TenStep Supplemental Paper

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# Fat To Fit - Can One Downsize Effectively?

The business world appears to be in constant turmoil. With increasing global competition, unsteady economies, deregulation of certain industries such as banking and health care, and consolidations and technologies that replace manual labor, organizations can do little to avoid restructuring.

Even the human resource department finds itself constantly adjusting to radically changing conditions. HR restructuring usually involves massive recruitment drives or huge downsizing; sometimes it can even involve both. However, while hiring has a positive aura, downsizing is synonymous with financial crisis.

### Tell tale

A cargo-shipping company was on the verge of collapse. The complacency that had set in during its flourishing years reflected in a fat middle belly, which was eating into the company's profits and productivity. What the company required was a major downsizing drive to swing right back into action.

In an exhaustive nine-month study that examined every aspect of its operations, the HR team put together new job descriptions for every position. Then they adopted zero-based staffing which put all their employees at risk of being laid-off. With plans of bringing 15 percent of its workforce under the hatchet, the HR team began its evaluations to determine who would stay and who would have to leave.

From top executives to shop-floor workers, each employee was rated against the new job descriptions. Those who matched got to stay. The company soon had a new workforce that had the necessary skills to help run the new organization. The shipping company now boasts of rising profits and low operating expenses.

### Resurrection

Bad reputation aside, downsizing can be effectively used as a tool to regain market share and profitability. HR experts now realize that an organization need not experience a crisis to become more competitive, profitable and productive. Even successful organizations indulge in staff-reductions to remain lean and healthy.

Although downsizing can be beneficial, it can also come with problems. An organization that cuts back on jobs without reducing the amount of work or one that downsizes only to hire employees back will find themselves in trouble sooner than later.

How can an organization ensure that its downsizing efforts are efficient? How can its HR department deal with a range of associated issues and problems? The answer to these questions lies in designing a strategic downsizing plan that guarantees bottom-line gains.

### Do organizations require a downsizing plan?

When one telephone company separated from AT&T way back in the 1980s, it had to cut down 9,000 of its 25,000 managerial positions. The company instituted a voluntary "golden handshake" program that included pensions and other generous incentives.

The program saw a large number of raw employees leave on their own accord; it also succeeded in retaining some top employees. The downside, however, was that the company lost a lot of people in certain areas and other areas remained overstaffed. As a result, the company had to backfill nearly 4,000 positions and ended up spending more in the bargain.

**Planning benefits**

Soon after the *"golden handshake"* debacle, the company enforced a workplace management plan. This strategic plan is automatically activated when conditions within any department warrant employment interventions.

The plan also ensures that staffing decisions are taken at a department level and not initiated by C-level executives alone. Therefore, while one department finds itself in need of new employees, the other can express the need to downsize. This means that lay-offs and recruitments are treated as departmentalized events rather than as organization-wide. Downsizing is thus a more controlled event.

**Twice shy!**

Part of the plan also involves establishing a strong and formal business case for staff-reductions. A case typically establishes the need to downsize with tangible examples and reasons. The objective is to get employees to view downsizing as the only solution rather than the whims of the management. When in the early 90s the telephone company found that it had to reduce its engineers from 500 to 400, it was not caught off-guard and the downsizing plan was set rolling.

The HR team began by sending out reduction notifications to all 500 engineers. The team then put together a new job description that explained what an engineer's role would be in the coming years. Managers then compared the competencies of their engineers to the new job requirements and criteria and categorized them into the following groups- 'retainable', 'eligible for voluntary severance' and 'at risk'.

**Legally right**

With the categorizations in place, the next stage involved clearing any legal hurdles. The HR team engaged a group of corporate lawyers to frisk their downsizing plan for any violations to ensure the process would be administered correctly and fairly. The team then sounded the engineers on their status and informed them that downsizing would be completed within 60 days.

Those in the 'at risk' and 'voluntary severance' categories were offered generous severance packages. As a goodwill gesture, the company hired professionals to provide the outgoing lot placement counseling. Those in the retained category were given the liberty to opt out. However, these engineers were not eligible for the severance benefits.

Planned and controlled downsizing can create an organization that is far more responsive to changing market conditions.