Careers & Downsizing

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A vignette

My wife asks the guys at the coffee shop she frequents in the Rockefeller Center how business is. Not good, they tell her. ... a few days ago, the shop went to deliver a lunch for a group at another company, and when they arrived there was no one to take the lunch. The woman who'd put in the order called the next day to apologize: they'd all been laid off that morning. So we can't complain said [the coffee shop guys].

NYT Magazine, Sunday Nov 11. 2001

What is downsizing?

Layoffs, permanent.

Reduction-in Force [RIF].

Sometimes, Strategic, more often not!

How do firms downsize?

Across the Board Cutbacks

Early Retirement and Voluntary Turnover

Delayering

Contracting Out

Product line reduction

Across the Board Cutbacks

Each department or unit is expected to cut a fixed percentage of its workforce.

Advantages
- the pain is shared across the organization
- all levels of the organization are affected

Disadvantages
- the efficient parts of the organization are hurt more than the less efficient; the former are already running a tight operation so have lesser ability to absorb cutbacks
- the downsizing is not guided by a clear strategic plan; every unit is affected equally
- there is little opportunity to transfer good people from one part of the organization to another

Early retirement and voluntary turnover.

In this type of downsizing:

- the firm offers opportunities to those near retirement to take retirement early with no financial cost.
- Others are offered financial incentives, usually based on age and length of service, to quit the organization.
- No one is forced to leave the organization.
- This is often used as a first stage in the downsizing process. It is often followed by a less voluntary process.

Advantages

– This concentrates the layoffs on those people most willing to experience them.
– higher paid employees at each job level are likely to leave, so the positive cost impact is high -- though may be offset by the cost of the retirement or severance package.

Disadvantages

– Those with the most opportunity to be hired elsewhere take the package and leave. Thus, higher quality employees at all age ranges are lost.
– Concentrated losses may occur in one or two parts of the organization, leaving major human resource gaps.
– The downsizing is not guided by a clear strategic plan, every unit is affected, but the effect is based upon age and service distributions in the organization. Those units with more senior employees are most severely affected.
– The loss of corporate memory and tacit knowhow is severe.

Delayering the Organization

In this form of downsizing, a horizontal slice of the organization is removed. Middle managers are reassigned or laid off and not replaced. This means that one of two things has to occur:

a) more senior managers take over the decision making responsibilities of the managers who have left, or

b) there is decentralization of decision making to lower level employees.

- Which of these is the appropriate action requires careful diagnosis. If the layer were unnecessary and the more senior managers were not fully utilized then the centralization option can be taken. If however, the senior managers are already working at their full capacity, then decentralization of decision making to lower level employees has to take place. This may well require additional training for those at lower level as well as reassignment for those incapable of taking on the added responsibility.

Advantages

– pain is shared across all departments, though is concentrated at particular levels
– decision making, if decentralised, occurs at a more appropriate level – closer to the customer, to where the variations in performance or demand occur.

Disadvantages

– Organizational memory and tacit knowhow are diminished
– Top management may become overloaded
– Costs of retraining may be excessive
– Transition costs may be high

Specialised functions may be contracted out.

A variety of activities (e.g., payroll, data entry, public relations) are not part of the core activities of the organization. These have typically been done in-house. They may be contracted out at a lesser cost. A careful diagnosis is required to ensure that:

a) that the activities really can be contracted out with no diminution of the quality of the work; in many cases, a contractor may not understand the true requirements of the organization so that coordination and quality control costs may outweigh the anticipated cost savings.

b) long term cost savings really can be justified, a lock-in with a contractor may be more costly in the long run as the contractor takes advantage of the specific knowledge of your firm’s requirements.

Advantages

- early and immediate cost saving
- increased flexibility
- cheap access to specific expertise

Disadvantages

- potential long term cost increases.
- cost of coordinating the activities of a number of sub-contractors
- time required to train sub-contractors in your specialized requirements
- lack of control over sub-contractors

Dropping Products or Programs

Here the organization takes a hard look at its corporate strategy or charter, and asks whether or not it should be in each of its businesses or programs.

For those businesses or programs for which the answer is “No”, the organization
- closes them,
- spins them off as independent companies (whose lower overhead may enable them to be profitable), or
- sells them off as going concerns.

Advantages

– Concentration of the disruption in a single business unit.

– Close connection to the strategic planning of the organization

Disadvantages

– Potential unanticipated business losses

– Only a few people carry the burden

– Competent people in the dropped programs may be lost

How Successful is Downsizing?

1. It rarely works

Research by the Wyatt Company in the 1990's shows that only about 40% of firms reach their cost saving targets.

Cascio et al. (1997) found success only for firms linking downsizing with strategic change.

Managers rarely implement successfully – we will talk about this later.

You MUST have a clear strategy for the future of the firm.

2. You lose skills and tacit knowledge

– About tasks

– About people

Why then do firms downsize?

Downsizing is usually adopted

- As a fad.
- In a panic to reduce costs.
- To demonstrate to stakeholders that “something” is being done.
- To assert management control

The Paradoxes of Successful Downsizing

Based on Kim Cameron's work

1. Implementation from the top (by example), but with input from knowledgeable people at the lower levels.

Top level commitment

– Walk the talk

– Make cuts in YOUR salary and benefits

Monitor consistency of implementation across the organization.

