, or seemed to be. What if that person was the survivor’s best friend? The feelings of guilt about being the lucky ones can paralyze

employees, and their productivity declines—or even stops—for a period.

Increased Workload. Fewer employees are now left to do the work, but the amount of work has not diminished. Even as they grieve, suffer guilt, and feel uncertainty about the future, which are enough to put anyone “off his game,” these employees are expected to take on an increased workload—often without the benefit of any preparation or additional training.

The Managers

On Friday, Matt was called into a manager’s meeting that had been innocuously labeled “Status Update.” There he was told that on the following Monday, 13 percent of the workforce would be let go. He learned, to his relief, that he was not one of them. But then he was handed a list of people who did not report to him and told that he was to meet with each of them individually on Monday; tell them they were no longer working for the company; hand them an envelope with their dismissal information; and inform them they were to pack up and leave the building immediately. Matt didn’t sleep very well that weekend. Sworn to secrecy, he couldn’t tell his wife why he had no appetite, why he didn’t enjoy the backyard barbecue they hosted Saturday, or why he kept forgetting things all day Sunday. First thing Monday morning, he dutifully set up the appointments with the people on the list and met with them in his office, one by one. Each time, as he read the script prepared by the company, he kept his eyes on the paper, carefully reading each word in a monotone, afraid to look into the eyes of the person in front of him. His stomach was in knots, his heart was pounding, the same questions racing through his mind: What would this person do with his life? Would he get angry and throw a chair—or a punch? How will this person, a single mother, survive? What if she starts to cry?

If those left to do the work are not given much attention in a downsizing, the group even more seriously

neglected is managers. Midlevel managers and sometimes supervisors are usually the ones who have to face the employee to deliver the message—and handle the fallout. And then they must manage a group of distracted, distraught survivors laden with guilt and fear. These managers, who are struggling to cope with their own difficult emotions as survivors and the bearer of bad news, must also deal with the emotions of their employees. Downsizing their unit is not something they have done often—if ever—and thus they may not have the knowledge, skills, and experience to do it well. And like other survivors, they worry that they may be next.

Resistance Issues That Feed the Pain

While lost income, higher workload, and organizational disruption are inescapable realities for those affected by workforce cuts, some of the emotional pain experienced in a downsizing stems from resistance to change, which *can* be addressed through skillful change management practices. One or a combination of reasons may be the source of resistance that makes it difficult to accept the realities of the new situation and move forward.

Resistance to Leaving the Current State

People get comfortable with the way things are. They cling to the familiar way of working and, when faced with change, will often slip back into the old way of doing things once the pressure is off. That's why some companies find themselves with no other options than to reduce costs by shrinking their workforce. Internal changes that would have improved efficiency, productivity, or quality, or otherwise kept the organization competitive and economically viable—even in a declining economy—were never made, or they were made and did not “stick.”

Whatever the contributing factors might be that have led to the need to downsize, the changes now required of people have negative implications for many of them. Acceptance is a necessary first step to making the effort to change, and that will usually come only if employees and managers receive

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Resistance to the Future State

Each of the three groups impacted by downsizing experiences ambivalence at best, and dread at worst, about the future that looms ahead:

- The downsized see the future, or desired state, of the company as extremely undesirable for them—for the obvious reason that it no longer includes them. And their personal future state is unemployment and, beyond that, unknown and thus potentially very frightening.
- The survivors see they will have more work to do in the company's future state as they try to take up the slack of those who have left. Many will also see the loss of friendships and working relationships on which they have come to depend.
- Managers, like the survivors, see the company's future state as less desirable than the present state—one in which they will have to figure out how to get work done with fewer resources.

Resistance to the Delta State

The transition, or “delta,” state—the time period and series of actions required to move from the company's current state to its desired future state—is short in duration but emotionally intense and thus triggers much resistance across the board. The manager who will “cause pain” by letting 25 of her people go later that day sits at the breakfast table that

morning wishing a fierce snowstorm would shut the whole city down (and it's July!) so that she can delay the onerous task ahead. The people called into her office later that day don't want to make that long walk back to their desk with a cardboard box; pack up their personal items for another long walk past their coworkers and out the door; and then have to face their families with the terrible news. The people who are staying—who felt that secret, guilty relief that they weren't on the list but are slowly beginning to see the downside of being left behind—don't want to go into the conference room where a blank white board and three magic markers await the process of reallocating the workload of those people who just disappeared out the door.

