



TenStep Supplemental Paper

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Downsizing or Rightsizing?

In today's competitive market, many companies have found that staying in business requires downsizing. This is a decision that impacts the organization's performance tremendously, and its impact is seen in every sphere and felt by all employees. It is important to remember that this event affects not only the downsized, but also those who remain.

Why Is this Important?

Downsizing has become a common occurrence in today's business world. Because of this and many other factors, many employers and employees no longer believe in the concept of lifetime employment. As a result, employers often underestimate the need to provide support to the employees who are being released and or to those who remain.

The decision to downsize is made for strategic and financial reasons. The expectation is that cost reduction will lead to a positive impact on the bottom line and will ultimately result in improved profitability and productivity. However, many organizations neglect to consider the psychological impact of downsizing on those who remain. In fact, if downsizing is handled improperly, the problems it was designed to correct may intensify due to the impact on the loyalty and attitude of the survivors.

Effects on Work Effort

A study of the impact of downsizing on employee attitude found when there are high levels of job insecurity, as would be expected during downsizing, employees with a greater need to work will increase their work effort, while the others will remain unchanged. The study also found that the remaining employees' perceptions of the fairness of the lay-off process and their attachment to the lay-off victims colored their views about downsizing.

The Justice Theory

Layoff survivors are expected to exhibit the most negative reactions when they identify themselves with the layoff victims and feel that the victims have not been well compensated. The study found that negative attitudinal changes were reflected in survivors' reduced work performance and lowered commitment to the organization. Conversely, the study showed that employee commitment could actually increase during a layoff process when the company shows some commitment towards the displaced workers.

Communicate

During downsizing, the losses due to decreased employee loyalty, morale and productivity compound the complexity of the layoff process. For example, the rumor mill that develops, or intensifies, during the preliminary planning stages results in employees spending significant amounts of time gossiping and worrying about what might happen. Unfortunately, many managers who are "in the know" believe they should avoid talking



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about rumors with employees. While this policy may seem appropriate, the costs associated in terms of lost productivity and employee loyalty may be significant. Communication helps curb worry and re-direct employee energies to the job at hand.

The best method of communication is personal appearances from top management. However, any form of communication is helpful.

Ensure the following topics are covered:

- Talk about the fact that changes are going to take place. This will increase the employee's trust in you.
- Explain the purpose of the downsizing.
- Explain the need for growth and profitability.
- If possible, explain future plans, including detailed plans of restructuring, upgrading technology, or processes that will increase efficiency.
- Communicate, whenever possible, that though employee downsizing is necessary, each employee who is let go will receive appropriate severance pay and job placement assistance.
- Emphasize that laid-off employees will be treated with respect and dignity; this is important for managing and maintaining the morale and commitment of the remaining employees.

Most importantly, listen carefully to employee concerns and address each concern adequately. This must be done with sincerity and no sense of condescension. In addition, justification of the layoffs is extremely important, especially if times are good and the downsizing is a part of strategic growth and profitability.

Make Valuable Employees a Part of the Progressive Organization

To stay or not is the question asked by most remaining employees in the aftermath of their company's downsizing process, particularly by those who have other employment opportunities outside the company. When these employees see some top managers leave voluntarily, they may question the long-term prospects of the company and will consider an immediate job change. This is something to watch out for, as people who leave under these circumstances are generally those with valuable skills and training.

Rebuild Loyalty

Long after downsizing, continue communicating with employees to rebuild security and trust. Do not allow management to assume that remaining employees are merely grateful to still have their jobs. Employees need to feel that they are valued, that they have a place in the company, and that management believes that they are an important part of the success of the organization. To emphasize this point, talk about where the company is headed, and describe any plans for growth and prosperity.

A Valuable Tool: Employee Satisfaction Survey



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An employee survey can help an organization gauge employee satisfaction. As redevelopment programs are implemented, the initial survey will provide a benchmark for comparative measures. Such a survey also conveys to employees that the company is concerned about their opinions and wants to build a stable work environment.

Companies striving to be leaner and more profitable must consider the cost of employee discontent and must strive to manage any downsizing practices to keep up the goodwill of remaining employees.