Corporate Downsizing

Solutions to Solving Employee Morale and Motivational Issues

Prepared by Solutions Inc.

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January 19, 2008

Memorandum

To: Executive Management Team of *Corporation X*

From: Solutions Inc.

Date: December 8, 2007

Re: Solutions to Solving Employee Morale and Motivational Issues During the Downsizing Process

Please find attached our in-depth report on the employee morale and motivational issues a company faces when downsizing. We have addressed the issues in the Rutledge Company case provided by you as you requested, as well as given some specific examples of a few other companies throughout the report. By following the recommendations we have laid out, we believe you will successfully execute your downsizing plans.

Comment [J.1]: Please also find our fee note attached…

We welcome your thoughts and questions.

Solutions Inc.

EXECUTIVE SUMMARY

Downsizing is often expensive and the effects usually produce only short term gains. The long term effects are more lasting and almost always include a loss of trust between management and employees. When employees feel that they are just an asset to be manipulated by the company their basic need of safety goes unmet and this leads to low morale and lack of motivation to help the company succeed.

Comment [J.2]: Could usefully tell what is downsizing here

When downsizing is needed due to mergers, or technology or continuous improvements, it can be handled proactively which may help to improve operations, enhance strategic objectives, and improve performance across the entire organizational system (Hubiak & O'Donnell, 1997).

The impact downsizing has on employees is perhaps the most crucial issue a company faces, because even with a great strategy and business plan, if the employees are not on board, the chance of success is negligible. The most common result of restructuring and layoffs is lower employee morale, due to employees feeling:

- depression
- disillusionment
- frustration
- stress
- job dissatisfaction
- role ambiguity

To reduce the negative effects of downsizing some best practices have been suggested, which can be roughly summarized into three main categories (see section 5.1 for the complete list):

- planning
  - so that upper management can recognize
    - the signs of an impending downsizing situation

        - which employees will be most beneficial to the future organization based on performance reviews and employee contributions
- communication
    - the company must communicate what it knows before the employee is able to surmise it on their own or finds out about it from other sources
        - gets employee buy-in
        - involvement in the downsizing
    - the company must communicate those issues that have yet to be decided
        - allows employees to not become victims but rather can be an integral part of the success of the company
- employee involvement
    - builds trust
    - removes the feelings of helplessness

Comment [J.3]: Along with a time scale.

Last, it is vital that the company consider those employees that survive the layoffs by minimizing workers' anxiety and maximizing employee satisfaction. The keystone to good performance is allowing the employees to participate in career development activities. By helping them to learn the specific skills they need for their present or future jobs the company can also help the employee achieve self-actualization. Employees need to know their future responsibilities and relate it to the necessary skills needed in the organization. In the long term it will reduce turnover and increase employee involvement as well as feelings of commitment towards the company.

In conclusion, a company that keeps the "customer in mind" with continuous improvement via employee empowerment may be able to use alternatives to downsizing as listed in section 3.3. Employee participation in all aspects of the business is crucial and companies would do well to also keep "the employee in mind" for the success of the organization.

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1 INTRODUCTION

Building a company in today's competitive economies requires making strategic goals that keep the "customer in mind." It is a way of doing business that requires:

- long-term investment and planning
- continuous improvements
- employee involvement and empowerment

If these are followed, the company can gain a competitive advantage which will help it be successful.

However, due to current economic and competitive pressures, businesses often focus on the short term financial goals and gains rather than the long term viable strategic direction and vision, causing them to face the difficult task of having to downsize.

In the US, downsizing became common during the late 1970's and early 1980's recession. Costs needed to be controlled, and the easiest cost object for management to adjust were employees; especially the employees that previously had been acceptable to keep on staff even during the slow period of the cyclical nature of the economy. It was during this time that employers realized they could get by with less, and downsizing became a permanent philosophy (Appelbaum et al., 1987).

However, downsizing, or as it was known in the late 1980's: resizing, rightsizing, restructuring, or reengineering, is not an area where there has been a lot of empirical studies done initially. Only within the past decade, with the majority of large companies having been affected by downsizing at some time or other, are we finding that more and more studies are being conducted. It is therefore only fairly recently that managers no longer are required to approach downsizing without having a theoretical background or validated models or guidelines (Cameronn, 1994). As such it is no wonder that for the past 30 years or so, after the downsizing process was complete, the number of executives who said that they have achieved the desired results are few and far between (Robertson, 1987).

Comment [J.4]: What is it? Defintion or description of *what it is*is needed here

Comment [J.5]: Especially in the West – very high cost. Ask the Taiwanese in your group about their reactions to this approach

Comment [J.6]: You make the point without saying it i.e., many different names for the same thing.

Comment [J.7]: All about making massive performance leaps. Hammer's et al book on this is a light and easy read.

2 DOWNSIZING REASONS AND APPROACHES

2.1 Reasons for Downsizing

There are two main reasons a firm decides to downsize:

- as part of a proactive strategy that is focusing on improving operations, enhancing strategic objectives, and improving performance across the entire organizational system (Hubiak & O'Donnell, 1997)
- as part of a reactive strategy that concentrates on improving financial performance (Hubiak & O'Donnell, 1997), with labor costs having progressively become the primary cost component that management perceives it must control (Robertson, 1987)

Falling under the more proactive strategies we can find:

- mergers and acquisitions, which allow economies of scale and where whole departments or management levels can then be eliminated
- advances in technology that have not only replaced many workers in manufacturing and production plants, but that also have allowed streamlined and efficient reporting systems. The need for many middle-management positions are thereby reduced as top management can have immediate access to the information they require (Robertson, 1987)

The reactive strategy often comes from the competitive environment we see today, with increased competition through low cost, high quality international products, deregulation, and the flood of new, small scale, niche market entrepreneurs. These force companies in most industries to focus on increasing their quality while decreasing their costs, with costs being the main focus.