The Past *Is* the Present. People have long memories. If the company or employees have experienced significant workforce reductions in the past, the manner in which those were handled will strongly influence employees' and middle managers' expectations for the current one. That last downsizing might have been 16 years ago with only half of today's employees present at the time, but even people hired since then will know the story of how that change was managed. They all will be predisposed to expect that nothing will be done differently this time. If it was a painful experience then, no one is giving the company the benefit of the doubt this time around.

Lack of Trust in Leadership. The opinions formed by the remaining employees and managers about senior leadership during the downsizing will have a lasting and powerful impact on these two groups so essential to the company's recovery. If senior leadership is seen to behave in a caring, thoughtful, and trustworthy manner, doing all it can to ease the pain of those let go and those who remain, the survivors and their managers will have less anxiety and fear and a higher degree of confidence that they and the company can get through the change successfully. Consequently, they will experience less resistance to whatever changes are asked of them going forward. On the other hand, missteps or an uncaring attitude

by leaders fuels more fear and anger. Disgruntled employees who believe they were dealt with unfairly not only affect the internal operations and climate in the company, but can also color public opinion. What employer wants to see its employees on the local evening news discussing their treatment at the hands of an unfeeling and callous company?

Managing the Change and Reducing the Pain

Downsizing is clearly a case where *more* pain means *less* gain. A company that believes staff cuts are a necessity should also commit to actively minimizing the pain and trauma for its employees as part of the strategy for ensuring that the downsizing achieves the desired financial goals. This is a case where a carefully developed and implemented change management plan is an investment the company can ill afford *not* to make.

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A Change Management Plan

Once the decision to implement a downsizing has been made, the company needs to take the following steps:

1. Identify all the parties who will be impacted by this decision (and that includes more than just the people who will be let go).
2. Determine what the predicted impact will be on each of these groups.
3. Understand what each group will need to lessen the negative impact and minimize the pain of change.
4. Implement a plan of action to meet the needs of each of these groups, including monitoring

reactions, inviting feedback, and providing follow-up support where needed.

The material presented earlier in this article will prepare the company to address Steps 1 through 3. In Step 4, the company should draw on solid change management practices, with a focus on the following three critical areas, at a minimum:

- communication,
- learning, and
- rewards and reinforcements

Communication

Even though employees may have a negative view about a company-imposed change that affects them, this need not necessarily cause them to form negative perceptions about the company itself—provided the right actions accompany the change. Change management research repeatedly shows that effective communication of the why, what, and how of any change goes a long way to building acceptance, even when the change itself is a negative one. The following example, although in a context different from downsizing, illustrates how careful communication can reduce the resistance to change.

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Three years ago, a major U.S. manufacturing company decided it had to reduce its costs for employee and retiree medical insurance. The company planned and implemented a program that carefully and fully communicated the reasons behind the change; provided employees and retirees with information on their new benefits plan and options; created feedback channels for employees to voice their questions

and concerns; and monitored the effectiveness of the communications, including a random survey of employees at the end of the enrollment period in the new insurance plans. The survey indicated that, indeed, almost no one liked the change: 92 percent of those affected wished the change had not happened. Nonetheless, 86 percent said they understood the business case driving the changes and recognized that the company had made the right decision out of necessity. The vast majority indicated that they had been treated fairly, were given sufficient information about why the change had to occur, and received sufficient support and help through the process of making the change. Effective change management, including a comprehensive communication effort, minimized the downsides of “negative” change and created a positive experience for employees and retirees.

Legal counsel or the Human Resources department may advise a company to wait until the actual day and time of the firing or layoffs to communicate the information to employees. Many companies fear that if they divulge the news before the last possible moment, the best employees—those not on the list—will begin to actively seek jobs and be hired away, or that the people who are on the list will leave too early, before the company is ready to absorb the shock of losing them. While these concerns are very understandable, they seldom prove to be a big issue. Because the rumor mill is so strong, word of imminent cuts or layoffs is already out, and people who choose to be proactive will already be looking for new jobs. Headhunters can smell a downsizing from all the way across the country, and phones have been ringing in cubicles and offices with opportunities long before the official announcement. Added to these fears are the natural reluctance of senior leaders to deliver painful news until absolutely “necessary” and the tendency of some leaders to treat employees like children (“We won’t tell her she has to go to the doctor for another shot until we’re in the car and well on our way there.”).

