

Revitalization after Downsizing: A Briefing for Leaders

By Carolyn Turknett, Organizational Consultant

Clearly, companies with falling revenues and shrinking profits need to act. Layoffs, at times, are inevitable. But Harvard Management professor Robert I. Sutton thinks too many executives assume that layoffs are the best way to reduce costs. They don't factor in how long it takes to realize the savings from job cuts, the costs to hire and train people once business picks up, *or the damage to morale and productivity.*¹

Once the decision to downsize has been made, what *is* the difference between companies who merely survive, and those for whom it produces strategic growth? In the 90's productivity increases after downsizing were disappointing: 75 percent of companies expected an increase and only 22 percent achieved it.

Who Will Grow Your Company After the Downsizing?

Moves toward high-performance cultures commonly involve downsizing, but too much effort is spent on the mechanics of the layoff and too little is spent on the group that will make or break the organization in the future—the layoff survivors. Now, as when downsizing failed to increase productivity a decade ago, companies often fail to revitalize the core employees who remain.

These core performers have to say good-bye to the old organization now lost forever, accept a new contract, and learn a new relationship to the corporation. The old contract promised job security for loyalty; the new contract promises challenging work and competitive pay for performance in exchange for maximum energy and task commitment. Understanding and buy-in will not be automatic, and organizations that fail to understand this will fail to master the new competitive reality.

"In many cases, people burn out over the long run, the best people may leave, and those who remain often are dispirited," says Eric Flamholtz, a professor of management at the University of California, Los Angeles in a Wall Street Journal article.²

Productivity, Morale and Retention Often Decline

A study by the American Management Association found that 40 percent of organizations reported that productivity had sagged after downsizing, and 18 percent reported that quality had suffered. Morale was hit even worse: 58 percent said that morale had worsened, and 37 percent reported that employees were more difficult to keep. As the economy improves, retention will become an even bigger issue.

David Noer, who has done one of the most in-depth studies of layoff survivors (Noer, 1993) found these symptoms among survivors at all levels of the organization:

- Fear and insecurity
- Frustration and anger
- Sadness and depression
- Sense of unfairness
- Reduced risk-taking
- Lowered productivity

In all organizations there was a tendency to blame that was extremely divisive. Top managers blamed the union or the economy. Functional areas blamed other functional areas, and everyone blamed top management.

¹ *The Layoff* by Bronwyn Fryer, Senior editor Harvard Business Review, March, 2009

² *Job Cutting Medicine Fails to Remedy Productivity Ills at Many Companies*, The Wall Street Journal, June 7, 1994.

Many layoff survivors may feel glad that they escaped, but they don't feel good about top management—the people they see as responsible.

Leaders are Bubbled from Their Company's Sinking Realities

Research from The Hay Group (Fisher, 1991) indicates that top corporate leaders often have a poor ability to take the pulse of the organization—they see morale as good when objective assessment shows it sinking. Sometimes they simply expect negative morale and ignore it.

Even more discouraging, perhaps, is Noer's follow-up study finding that many of the symptoms are still present after five years. In companies he studied employees still had not learned to deal with permanent job insecurity, and were particularly angry with top executives. They were more resigned and had a deepening sense of loss of control, as though they were passive players waiting for things to happen.

Is Job Insecurity Always a Bad Thing?

Joel Brockner has found evidence that the relationship between layoffs and productivity is not simple (Brockner, 1992). He postulates that productivity may actually go up with mild job insecurity, but declines when insecurity becomes extreme. Brockner has also found that the way a layoff is handled affects the way survivors respond: if survivors see the layoff as fair and well-handled, its negative effect on productivity and morale will be lessened.

Employees see a layoff as fair if:

- They see it as justified
- They see it as congruent with corporate culture
- The organization is given ample advance notice
- Rationale is explained well by management
- The burden is shared by all levels
- The process for determining who should go is fair
- Those who leave are given services to soften the blow
- Employees are involved in the process.

Middle managers, who typically provide the link between upper management and the rank and file, are hardest hit by layoffs and most psychologically affected, according to research. (Fischer, 1991)

Their commitment to the organization plummets, and they often display hostility. Without a powerful effort from senior leadership this group will not be willing or able to sell the new culture.

Human Nature Drives Successful Downsizing Strategy

What researchers have found in organizations fits with what we know about human psychology. Security is a basic human need, far more basic than achievement or self-actualization. When security needs are threatened, people behave in self-protective ways. They keep their heads down, refuse to take risks, guard their turf, and cater to those in power.

This defensive, passive behavior is not what an organization needs as they attempt to re-build an agile, high-performance organization. Instead of the cross-functional teamwork and high commitment that leaders desire, they are left with a highly politicized environment where employees are frightened and looking out only for themselves. Worse, we have found that leaders are often unaware of this development in the culture of their company, and don't take measures to counteract it.