Comment [J.8]: For a report I'd use a number style referencing system.

Comment [J.9]: Key point – cost control – treated like any other asset

Comment [J.10]: A lot of this is becoming unclear because you have not started by explainin what downsizing is. That is quite critical since the *concept* (a focus on effectiveness and efficiency) is often lost in the *practice* (becomes effieciency / cost focus). Here, this would make more sense within that context i.e., introduction of systems and elimination of waste is really a key part of effective downsizing.

2.2 Approaches to Downsizing

The concept of downsizing focuses on the choice among three broad approaches,

depending on a company's planned strategic change and/or direction:

- retrenchment
- downscaling
- downscoping (Dewitt, 1998)

2.2.1 Retrenchment

- maintains and potentially strengthens a firm's position in an industry
- includes
  - centralization
  - specialization of production
  - alteration of supplier relationships
  - realignment of managerial responsibilities
  - productivity improvements through re-engineering processes and closure of redundant facilities and jobs
- useful when
  - firm's resources have limited competitive viability

2.2.2 Downscaling

- use of permanent cuts in human and physical resources to maintain product line and market scope
- reduction of output to bring supply in line with demand
- involves
  - permanent sacrifice of scale advantages
  - permanent scale reductions that do not shrink the firm's boundaries by changing its product line and market scope

2.2.3 Downscoping

- reduction in the resources underlying variety in a firm's activities
- reduces the complexity of a firm's product-market-technological position
  - decreases the need for vertical and horizontal differentiation

- combines
  - physical and human resource reductions
  - simplification of organizational systems or processes

Once the broad approach is determined looking at the strategic direction of the company, there are three approaches firms most often choose from when it comes to identifying which jobs and individuals to cut, as given in Robertson's article *Downsizing to Meet Strategic Objectives* (1987):

- the program-driven approach
- the product/service approach
- the management systems approach

2.2.4 The Program-Driven Approach

The single objective of the program-driven approach is to reduce cost through reducing the work force. The methods used are programs such as:

- early retirement
- hiring freezes
- general across the board cuts

This approach has several downsides:

- it is considered a temporary band-aid fix rather than addressing root causes
- vacancies occur randomly throughout the organization rather than through careful assessment of the business needs satisfied by each position
  - early retirement causes vacancies based on the age of the employees cut
  - hiring freezes causes vacancies wherever an employee leaves
- tends to eliminate positions that are critical to the company's success,

Comment [J.11]: Note how this creates problems in the future. Particularly if the organization returns to growth and if they freeze hiring for 1 or 2 years. It is very hard to recover from that since to train, develop and then promote people takes time.

Comment [J.12]: Key

weakening the competitive position of the company rather than strengthening it

- management often falls into a cycle of reallocating resources to fill inappropriately vacated positions due to the randomness of the downsizing, creating additional problems requiring management to reallocate other resources, and so on

Due to these negative aspects, downsizing is seldom successful in firms that utilize this method as it does not focus on reorganizing the company and operations into a more efficient model, but rather is just a smaller version of its old self, and more stretched resource wise. It is therefore considered to be a sub-optimal approach. However, despite this, it is still the approach that is found to occur in many large corporations (Robertson, 1987).

2.2.5 The Product/Service Approach

The product/service approach is based on the principle that good cost control focuses on the end product or service rather that the people who produce it. It therefore looks at which products or services within the company can be streamlined or eliminated, and then staffing is reduced as a result.

Comment [J.13]: You can see that often the accountants dominate in this space! Just a personal view – but accountants make the worst CEO, for this reason.

The product/service approach:

- conducts a company wide product/service analysis
- uses task forces or committees to develop, review, and recommend ideas for streamlining the company
- usually takes from six to twelve months
- often sees a consultant hired to manage or facilitate the process

This approach consists of the following steps:

- analyze product/services provided and resources consumed
- determine proposed products/services and associated organization

changes – which positions to eliminate
    - ideas for reducing the cost of products/services are generated by managers though appropriate involvement of employees
    - implications of any new corporate strategy must be incorporated
- identify individuals for remaining positions
- implement and manage reductions

Robertson proposes that this approach enables the organization to downsize while giving employees the feeling that they have received fair treatment, as they understand what changed and the impact of those changes though being a part of the process.

2.2.6 The Management Systems Approach

The management systems approach relies on the organization's principal management systems – usually the corporate budgeting system – to determine the new, smaller size of the organization and general resource allocation among the various work groups or departments. This focus then permeates down throughout the organizational levels, with lower level management adjusting their group or department's missions, products, and methods of delivery in order to meet the company's strategy. This approach consists of the following steps:

- top level management allocates resources through translating the strategic vision into resources for each level of the organization
- all levels of management assess the number of employees that can be funded within their work groups
- lower level management analyzes products/services and while lower and upper management analyzes the organization to determine what work needs to change in order to adjust to the loss of man power and meet budgetary constraints
    - Rank products/services and employees

- Discontinue or modify products that cannot be funded as-is
- Keep in mind the strategic direction throughout the whole process

- identify individuals for positions that remain
- implement and manage reductions

It is important to note that the product/service approach and management systems approach are not considered the end-all-be-all, and that adjustments will be necessary in the months after the downsizing, as well as that the organization must continue to change and respond to their changing markets (Robertson, 1987).