Since top management does not know what cuts should be made at the lowest levels, employee input is essential.

2. Short term across the board reductions coupled with a long term focused, strategy-based follow-up.

A short sharp shock

- Draws attention
- Energizes

AND a set of strategy-based actions:

- examining, through employee groups, which tasks should be performed; examining the firms' functions and product or service lines to see which could be kept and which not; and then making the appropriate precision cuts.

3. Attention to BOTH the people laid off AND to the surviving employees. Successful firms:

a) Paid scrupulous attention to the principles of procedural justice which include:

– employee influence,
– consistency,
– fact-based decisions,
– understanding of the process,
– right of appeal,
– and integrity.

b) There was stepped-up communication with employees to ensure they knew what was happening in the company. They also signaled when the downsizing episode was over and that growth had resumed.

c) Coupling the downsizing with strategic change also has motivational effects.

– Employees are challenged to learning the new things rather than dwell on the stress induced by overwork.

–

4. Offset internal cuts by simplifying external relationships.

Focus on both the internal operations of the firm as well as its relations with other firms.

– When cuts are made in parts of the organization that deal with suppliers, distributors and customers, there are fewer resources available for purchasing, marketing, and sales. This can be offset by dealing with, for example a couple of suppliers for a component rather than a dozen.

5. Increase the autonomy of operating units, and at the same time increase centralization of critical company wide functions.

The nature of the business greatly affects what is best centralized and what is best decentralized.

– These decisions, in the successfully downsized companies, were made through careful analysis by employee teams in the organization. Some situations call for an organization wide sales team (when all products are sold to similar customers); in others, it makes sense for sales to be attached to the autonomous business units.

Effects of Downsizing on Career Structures.

“Ideal Type” Career Structures.

Based on the work of my colleague, Hugh Gunz

Command Centered

Constructional

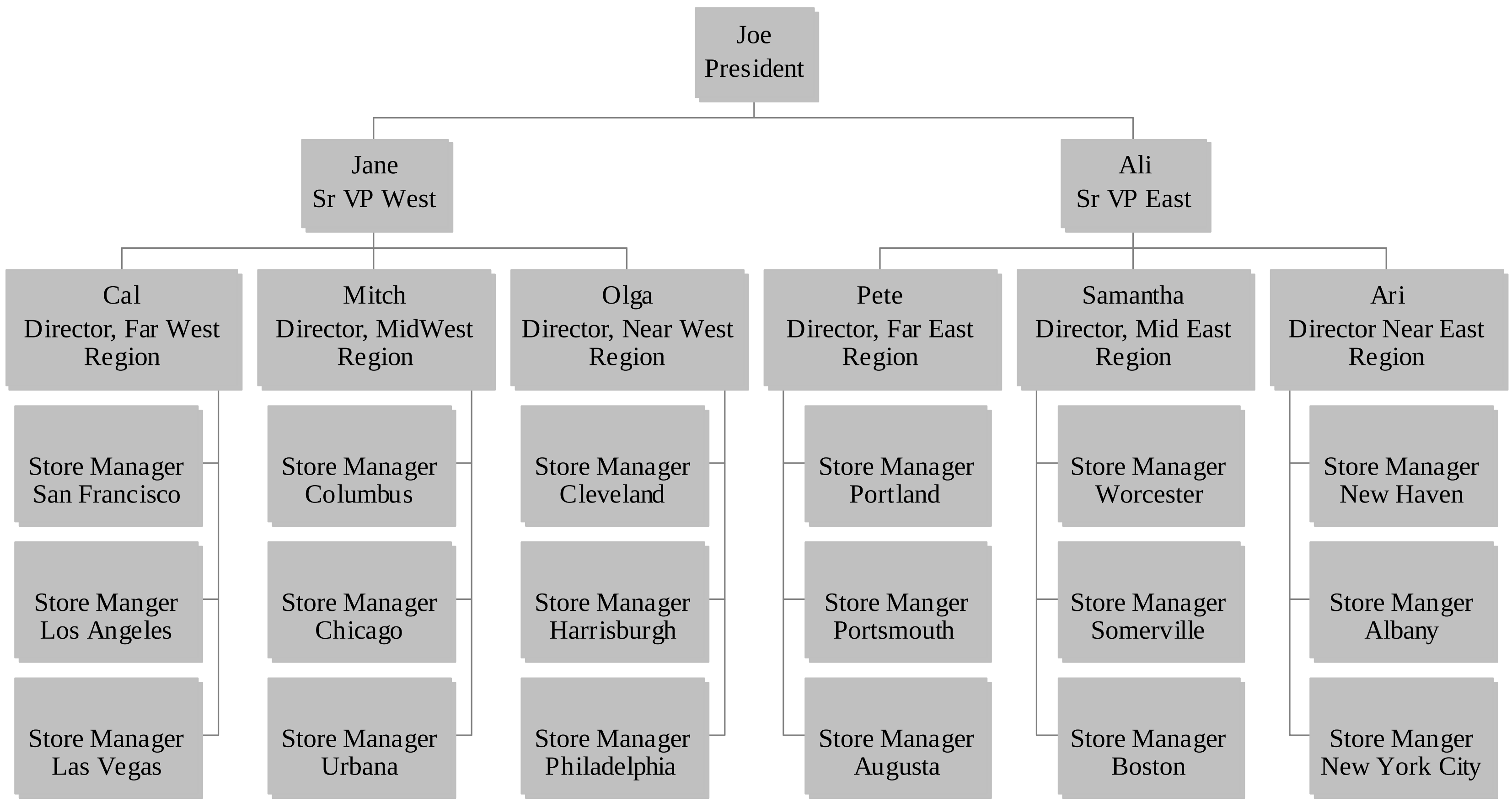
Evolutionary

Command Centered

Our first career streamis typical of, for example, retail chains or banks in which there are a great many similar jobs. Careers consist of moving between a series of similar managerial posts—”commands”—which differ mainly in terms of the size of their responsibilities and so in prestige.