The reactions of survivors after downsizing parallel the reactions of those who have experienced any major change or loss:

- First denial ("Surely there won't really be another layoff." "I can't believe this is happening."),
- Then anxiety and anger ("How could the guys at the top do this?" "Why didn't they manage better?" "Why are they paid so much?" "Why are they still not doing things right?" "Why are they still not listening to us?"),
- Through depression ("Things are just getting worse here." "There's no point in getting too charged up about this job."),

- And, finally, (either healthy or passive) acceptance. (Noer, 1993, pg. 131; Boronson and Burgess, 1992)

Some anxiety may be healthy, even necessary to replace the culture of entitlement with a culture of responsibility and performance. "Unremitting fear and uncertainty [though] generate free-floating anxiety that produces paralyzed, self-absorbed, and risk-averse employees." (Lee, 1992)

If key players get stuck in anger or depression, though, organizational revitalization becomes impossible. Leaders who don't recognize this are living very dangerously.

A Layoff is Not *Always* the Best Strategy

Researchers at Bain & Company³ analyzed the layoffs at S&P 500 companies during a downturn from August 2000 through August 2001 and found that unless the eliminated jobs remained unreplaced for at least 6 to 12 months—and sometimes for longer than 18 months in knowledge-based businesses—a company would fail to earn a financial payback for downsizing. Severance packages, temporary declines in productivity or quality, and rehiring and retraining costs more than offset the short-term wage savings. *If it takes a company three to six months to realize it is in a downturn and another three to six months to institute layoffs, it can find itself zigging just when it should be zagging*, writes Bain & Company consultant Darrell Rigby.⁴

Executives should carefully consider all options for coping with a downturn before letting workers go, especially if they're going to binge on rehiring as soon as the economy rebounds, particularly since companies are stripped of far more in personnel than they plan for.

In "Keeping Your Headcount When All About You Are Losing Theirs: Downsizing, Voluntary Turnover Rates, and the Moderating Role of HR Practices,"⁵ University of Wisconsin-Madison Business School Associate Professor of Management and Human Resources Charlie O. Trevor and Doctoral candidate Anthony J. Nyberg found that layoffs trigger talent flight. Bigger layoffs generally produce bigger spikes in turnover, but even a small layoff sets off considerable staff turnover. In a layoff as small as 0.5 percent an average of more than five times more workers than were laid off leave of their own accord. In addition, the more people companies laid off, the higher rates of quitting they sustained.

Trevor and Nyber reached these conclusions after studying two years' worth of data compiled by companies seeking to be included in Fortune magazine's annual list of the "100 Best Companies to Work For." *The downsizing-turnover relationship suggests a sad irony in that employees are laid off by companies that may subsequently find themselves understaffed*, says Trevor. *Our findings ought to persuade them that this could very well result in the loss of even more employees whom they want to keep.*

Consequences for the Corporation

When companies do downsize, the aftermath, if left to fester, creates obstacles to productivity like increased turf guarding, infighting, politicization and an undercurrent of conflict. Discretionary effort, that effort between what it takes to maintain a job and the maximum a person can give, decreases.

Middle managers, disillusioned and alienated, talk with their people less just when they need to communicate more. The cultural shift to high performance never comes; the organization gets bogged down in anger and isolation. Worse, people become more cautious and leaders at every level become more risk averse.

Recommendations

Four major elements form the basis for revitalizing survivors and building a new, high-performance culture. They are (1) information, (2) attention, (3) a clear vision of the future, and (4) group programs to help employees deal with grief and sadness and to help employees manage the change to a new culture. The specific recommendations below flesh out these ideas.

Before the Downsizing

³ *Debunking layoff myths* Bain Brief 04/01/02, by Darrell Rigby

⁴ HBR.org, April 2002, *Look Before You Lay Off* by Darrell Rigby

⁵ Academy of Management Journal, April/May 2008. The results were also summarized in the May 2008 issue of the Harvard Business Review.

- Over communicate – about plans, about the competitive environment, about the need for change
- Prepare supervisors and managers for the layoffs
- Enlist managers who will remain – let them know how important they are to success
- Ask them for ideas in dealing with survivors – even their peers
- Train them to handle communication with their people. Although they will need to dramatically increase communication, studies show that they often decrease communication before, during, and after downsizings because of discomfort and guilt. Help them see the advantage of being straightforward and supportive. Model this behavior.

During the Downsizing

- Do it quickly. Get it over with, and, if possible, don't go through repeated downsizings.
- Do it fairly. There is often an inherent contradiction between these first two recommendations that creates more problems. Fair procedures (ratings, etc.) are often lengthy, dragging out the process and dragging the organization down. Also, procedures that are seen as most fair (e.g., early retirement) may take away just the key players you need to keep.
- Find ways to deal with rumors. Some organizations have used bulletin boards and e-mail to deal with rumors. Let people post any rumor they hear. Respond to it immediately.
- Again, over communicate. Give full information throughout the process. Information gives a feeling of control, and control reduces anxiety and insecurity. Remember that there is an almost insatiable need for information, and that information unsupplied will be invented. Further, the information invented is usually negative: management is seen as guilty until proven innocent.