3 EFFECTS OF DOWNSIZING

3.1 Positive Effects

When downsizing is executed successfully as part of a proactive strategy, there are many benefits to be seen, such as:

- increased efficiency
- cost competitiveness
- increased flexibility and speed in decision-making due to a more streamlined chain of command
- overall improvements in job satisfaction (Appelbaum et al., 1987)

3.2 Negative Effects

However, it has been found that only about a quarter of the companies that conduct downsizing get to reap any sort of longer term benefits. This is because most firms tend to focus on cutting unnecessary jobs rather than unnecessary work (Mishra & Mishra, 1994). This has caused major repercussions both on a macro and a micro level (Appelbaum et al., 1987).

Comment [J.14]: Definition – issue. See progressive insurance in the US. This company was famous for rethinking delvery of car insurance. When you have a crash an agent will come, assess the damage and write the cheque/check. Often reengineering involves this kind of thinking, i.e., asking what is the end goal and then thinking laterally to deliver that and generally saving significant amounts of resource.

3.2.1 Macro Effects

When looking at society and the economy as a whole, we can see that downsizing

has:

- increased the number of unemployed citizens, thereby adding pressure to the unemployment and welfare programs (Appelbaum et al., 1987)

Comment [J.15]: Mention numbers – often talking several thousand.

3.2.2 Micro Effects

Not only is downsizing an expensive undertaking for the firm, but the individual employees are also acutely affected, both the 'casualties' that are cut as well as the 'survivors' who do not lose their jobs. The first may face:

- depression
- lost confidence due to loss of old job and inability to get another one
  - especially for older employees who only have a few years left before they reach the age of retirement (Appelbaum et al., 1987)

Comment [J.16]: Yes.

While a few of the emotions survivors may face are:

- disillusionment
- frustration
- increased levels of
  - stress
  - conflict
  - role ambiguity
- dissatisfaction with supervisors and co-workers
- decreases in job satisfaction (Appelbaum et al., 1987)
- bitterness (Hubiak & O'Donnell, 1997)

There are many other effects survivors may face in addition to the ones just mentioned, which will be fully discussed in section four – Impact on Employees.

All in all, though there may be an initial increase in productivity, eventually organizational performance may suffer due to possible decreases in the level of co-ordination and motivation, as well as because employees that remain no longer

feel safe and secure in the company (Appelbaum et al., 1987), and lack hope and commitment (Hubiak & O'Donnell, 1997).

3.3 Alternatives to Downsizing through Layoffs

With all the negative effects of downsizing through layoffs it is interesting to note that a research done by McCune et al. (1988) on Midwest manufacturing firms in the US found that while 60% of the firms had gone through downsizing, none of them had considered alternatives to layoffs such as:

- restricting overtime
- retraining
- transfers
- demotions
- switching to part-time or shared jobs
- converting employees to consultants
- utilizing
  - unpaid vacations
  - reduced pay (Mishra & Mishra, 1994)
  - shortened weeks (used in Europe to fight high unemployment rates) (Cameronn, 1994)

Dow Chemical is one company that has chosen to reject the option of downsizing through layoffs, utilizing redeployment instead, because they believe that the quality of work from motivated employees is incomparable to that from employees who are not well motivated, and that laying people off causes any loyalty that has been built to be lost (Mishra & Mishra, 1994).

Comment [J.17]: One local Taiwanese company took an interesting approach. Rather than fire any staff they opened a new brand and a new chain of restaurants. That way when they had saturated the high end market they didn't have to lose anyone. This chain is now on of the most successful in the group.

Comment [J.18]: Add voluntary redundancy to this list.

4 IMPACT ON EMPLOYEES

The impact downsizing has on employees is perhaps the most crucial issue a company faces, because even with a great strategy and business plan, if the employees are not on board, the chance of success is negligible. So without discreet plans, although a corporation may win temporary cost savings from downsizing, the affect on employees' morale and motivation will have a detrimental effect on organizational competitiveness in the long term.

Comment [J.19]: All the more critical in service because people are a key part of the offer. So the impact of poor performance has a knock-on effect into customer satisfaction and retention reates.

Lower employee morale is the most common result of restructuring and layoffs, according to the 1996 Job Security and Layoff Survey conducted by the Society for Human Resource Management. Of all the respondents, 62 percent said morale at their organizations decreased because of layoffs.

In many organizations, people do not know what is being planned, and they do not know if or how long they will have a job when restructuring occurs (EMBA Magazine, 2008). This shakes their feelings of:

- security
- stability
- protection
- structure
- order

Each of the above are linked to the safety needs level in Maslow's hierarchy of needs (see Appendix A). The uncertainty also affects their belongingness needs, as the employees feel they no longer belong or are accepted into the community within the company (Mahesh, 1993).

Once the downsizing has been announced, and throughout the downsizing process, if employees' feelings of safety and belongingness are threatened, they will resist the downsizing, and their motivation to work and help the company succeed disappear, replaced by motivations to ensure their own survival. It has been found that they will

display the following characteristics:

- absenteeism
- sabotage
- theft
- increased stress
- anger, sadness, guilt, insecurity, fear and anxiety towards the uncertainty about the future and the actual or perceived threat of loss
- decreased motivation, morale, loyalty, productivity, creativity, organizational learning and commitment
- reduced performance with extra workload
- distrust of management/withdrawal from leading (Amundson, 2004; Paterson & Cary, 2002)

As throughout this time most employees do not know if they are staying or being laid off, the above characteristics can be found in all employees whether they be survivors of the downsizing or not. Not very surprisingly perhaps, even just the rumor of layoffs could cause these syndromes as well (EMBA Magazine, 2008).