For example, a successful retail bank career may involve moves from small suburban branch to larger suburban branch, to a yet larger city-centre branch, and so on.

Command Centered



Constructional

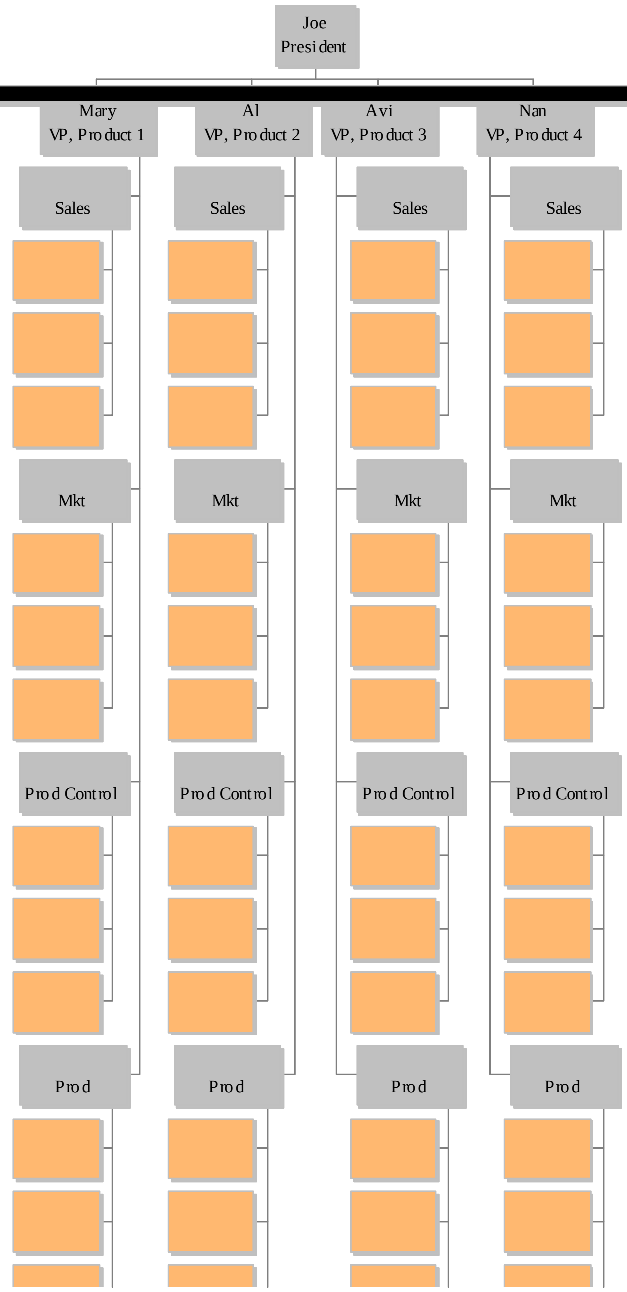
Careers are *constructed* from a variety of different kinds of components called experiences.

Executives build themselves into "complete" managers by collecting as many different kinds of experience as they can, which they get from organization and in as many different types of job as they can.