Employees are adults, and often with responsibilities for others, and they need to know what is going to happen to them and when—as far in advance as possible. Those being downsized need to make plans to get on with their lives; those remaining need to prepare for the additional work they will be asked to take on. And why wouldn't the company want to be the source of that information instead of the gossip path? The far better approach for retaining the best employees and keeping the targeted employees from leaving too soon is for the company to assume there are no secrets in the organization, and then to ensure that employees receive accurate and complete information early from company leadership rather than having to rely on the speculations of a headhunter, a fellow employee out on the smoking platform, or reports in the local newspaper.

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The lesson from research and experience is this: Tell people what they need to know in order to cope with this disruptive change, including the following:

- why this change is necessary,
- what the change will look like (how they will be affected),
- how the change will be made, and
- what criteria were used to determine who would be let go (location, type of job, seniority, etc.).

Some of the messages will be common to all the affected groups—the downsized, the survivors, and their managers—and some will be unique and specific to a particular group.

Take the example of a midsized healthcare provider. Having concluded that it had no other choice but to

close one of its locations, which served a declining population, and let the nursing staff go, it fully recognized the wrenching pain the action would cause these employees and their families. Although the business decision was a sound one, that would not be immediately apparent to the nurses, who were dedicated to their patients and their community and had never received much information from the hospital about its business or how financial considerations impacted operating and staffing decisions.

Recognizing that the nurses' first need would be to understand *why* they were losing their jobs, the hospital structured an early communication of the layoffs around a basic lesson in its business. It explained that the mounting operating losses at the location would continue to worsen as the same number of providers competed for a shrinking base of patients, and that continuing to shoulder this location's financial losses would erode the hospital's fiscal health and ultimately endanger its mission of serving the sick at other locations, where the need for services was growing, not declining. It had made the hard decision now in order to avoid the eventuality of having to shut all its doors. The hospital also assured the nurses that the community would be adequately served by the remaining providers in the vicinity.

Concerned for their futures, the nurses were not happy with the decision—nor had the hospital expected them to be. But they could articulate why the hospital had made this decision; they understood its necessity; and they had been informed in advance of the action, which gave them some time to prepare themselves and their families. This early communication and concise explanation freed them emotionally to begin to focus on moving forward with their lives and careers.

I recall a daylong off-site meeting of a team responsible for the downsizing effort in a large company with affected business units in 14 countries. On the white boards lining the walls of the meeting room, the team had just finished laying out the elements

of a communication plan and surveyed the results, which included the following:

- the common information needed by those leaving and those staying, and the messages specific to each group—as well as country-specific variations;
- for each group and each message, who was responsible for crafting the message, and who was responsible for delivering it; and
- the timing and the costs.

Every bit of the plan made sense, but it was going to be a lot of work. Then the project manager totaled all the costs on the white board. The team members looked at one another. The cost was higher than anyone had anticipated. After a few moments of silence, the project manager tapped the number on the whiteboard and said, “The cost of not doing this will be even higher.” The team members nodded in agreement, and the project manager added, “Now we’ve got to show senior management that this will be money well spent.”

Learning

One of the strong inhibitors of change is an individual’s lack of ability or skill to make the change happen. Members of each group affected by a downsizing need new skills to cope with the changes in their situation.

The Downsized. The person who no longer has a job at the company needs to utilize a different skill set—the one needed to find new work. Companies that can afford it may offer senior people training and assistance through an outplacement firm. For those not fortunate enough to receive that service, the company should seek out other cost-effective ways to help them to develop this new competency. The sooner the person can begin earning again, the more quickly the pain and sense of loss will recede.

The Survivors. Employees who remain with the company may need training or coaching on how to mod-

ify roles, workflow, and procedures so that fewer people can perform the required work. If a particular dismissal results in the loss of a person with key experience or knowledge still relevant to the organization, the company needs to determine a means for transferring that know-how to other employees or other ways to fill the void.

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The Managers. Few managers have gained the experience or skill to expertly deliver the most difficult message of a firing or layoff. Dismissing a large group of people in one day is not a common occurrence. The method managers use to communicate with each employee (face-to-face or by phone, e-mail, or voice mail), how they handle questions, their body language—all this will strongly influence the employee’s perception about being treated fairly, as well as acceptance (or rejection) of the company’s decision and position. Training is essential to avoid unnecessary pain for either party in the transaction, and to ensure a consistent and sensitive delivery that also protects the company’s image and reputation throughout the process.