Once the downsizing has been completed, society and the media tend to focus on the employees who lost their jobs, and who are struggling with the need to be recognized as competent and useful by others, and self-esteem needs, as these have been crushed through losing their jobs and perhaps not being able to find new ones (Mahesh, 1993). However, it is not often realized that the survivors' health are easily affected both mentally and physically in the aftermath. Those whom are regarded lucky from outsiders' point of view do not think themselves lucky at all. Even worse, they often worry that they might be the next victims, feel guilty for having kept their job while their co-workers they may have known for years lost theirs, and ultimately have lost trust in management. Even top managers who were not in jeopardy of losing their jobs but had to do the firing are often emotionally affected, bearing guilt as well.

According to the research by Professor L. Grunberg (2001), the 2,000 survivors in an

enterprise in Seattle suffered from:

- melancholy
- insomnia
- change in general dietary habits
  - obvious weight gain

From a survey done by the American Management Association (1997), 70 percent of the surveyed companies declared that after a layoff on a large scale, the survivors' health decreased significantly, including:

- mental disease
- medicine or alcohol dependence
- high blood pressure
- heart disease

Grunberg indicated that:

- 43 percent of survivors had problems in interpersonal relationships
- 38 percent stated that their family lives became more tense

Other behaviors changed including:

- worse temper
- poor communication
- inability (or unwillingness) to finish work on time
- more sick leaves
- worse concentration

These changes mentally and physically are known as the 'Layoff Survivor Syndrome.'

The question then becomes how to combat the decrease in morale and motivation. Studies however have found that satisfying the wish of survivors to understand and be involved in shaping the restructuring process makes a world of difference, as the frustration employees expressed when their input was not sought or when it was

ignored was fully to the detriment of the organization (Amundson, 2004).

5 RECOMMENDATIONS TO INCREASE THE MORALE AND MOTIVATION OF EMPLOYEES

As mentioned above, it is of utmost importance to involve employees in the downsizing process, thus allowing their safety and belongingness needs to be met, as well as may boost their esteem and self-actualization needs (see Appendix A) as they feel they have a certain amount of influence on their futures. In order to do this, a firm must have a clear and planned approach, and be aware of all the steps they can take to help with the morale and motivational issues employees face during the downsizing process. We will discuss these steps below in section 5.1, briefly tying it into the Rutledge Company case where applicable, and then specifically and fully address the Rutledge Company case in section 5.2. Section 5.3 discusses how further training can help address motivational issues as well.

5.1 Specific Actions to Take During the Downsizing Process

There are many theoretical approaches to downsizing. Robertson says that no issue facing management is more sensitive because employees' careers are impacted and their lives are often permanently changed. However, there are three things that top managers must do to make the steps of the downsizing process manageable, less painful for employees, and more beneficial for the company:

- keep a clear focus on the results so as not to get bogged down in conflicting self-interests
- make the strategy for achieving the results clear and specific by having a rough roadmap of how to get there while having top managers display certain and consistent behavior
- move promptly and decisively because the sooner costs can be reduced and the organization restructured the sooner the company's financial outlook will be improved (Robertson, 1998)

Kim S. Cameron suggests 30 principles in the form of general prescriptions for effective downsizing. These principles are broken down into nine dimensions:

Comment [J.20]: Reference

Deleted: 9

- approach
- preparation
- involvement
- leadership
- communication
- support
- cost cutting
- measurement
- implementation (Cameron, 1998)

These principles cover what things should be taken into consideration before during and after the downsizing effort. However, many of the principles are overlapping so the exact steps to downsizing successfully are unclear.

On the other hand, Appelbaum et al. (1987) devised a set of steps that are clear and has the employee in mind with the Human Resources department leading the downsizing effort. Our recommendations for best practices for increasing employee morale and motivation follow these steps, adding a few more that we feel were not covered, and used specific details from other researchers where applicable. Each step will now be explained, and where it relates to the Rutledge Company case as given to us, we have put the information in blocked quotations, along with specific examples from other firms.

Deleted: (1987)

5.1.1 Develop and Manage a Plan

The first step, which is crucial to the future of the company and allows for consideration of employee contributions as well as other assets, and must be lead by Human Resources (HR):

- recognition of the problem, which includes analyzing all the factors relevant

to the organization's performance before the lay-off decision is made (Appelbaum, 1987)

Important aspects to take note of:

- for security purposes only HR should be allowed to know the details of each employee's service record, as that data is considered to be a privacy issue in many countries
- when employees are considered assets rather than expendable resources that can be removed in times of financial difficulties, the trust between management and employees is good and creates an atmosphere in which the employee wants to do their best to help the company

An example where this was handled correctly was IBM's early identification of potential layoff conditions allowed the corporation to redeploy personnel from its Burlington plant over a period of months without making sudden, widespread layoff announcements (Feldman, 1994).

5.1.2 Define the Future Organization

The second step ensures that the company:

- stays within its strategic course in light of the downsizing decision, through:
  - understanding new business levels
    - i.e. size, nature of company, competitors, resource planning
  - describing the positions that would be needed
    - i.e. the types of jobs, number of jobs and skills required (Appelbaum, 1987)

In this way the company can retain the employees needed for the future while

Comment [J.21]: Often individuals have to applyt and be interviewed for the new jobs.

weeding out the poor performers.

5.1.3 Define the Affected Groups

The third step:

- assesses the involved groups, in terms of anticipating differences between the present and the future organization staff (Appelbaum, 1987)
- gives the HR department time to determine and plan how to best handle those employees that are most likely to be laid off and thus not only avoid possible lawsuits but also severe the employee company relationship with as little animosity on both sides as is possible.

5.1.4 Identify People who need Placement

The fourth step:

- identifies exactly which employees will be laid off and might need help with placement
  - guidelines should be established so that “critical skills” are not lost (Appelbaum, 1987)
- HR can start to create more detailed plans for each individual employee, both those that are being laid off and the survivors
- an employee skills assessment could be started at this point and used to plan appropriate services concerning employees’ futures. Employee skills assessment programs the worker to know what jobs they are aligned with

Prior to doing the skills assessment it would be a ‘best practice’ to inform the employees of the changes that are going to occur while also letting them know that not all the details have been worked out.