After Downsizing

- Assess the survivors – have a clear knowledge at all times of mood, morale, energy, commitment, etc. Such knowledge is essential for planning interventions that will generate the culture you want.
- Work to increase security, not by promising a job, but by:
 - Providing information
 - Increasing involvement
 - Helping people become responsible for themselves, in charge of their own career.
- Over communicate. Provide information about:
 - Vision and strategy for the company – keep it simple and very focused
 - What is being done for layoff victims
 - Business realities (do this daily)
 - Business results (do this daily)
- Increase involvement and control – give survivors an active role in creating the new workplace.
- Ask constantly for ideas, both about dealing with the downsizing and about ways to run the business. Involve everyone possible in re-engineering efforts, and keep everyone apprised of what's being done.
- Get ideas from everyone on ways to build the new culture. Make the transition exciting.
- Where feasible, practice open book management.
- Decrease paternalism, entitlement thinking, and hierarchy.
- Get rid of hierarchical language, perks, and displays. Avoid "surface only" changes (e.g., using the word *associates* while keeping the executive dining room).
- Look at everything with fresh eyes. For example, change the way benefits are discussed. Make them a tangible, clear portion of compensation.
- Real resolution of survivor issues requires culture change. Make the desired culture clear and exciting. To do this:
 - Focus on a few changes and use clear measures to give the workforce feedback about how they're doing.
 - Eliminate low value work (a daunting task for a bureaucracy – you'll face plenty of unconscious resistance, even personal resistance).
 - Tell success stories in conversation, in public forums, and in internal publications.
 - Cross-pollinate: bring in executives and other managers from other divisions or from totally different industries.

Recommendations for Group Programs

Group programs should build each individual's ability to manage change, through:

- Saying good-bye to the past – mourning it and letting it go. Understanding and accepting the future.

The “good-bye” portion of the program may include open, frank discussion of feelings about the layoff—sadness, anger, fear, etc.—and a ritual good-bye, to help people accept the loss and go on.

Equip Employees with Coping Strategies and Skills

After the mourning, when negative feelings have been discharged, introduce coping ideas, ideas that will aid in coping and that will help people develop responsibility for themselves and their own career are:

- The idea of self management: We are responsible for our own feelings.
- The concept of resilience – people who respond well to change have measurable characteristics that can be developed.
- The idea that each of us chooses how we respond to change. We can see ourselves as victims (feeling constantly angry and vulnerable), survivors (feeling passive and anxious), or as navigators (actively setting our own course). Victims see themselves as casualties even though still employed – someone else always causes their problems and management is always the bad guy. Survivors lay low and don’t take risks. Their energy is low, and it takes all they have to get through the day. Navigators are “change hardy” – they make their own meaning, and see themselves as capable, responsible and in charge of their own lives.
- Give everyone a vision of the new organization. In individual and group settings, have leaders speak to as many people in the organization as possible. When speaking, leaders should first show understanding and genuine concern for the loss of the old organization and for the fact that many people are gone. Let leaders share their vision of the new organization.

Specific Advice for Leaders

- Recognize that you absolutely won’t get more effort from your people and won’t get a high performance culture without dealing with survivor issues. You must separate what you think should happen from what will happen. Many leaders act as though wishing made it so. “Get on board or get out of the way -the train’s leaving the station” sounds great, but it doesn’t work, at least not at first.
- Recognize that you can’t get loyalty with orders or over-control. You must ENLIST the workforce – RE-RECRUIT.
- Recognize that people feel betrayed – you (and they do blame you) violated the unspoken contract.
- Lead from the heart. Imagine that you are going to a funeral, and you are the most senior person in the family. You wouldn’t start a funeral service with a discussion of actuarial tables – it’s no more appropriate to start discussions of downsizing with business statistics.
- Remember that a bottom-line-only focus will get you in a world of trouble. People make the bottom-line results possible!
- Say to your remaining workforce, “You’re here because we want you – we feel that you can compete in the new world.”
- Move ahead, challenge, move fast, take risks – model the behavior you want. Even senior leaders often become cautious and defensive in times of change.
- Institute a program for getting ongoing feedback about your own behavior. Particularly if you have been in a paternalistic, bureaucratic organization, you will have behavior that you don’t recognize that gets in the way of the very culture you’re trying to build.
- Get ongoing feedback from the workplace. Monitor attitudes. Remember that you are likely to be unaware of the mood of the workplace, and will consequently be ineffective in communication. Speak to small groups before giving presentations to large groups, and get feedback about your message.
- Recognize that you unconsciously reinforce the old contract and old behaviors:
 - You are likely to control information – to think about the “spin.”
 - You may still act as though you expect loyalty – still reinforce the old entitlement for loyalty contract unconsciously. If you don’t want to hear feedback, if you shoot the messenger, if you feel anger when employees criticize the company, you’re playing on the old field and reinforcing unproductive behavior.
 - You may continue to speak in terms of levels or grades, and continue to enjoy too many perks at the top of the hierarchy.
- Make communication of strategy paramount. Studies show that in most organizations (two-thirds), people say they don’t know the direction of the organization. In communicating strategy:
 - Keep it simple.

- Keep it positive and exciting.
- Let people react to it and help refine it.
- Constantly support, reinforce, and re-recruit your middle managers – they:
- Are likely to be angry.
- Are likely to retreat from guilt.
- Are the key to your survival because they will revitalize the rest of the workforce.

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