One of the finest examples I have seen of fully preparing managers for a major downsizing occurred at a financial institution. Instead of the typical one-hour meeting in which managers are handed a script (see the earlier example about Matt), this bank scheduled its managers for an entire day. After they learned they would be spending the following Monday meeting one-on-one with employees to tell them they no longer worked for the bank, senior leaders explained the reasons behind the downsizing,

detailed what was going to happen and how, and then answered questions.

Next, the managers moved to break-out rooms, where each sat behind a desk as trained actors (role-playing the employees) came in one by one to receive the news that they no longer had a job with the bank. The manager read from the script, practicing what to say and how to say it. The actors had been instructed to act out particular reactions to the news. One got angry and yelled at the manager. One cried. One silently accepted the news, got up to leave, and dropped to the floor in a faint. An HR representative, who sat with each manager through each of these simulated meetings, coached the manager through the feelings each “employee” reaction evoked.

It was a painful and exhausting day for the managers. The weekend that followed was not pleasant as they considered what they had to do on Monday, although they felt confident that they could handle the situations the news might trigger. Monday was not easy for anyone. The CEO asked all the managers to join him in his conference room at the end of the day. He thanked them for their work that day, and then asked them to talk about how it had gone and what they felt. They went home that evening knowing they had done a difficult but important job—and done it well.

Rewards and Reinforcements

It may seem strange to mention rewards and reinforcements when the topic is downsizing. What can be rewarding about that? A company is asking a lot of people to make uncomfortable changes during and after a downsizing—and it is the wise company that shows it values these efforts by also providing encouragement and recognition.

The Downsized. To honor the employees who are leaving, acknowledging the work they have done and their commitment to the company over the years makes it possible for them to walk out the door with

pride and dignity. Companies that fumble this part of the process can cause the employees further discomfort on top of the already substantial pain of losing a job and the network of relationships that made up their work environment. Imagine, after being told you are no longer employed, the humiliation of being summarily escorted out of the building like a pariah or a criminal. Ask whether witnessing a colleague being treated in such a way is likely to engender loyalty or fear in employees now asked to give their all. Instead, a company can encourage its managers to show compassion and offer them some options for minimizing the distress of the last day for those leaving the company.

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Managers who know the employees best can take steps that may seem small but nonetheless reduce the trauma of the individuals’ experience. Take the example of Beatrice, who knew that the people in her unit who were losing their jobs would not want to run a gauntlet of cheerful coworkers. She knew that the individuals would be embarrassed, angry, sad, or even ashamed to be seen departing with their personal belongings in a box. On the day of the announcement, as the employees each returned from the Human Resources office with the news that he or she was “redundant,” they found a handwritten note from Beatrice. It thanked them for their contribution to the company and the work they had done. The note went on to suggest that if they preferred, they could wait in her office until the coffee break or lunch to pack up and leave when fewer coworkers would be around. Some accepted her offer; others chose to leave quickly and braved the gauntlet of well-wishing coworkers. But they all held their heads just a little higher as a result of her thoughtfulness.

The Survivors. The people left behind need to be acknowledged for the effort they are making to “take up the slack.” Their managers and senior leadership should make certain they know that their efforts are seen and appreciated.

The Managers. Senior leaders should thank the managers, HR staff, communications people—everyone who did the hard work of planning and implementing all the necessary steps, including the change management plan, to minimize the pain of the downsizing and prepare the organization for moving forward. They should ask for feedback from those managers and HR people on the front lines, especially—the ones who delivered the bad news to those let go, who must assuage the anxieties of those left behind, and must now learn to manage their units with fewer resources. Find out how they are doing, and provide encouragement and support to them for the difficult work that still lies ahead.

It Isn't Over

There is a final argument I would offer for approaching your company's downsizing as the careful

change management initiative described in the second half of this article: If you execute poorly this time, the chances are higher that you will have to do it again. Take all the steps you can to minimize the pain for all those affected, and learn from any past mistakes. The actions you take now set the course for the company's recovery, including the tenor of its relationship with the employees and managers who remain and its reputation with its former employees and its stakeholders. So make it the best effort possible.

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