5.1.5 Advanced Notification of Layoffs

Rutledge informed its clerical staff well in advance of the impending layoff, which will give their employees, especially those that end up being laid off, enough time to plan for their financial future and avoid catastrophic financial losses.

Comment [J.22]: This is only the start of communication. They need to have a clear plan and continue to keep staff informed as they go through it.

This practice also recognizes the importance of grapevine information, possibly reducing the amount of rumors while also avoiding erosion of trust between employees and management (DiFonzo, 1998). Better that they receive this news from the company before they figure it out on their own.

5.1.6 Establish a Time-Line and Comment on the Inability to Give Further Information

While company announcements including advanced notification are aimed at supporting and building trust between employees and management, clarification of the time-line:

- helps employees to handle downsizing anxieties, allowing them to plan more carefully for their re-employment (Woodruff, 1996)

Rutledge could give more clear and direct information about when the rollout is actually scheduled for implementation. Rutledge should have let the employees know that certain issues pertaining to the layoffs (severance, benefits, and training programs) were still being discussed. Because they are uncertain as to the outcome of these discussions and the company does not want to give the employees incomplete or wrong

Comment [J.23]: Factors – as noted before (uncertainty etc. kick in).

information, they should have given a date that further information would be forthcoming (DiFonzo, 1998).

5.1.7 Plan for Staffing and Future Organization

The fifth step:

- plans the procedures for staffing and adjusting staff in the future organization (Appelbaum, 1987):
  - HR can now identify which job functions are going to change and how
  - employee involvement in the redesign of the business procedures can help to create better morale and motivation as the workers become part of the process

Comment [J.24]: Training too – since often new technology / systems have been implemented.

5.1.8 Create Placement Opportunities

On this step:

- organizations can smooth the impact of downsizing and its influence on staff motivation while minimizing the risk of potential problems
- including
  - 'inside' strategies, i.e.
    - early retirement incentives
    - termination of 'documented poor performers'
    - anticipatory 'banking' of jobs
  - 'outside' strategies (Appelbaum, 1987), i.e.
    - placement opportunities
    - outplacement

Outplacement programs are designed for laid-off employees to:

- learn how to locate new job opportunities
- market themselves more effectively to potential employers.

It contains many diverse elements of worker assistance programs such as:

- skills assessment
- training in job search skills
- use of job referral services
- provision for job search support services
- education and retraining programs (Feldman, 1994)

A multitude of other programs could also be devised (discussed in further sections) such as:

- retraining
- outplacement
- support services programs (Feldman, 1994)

Amoco's Career Management Center provided a worldwide electronic job-positioning system and a network of career advisers to offer career advice to new employees and those considering job changes (Hequet, 1995).

Stroh's Brewery Company designed and implemented comprehensive outplacement programs, the results of which were remarkable; a year after the plant had closed 100% of the salaried employees and 98% of the hourly employees had found new jobs (Feldman, 1994).

5.1.9 Early Retirement Incentives

Organizations tend to use early retirement incentives as an alternative to layoffs. However, consideration of all possible alternatives of downsizing should be carefully done since terminations are expensive and not easily reversible. In particular,

- offering voluntary retirement programs that provide of very generous packages may end up
  - encouraging those that the company wishes to retain to leave, while
  - not encouraging those it wishes to leave to go

Dupont, for example, had an open-ended program designed to cut some 6,500 employees but twice that number left, including 400 employees who had to be kept on the job until successors could be trained (Appelbaum, 1987).

5.1.10 Education and Retraining Programs

Educational and retraining programs are conducted in order to:

- help the displaced employees to have an economic safety net that will help them secure jobs in different corporations and/or in different industries (Feldman, 1994)

If management emphasizes both the risks and opportunities inherent in the change, employees may be motivated to take advantage of any retraining programs or additional education offered by the company (Hornstein, 1983). The greatest risk is that there is a limited amount of similar jobs in the same industry and geographic location.

In GE about the half of the laid-off workers entered some type of educational program. The end result of GE's outplacement programs was that GE had a 70% placement rate, with the average employee earning 80% of his/her previous wages (Feldman, 1994).

5.1.11 Collaboration of Private and Public Sectors in Providing Services for Displaced Employees

Generally corporations going through a downsizing cannot meet all the needs of displaced workers on its own. In this case a third party is involved and it plays an active role in decision-making concerning the downsizing:

- on the one hand, companies may implement the layoffs with assistance from various state and federal agencies, and or labor unions
- on the other, private consulting firms can be invited in order to design outplacement and training programs (Feldman, 1994)

If they are unable to do anything else, Rutledge should offer at least the address, contact name and number of the local employment office. It would be nice if they could also use their contacts with other retail chains to provide their employees with some additional contacts for securing the position with the different store.

Comment [J.25]: Atleast!

Cooperation with labor unions in the case of GE and United Steelworkers of America (USW) resulted in the creation of training centers, which made the workers more competitive by providing retraining and re-employment assistance (Feldman, 1994).

5.1.12 Develop Process Facilitators to Handle Employee Questions

In order to facilitate the downsizing process it is important to communicate with employees:

- share information with them
- involve both the line and HR function
- have an empathetic, pro-active management

- emphasize with the individual (Appelbaum, 1987)

Rutledge management should clarify which people will be responsible for making the decisions about possible layoffs, benefits, severance pay and any other issues that are still being worked out. Also, the employees should be given a name and number for who they can contact to get answers for any questions they might have (DiFonzo, 1998).