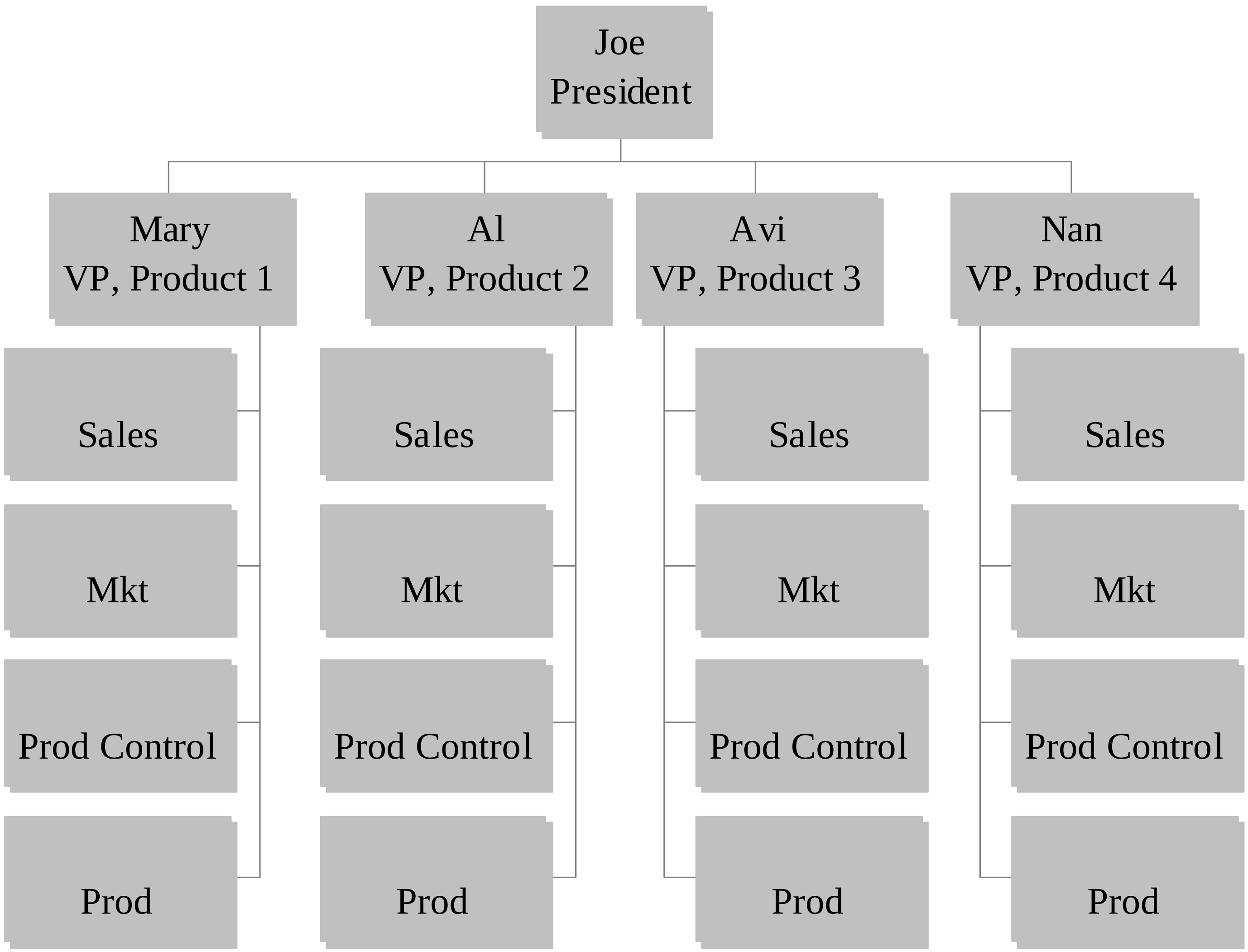
At the end of this construction process they have assembled a knowledge of how the organization works and how it is pulled together, and they have built a useful network of contacts along the way.

Careers like this typically show a high proportion of *innovation* work role transitions or "jumps", moves to a new activity in a new location.

Constructional



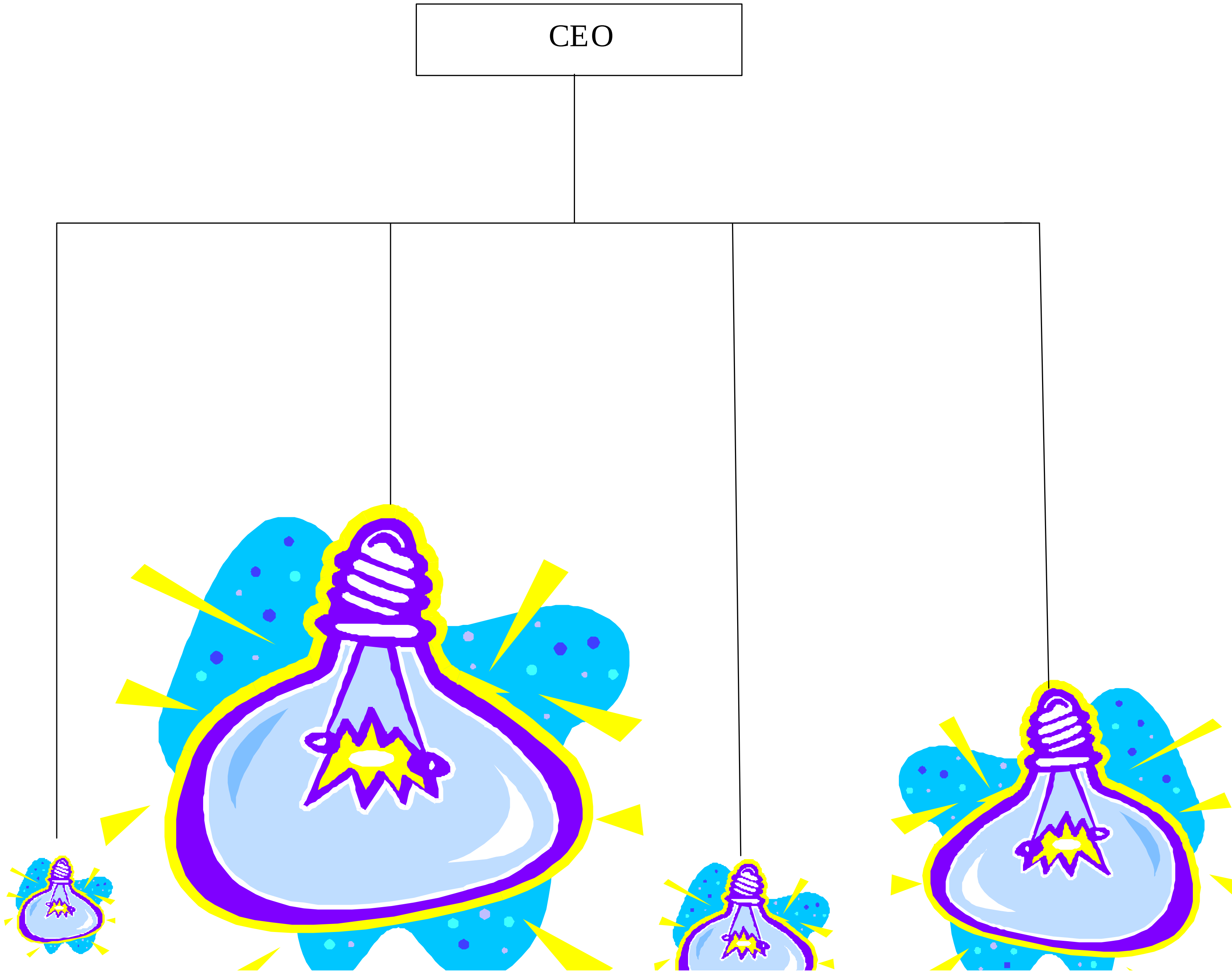
Constructional



Evolutionary

The essential feature of evolutionary careers is that managers get involved in something new to the firm (and, typically, to the market) which they make their own venture.

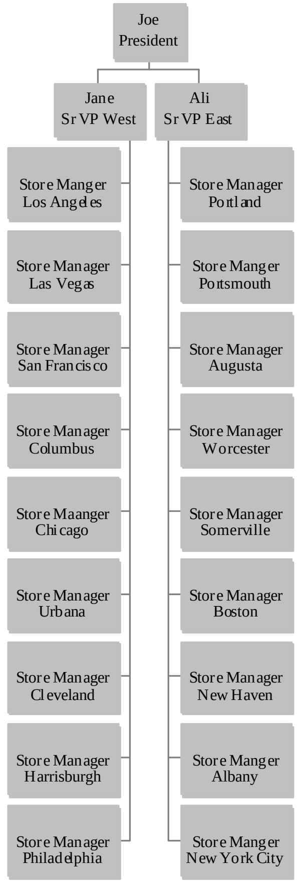
The essential distinguishing feature of the organization is what could be called an "unpatterned" mode of growth. The firm grows into the relatively *un*known. This means acquiring new knowledge, skills and expertise. Regardless of whether the skills are learned by current organizational members or bought in, the result is a unit that is very different from the rest of the company. There is a sense of being special, which results in close personal identification between the staff and their project as they mutually evolve. This, in turn, leads to several comparatively self-contained labour markets within the organization.