5.1.13 Allow Reasonable Time for Placement and Retirement Planning

The company conducting the layoff should consider the time minimum between notification and termination. As it was already mentioned above, organizations design and implement comprehensive outplacement programs, however in order for these programs to work and have a positive impact on displaced employees they cannot be short. Instead, they must systematically include:

- skills assessment
- and training in job search skills

These are both crucial in helping displaced workers find satisfactory re-employment. Therefore a layoff schedule should be carefully planed by the Human Resource department (Feldman, 1994).

5.1.14 Terminate or Layoff (only if necessary)

This is one of Appelbaum's last points and for good reason. If all the other steps have been done with careful consideration it is possible that enough employees will leave, either:

- by accepting the early retirement package
- terminated as 'documented poor performers'
- taking advantage of the skills assessment and securing a job that is a

better fit for them

If layoffs are still necessary then severance pay and extended benefits should be considered.

5.1.15 Severance Pay and Extended Benefits

Although companies going through downsizing are unlikely to be cash rich and may not be able to provide severance packages, the best organizations do ensure that health and life insurance benefits are extended so that medical illness will not spell financial ruin for the displaced worker.

General Electric, the United Steelworkers and United Auto Workers have all been active in securing funds from various government-sponsored programs (Feldman, 1994).

In Rutledge's case they could offer some if not all of the laid off employees severance and health benefits, for at least a short time after they are actually laid off, if the employee has not found another job. This will provide the displaced employees with an economic safety net to prevent then from financial loss. Because Rutledge has not mentioned anything about any possible benefits for employees that will be laid off, or incentives to get workers to leave early, it shows the employees that they were not really important to the company and lowers the morale and motivation of the workers.

Comment [J.26]: Neeed to design a clear severance package. Often (certainly in UK) the minimum legal requirement is very low and so often companies willl pay out more than this.

5.1.16 Provide for a Healthy, Smaller Organization

To ensure the health of the future organization, the productivity and morale of surviving employees has to be maintained at a high level during and after the

cutbacks. Managers will need to re-build confidence, support and trust in the company for the retained workers (Appelbaum, 1987).

For example, at Duracell Inc.

- each continuing employee was provided with personal career assessment counseling to help him or her to evaluate the impact of the upcoming changes on future career options
- employees were informed what type of assistance they would receive as survivors
- after the announcement of layoffs, meetings in groups with senior management were organized for survivors in order to discuss with employees their feelings about the layoffs, their anxieties about the future of the company and work-related topics

As a result of these initiatives, Duracell lost only two survivors to other corporations, and productivity levels among remaining employees was maintained (Feldman, 1994).

5.2 Getting Users to Use New Technology

As the Rutledge Company's case clearly shows, they missed many opportunities to handle their downsizing situation in a way that would treat employees, both leaving and staying, fairly. We will now discuss some important aspect that they should have considered, as is directly related to introducing new technology.

Comment [J.27]: Often involves developing new skills – they mention the training – which potentially makes staff more employable/marktatable. A point they should be looking to promote.

5.2.1 Software Development Life Cycle

As already mentioned, employee loyalty to corporations undergoing downsizing is low, as it is difficult for employee to feel committed to their organization when keeping their jobs is in doubt (Hirsch, 1987). Firms that are going to go through downsizing may wish to increase employee attachment by building up commitment:

- to the work itself (Hackman, 1980)
- to the work team (Wanous, 1984)

In other words, it may be easier to create positive attachment to more immediate stimuli (such as job or the work group) than to create commitment to an amorphous, distant and something threatening corporate entity (Feldman,1996). Given this information, new software specifically designed by and for end users might stimulate morale and motivation for those employees that are affected by the downsizing. On the other hand off the shelf software such as, Oracle and PeopleSoft, does not allow for user input and is more difficult to tie to current business processes.

Software development has some clear guidelines that should be used for every project, however they are not often used and two out of three projects fail. The guidelines are referred to as the Software Development Life Cycle (SDLC). This cycle always starts with the requirements phase, which requires end user involvement (Antony, 2004).

5.2.2 Requirements Phase in SDLC

The requirements phase begins by:

- the software team talking with the people who want to purchase their services, usually upper management or board members of a company
  - the most important purpose of this discussion for the software development team is to determine what the company wants and who will be using the end product

    - the end user is the principal resource for the software engineer to determine what is actually needed

The next step is to work directly with the end users, of which there are many approaches

- discussion is usually not enough as the requirements gatherer needs to understand exactly how to do the end users job
    - the end user here is all the different positions within a department so that the software engineer can see the entire flow from beginning to end
- understanding how to do the job will point out what parts of the business processes are working and which are not
    - business processes are vital to the development team to ensure that what they code provides the features needed (at a minimum) that the end user must have to complete their tasks successfully

Additionally

- the software engineer can determine which parts of the processes will need to be changed to accommodate the use of the new software
    - usually includes new features that the end users request (usually things they are unable to do with their current system)
- the changes are then incorporated into the training program which will be used just prior to implementation.

Commonly there are no documented business processes so the requirements gatherer must create them and the end user is the only source that actually really knows the processes because they are doing the job everyday. Having this information

- allows the software engineer to pass on to the coders the correct information

- gets ‘buy-in’ from the user as they have been involved in the process

When training occurs the end users can easily see which parts of the program they had a part in creating.

When end users are involved in the creation of the software most of them are quite excited about getting the software. Their motivation is peaked by the challenge, the opportunity to be creative and being the ‘expert’ in the design process.

- off the shelf software
  - extremely difficult to tie to current business processes

When a company purchases off the shelf software, such as Oracle or PeopleSoft they also need to consider how that software affects the flow of their business processes. Usually this requires purchasing the services of a business systems engineer to work with the users to create the new processes.