CEO

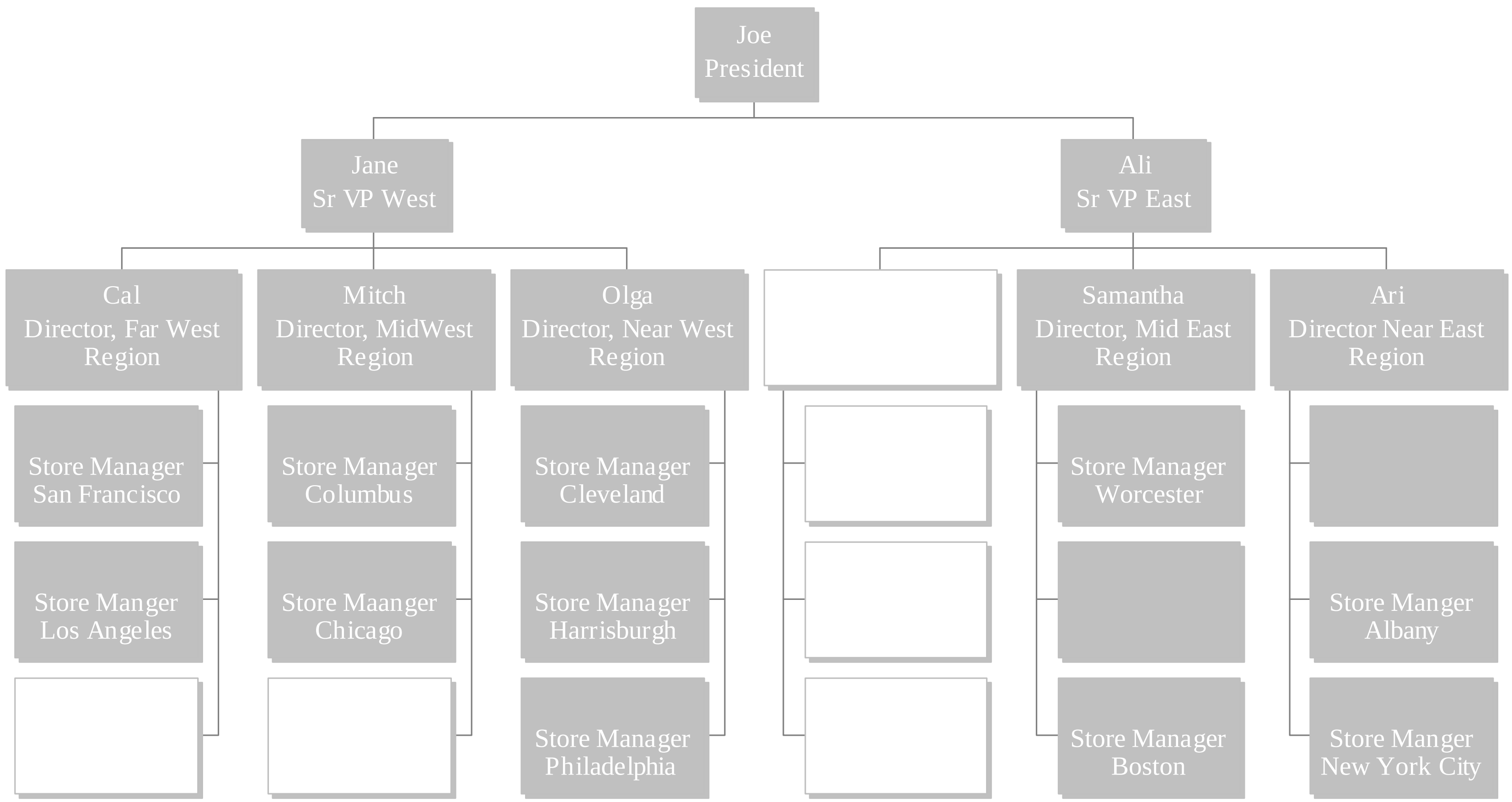
Impact of Downsizing

Increased centralization of Decision Making

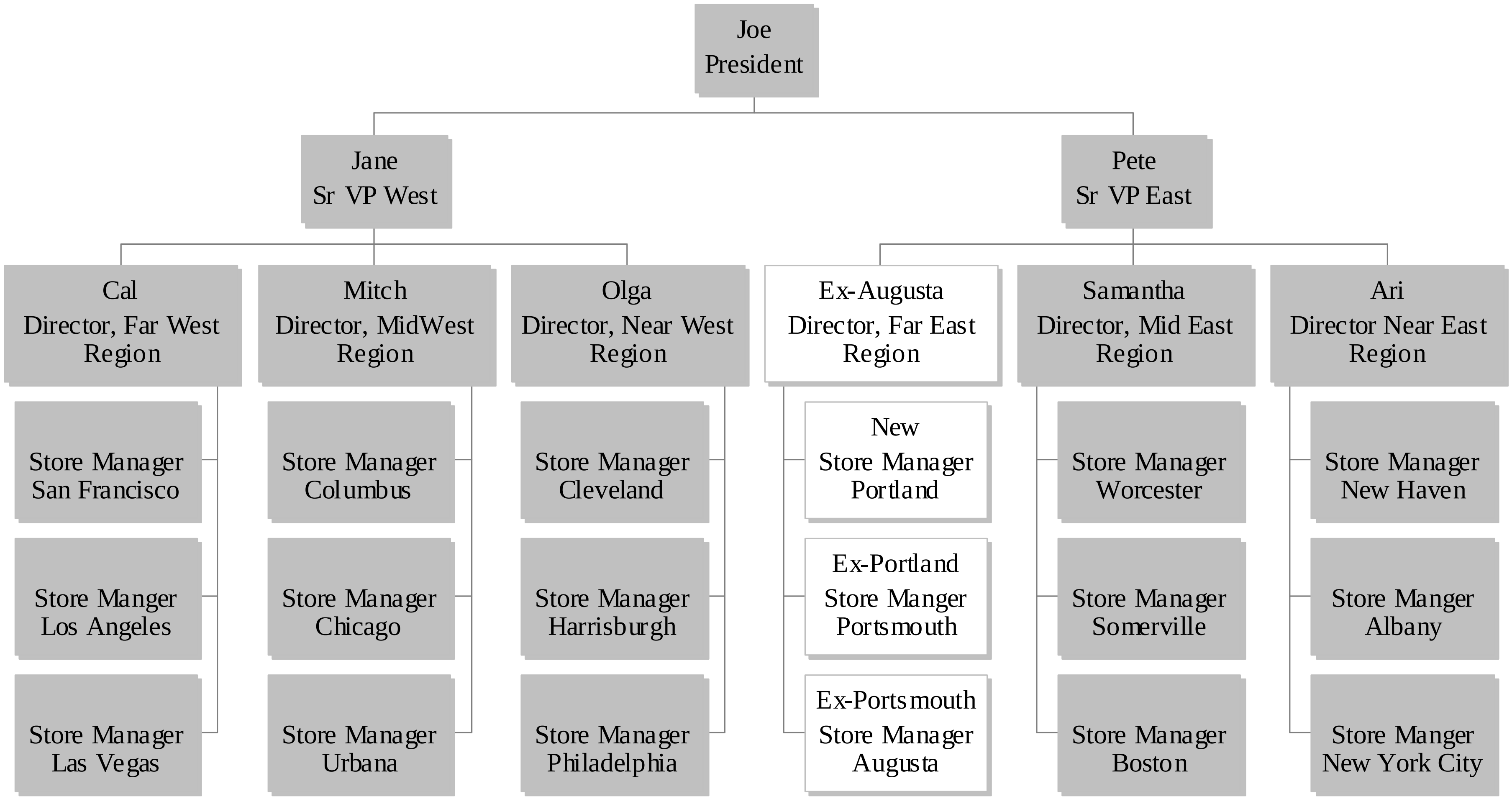
Command Centered after Delayering



Command Centered after Strategic Downsizing



Command Centered after early retirements

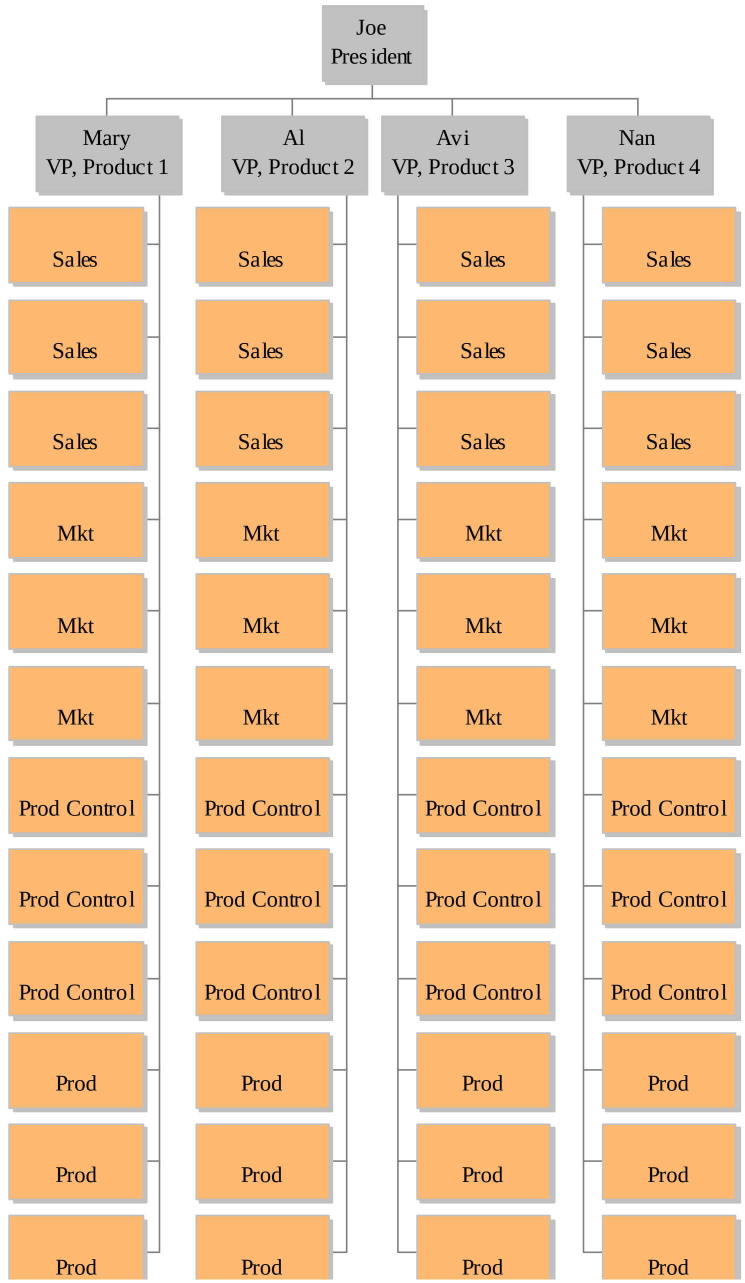


Command Centered

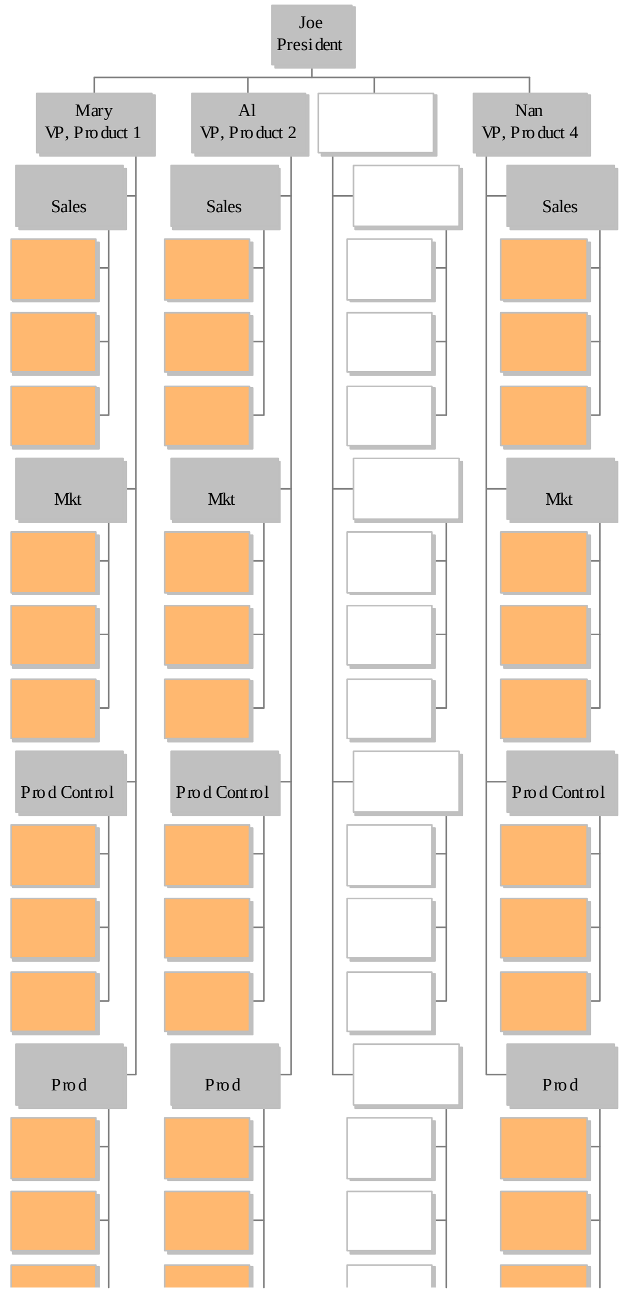
- Delayering
  - Fewer opportunities for multi-site responsibilities
  - More responsibility for single site (if accompanied by decentralization
  - Truncated career ladder
- Removal of Product line
  - Core products versus peripheral products
  - Core
    - A new product develops as the focus and a new CC stream develops there; so things remain the same around a different pecking order
    - Increased centralization reduces developmental experiences for the managers.
  - Non core
    - CC steam is unchanged
    - Increased centralization reduces developmental experiences for the managers