In terms of the Rutledge case:

> Since the clerical staff at Rutledge are complacent and have a lack of initiative it is unlikely that they were consulted and now simply feel that the software is the enemy that is taking their job. At this point there is not much that Rutledge can successfully use to motivate the employees to use the software.
>
> One option that they could try is to have a business systems engineer work with them to write the business processes. However, some of the clerical staff will be resistant to helping because they see helping as making their unemployment occur sooner. Furthermore, by not helping, the clerical staff can actually contribute to the failure of the project and might see that as an option to keeping their jobs. According to Feldman,

by seeking out opportunities to develop new competencies in different areas, employees may make themselves more valuable to their present firms and at the same time, make themselves more valuable in the external labor market should they decide to leave (Feldman, 1996). So management at Rutledge might try convincing the clerical workers that learning this new software would be beneficial to their careers.

Another option for customized software is to rewrite the code after the processes have been written with user involvement. However, changing any code at this point is very expensive and at an additional charge over and above the original price. The person or people responsible for paying for the software usually balk at the extra charge. The third option is to scrap whatever has already been done and start over again, the expense is too great so it is very unlikely that Rutledge would agree to this option.

In summary, at this point the trust between management and employees has been broken so if Rutledge can use some or all of the best practices suggested earlier, maybe some of the clerical staff or other end users will become willing to help write the business processes as well as use the new software, which may give their morale and motivation a boost. For those employees still not willing to use the new technology, Rutledge may have to use force by threatening immediate dismissal with no chance of receiving any benefits as the behavior can be considered insubordination. This, however, will most likely cause further disruption and dissatisfaction with the employees.

5.3 Using Further Training to Solve Motivational Problems

When downsizing occurs, Human Resource departments need to be more strategic in their approach to training development. There is no way to make layoffs painless for dismissed employees. Minimizing workers' depression and anxiety related to layoffs and maximizing employee satisfaction from re-employment can be reached by the instruments discussed in previous sections and can help workers to recover more quickly from layoffs. However, in order to be able to continue operations in the market during downsizing, a company needs to create instruments to help workers not only find re-employment and reduce psychological stress but also to help them adjust to current business changes in order to successfully fulfill job responsibilities during the downsizing process. These skills can be developed by providing further training to employees.

In most large organization, formal training and development programs are the keystone of performance and career development activities for employees. During downsizing organizations tend to become much more judicious in investing in training and career development by critically evaluating the different types of training provided in the company. In general, that judiciousness will mean greater pressure to reduce the generic, 'nice to know' training given to all employees and to concentrate more fully on training employees in specific skills they need for their present or future jobs. It will necessitate even greater involvement and training of line supervisors in informal career development activities (Miller, 1978).

Based on two sections mentioned above (Education and training programs and Provide for a healthy, smaller organization) it is obvious that for survivors these training and development programs are even more crucial than for management, as this group of employees need to know their future responsibility and relate it to the necessary skills needed in the organization. In the long term it will reduce turnover and increase employee involvement and commitment feelings towards the company.

In addition to the suggestions given in section 5.1, we strongly suggest Rutledge conduct further training on using the new software in order to enable current employees and future survivors to perform their jobs successfully during the period of software adjustment as absences of the training can cause more financial loss then the training itself. On one side, in gaining the new software skills necessary to accomplish the work may make them more valuable to their employers and it can reduce physiological stress. On the other side, given an opportunity to develop skills corresponding to the latest technological trends employees can become more competitive on the labor market. Furthermore training might also positively influence employees' morale and initiative.

Comment [J.28]: At the moment people need more information not more traiing. All the aspects of the downsizing, plans, packages, steps, time scales, need to worked out and communicated. This then is likely to increase motivation (see your list of negative points above – much relates to these kinds of points).

6 CONCLUSION

It is clear from the above discussion that in order to conduct downsizing successfully, a firm must be proactive in its approach, starting to prepare for it well in advance to when the actual downsizing occurs, and with open communication and input from employees at all levels. When the described steps are followed, employees feel respected and valued, and are more willing to participate in the downsizing plans. As the company is helping them succeed, potentially through training and development to give them skills if they are going to move on, or by helping to develop their esteem and belongingness needs, and potentially self-actualization needs, be fulfilled through being a part of the change process (see Appendix A), they are then motivated to help the company succeed as well.

On the other hand, when the steps are not followed, employees' morale and motivation are hurt, with a potentially detrimental impact on the success of the

company, as clearly seen in the Rutledge Company case.

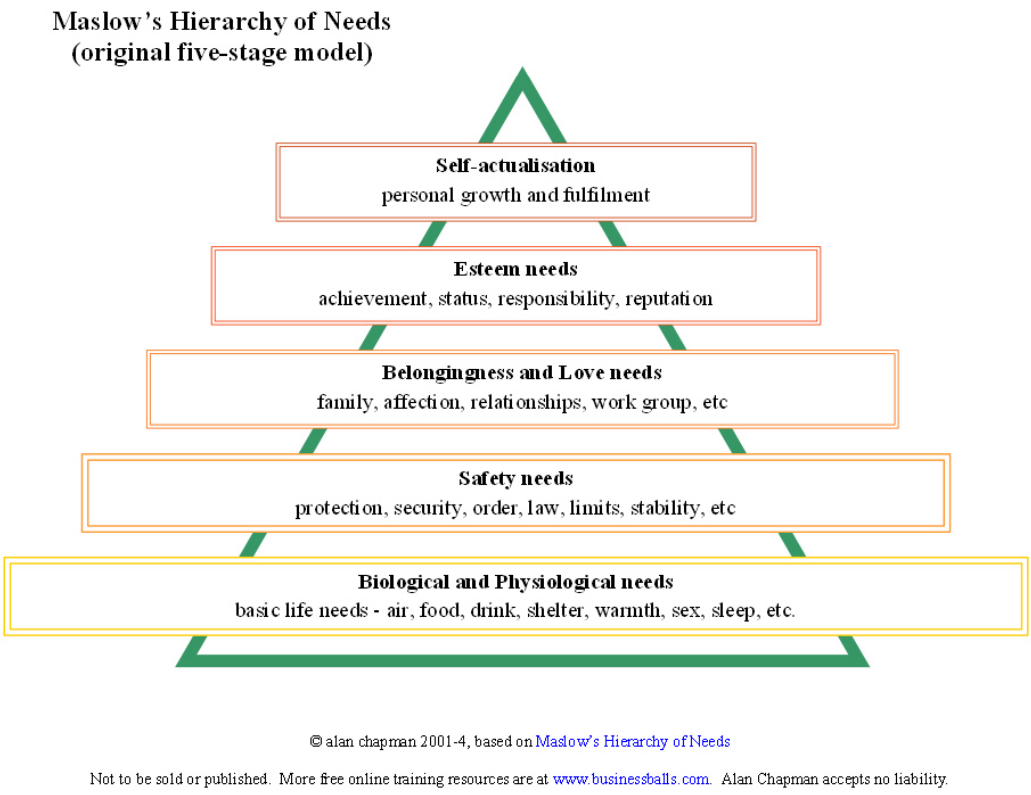
Finally, company that keeps the “customer in mind” with continuous improvement via employee empowerment may be able to use alternatives to downsizing through layoffs. It is therefore also essential to keep “the employee in mind” for the success of the organization.

By following the above suggestions, we are confident that *Company X* will successfully go through its downsizing process.

7 APPENDIX A – MASLOW'S HIERARCHY OF NEEDS

Abraham Maslow's Hierarchy of Needs was first widely published in Motivation and Personality in 1954, and the Hierarchy of Needs theory remains applicable today for understanding human motivation, management training, and personal development.

The diagram below depicts the five original stages. It is only once our lower order needs, concerning our physical and emotional wellbeing, are satisfied, do we start to focus on our higher order needs of influence and personal development. If the lower order needs that were originally satisfied become disrupted, Maslow stated the individual would no longer be able to focus on his or her higher level needs (http://www.businessballs.com/maslow.htm).



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Comment [J.29]: Comprehensive

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THE GROUP YOU ARE *ASSESSING:*	**Save your file. Use this format: group being assessed your group.doc So an example would be TIV Voltes5.doc – where TIV is the group being assessed and Voltes5 is your group.**
SOLUTION	
YOUR GROUP NAME:	
RELIANCE	

A	B	C	D
Are ideas presented connected with the aim of the presentation?	Are the ideas presented clearly supported with evidence and logical argument?	Is it easy to follow & to understand? (Are the slides clear and easy to follow e.g. use of new pictures, words, graphs)	Overall impression (is it a group presentation etc.?)
40%	30%	20%	10%

35%	25%	20%	5%

Comments (space will expand as you type)
1.It's good to have a small flow-chart on the right hand side so that we can understand easily what part they are.
2.Easy to understand.

Grade (%) 85%

THE GROUP YOU ARE *ASSESSING:*	**Save your file. Use this format: group being assessed your group.doc So an example would be TIV Voltes5.doc – where TIV is the group being assessed and Voltes5 is your group.**
SOLUTIONS	
YOUR GROUP NAME:	
GREEN LABEL	

A	B	C	D
Are ideas presented connected with the aim of the presentation?	Are the ideas presented clearly supported with evidence and logical argument?	Is it easy to follow & to understand? (Are the slides clear and easy to follow e.g. use of new pictures, words, graphs)	Overall impression (is it a group presentation etc.?)
40%	30%	20%	10%

35%	25%	20%	10%
Comments (space will expand as you type) Nice work, ladies! I still don't' know how we can measure the attributes of survivor syndrome, or provide soultions to kerb such situations. Very clear presentation!			
Grade (%) 90%			

THE GROUP YOU ARE *ASSESSING:*	**Save your file. Use this format: group being assessed your group.doc So an example would be TIV Voltes5.doc – where TIV is the group being assessed and Voltes5 is your group.**
SOLUTIONS	
YOUR GROUP NAME:	
GIGIBEAR	

A	B	C	D
Are ideas presented connected with the aim of the presentation?	Are the ideas presented clearly supported with evidence and logical argument?	Is it easy to follow & to understand? (Are the slides clear and easy to follow e.g. use of new pictures, words, graphs)	Overall impression (is it a group presentation etc.?)
40%	30%	20%	10%

30%	25%	15%	10%
Comments (space will expand as you type) Well-researched topic too time concious (it distracts the audience when they keep stopping to check for remaining time)			
Grade (%) 80%			

PROJECT FEEDBACK	
GROUP:	**SOLUTIONS (ANNIE ABSENT)**

Margie	*Jojo*	*Stella*	*Annie*	*Tatiana*	
Good	**Good**	**Good**	**Weak**	**Weak**	**Weak**

Comments on the presentation

- Great opening
- Slide design is useful – makes flow easy to follow
- Flow is going well but one group member is struggling to stick with time. Tension mounts!
- What you don't know – good point

Comments on the report

A comprehensive report. It would have helped to have a definition of downsizing to make clear the concept. Many of your points then would have been easier to follow. You could, too, have highlighted the problem for service delivery of downsizing i.e., service quality is likely to go down with an impact on customer satisfaction, referral intention and loyalty. Hard to recover from. Overall thorough job and your prescriptions come out clearly.

Grade: Overall 91%