- Outsourcing Functions
  - No effect
- Across the Board/Early Retirement/Severance
  - No change in the shape of the career stream
  - Increased centralization will reduce the autonomy and development

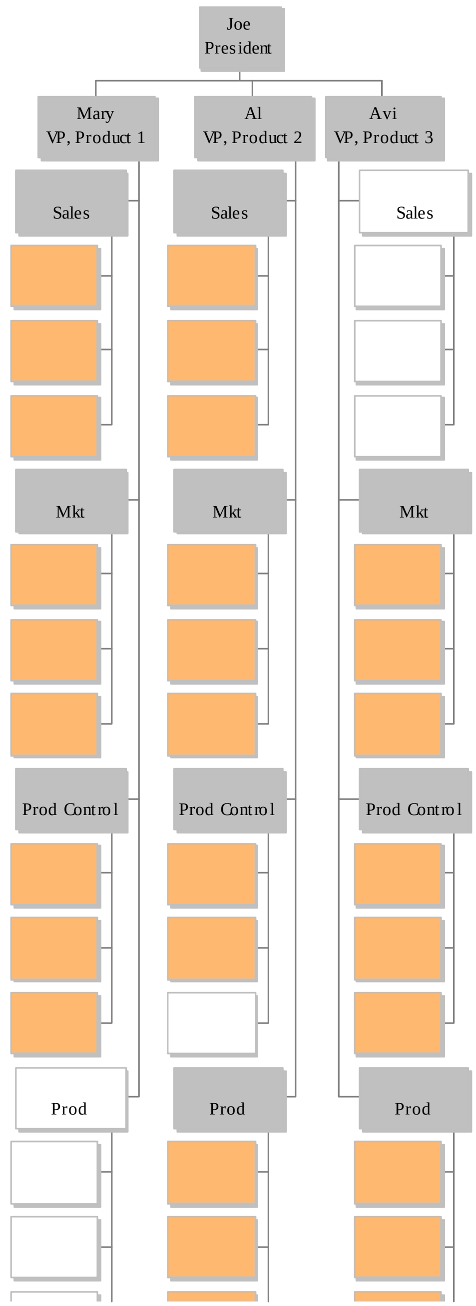
Constructional after Delayering



Constructional after Product Line Removal



Constructional after Early Retirement



Constructional

- Delayering
  - More plateauing at the same level
  - Variety of experiences available unchanged
- Removal of Product Line
  - Reduction in variety of opportunities available
  - Maybe more depth in those remaining
- Outsourcing functions
  - Reduction in the variety of opportunities available
  - Reduction in needed knowledge for higher level positions
- Across the Board/Early Retirement/Severance
  - No change in the shape of the stream
  - More developmental opportunity through enlarged jobs

Evolutionary

- Delayering (within SBU)
  - No change in the shape of the career stream
  - Increased set of responsibilities
- Removal of Product line
  - Unchanged for survivors
- Outsourcing Functions
  - No change in the shape of the career stream
  - May increase or decrease (if accompanied by centralization) the developmental opportunities
- Across the Board/Early Retirement/Severance
  - No change in the shape of the career stream
  - Low developmental experience through higher centralization

Alternatives to Downsizing

Things firms can do right now!

Share the cuts across the organization. Rather than firing 10% of the workforce, all members of the organization can take a 10% cut in both hours of work and pay. This attracts a number of objections:

- Requires retraining.
- Fringe benefit costs will not be proportionately reduced
- Lower salaries render the firm uncompetitive in the labour market.
  - There are three responses.
    - First, it is often better to retrain some of the existing workforce than to go through the expensive and risky process of hiring .
    - Second, if the firm is considering downsizing then allowing some people to be attracted away helps achieve that aim; although it is the best people who have the most mobility.
    - Third, the compensation cut is temporary. Full pay can be restored when the firm recovers from the current crisis. Such an action can enhance the attractiveness of the firm in the external labour market.

- Reduce the amount of work contracted out and bring the work "in house."
  - The feasibility depends on:
    - Skills and competencies of the current work force
    - Status of existing contracts with suppliers.
- Services or products currently provided to in-house departments can be sold to outside customers. Or Example:
  - Cash management services provided by banks
  - Internal consultants in MIS selling their services externally.
- Use Part-timers, Sabbaticals and Leaves of Absence.
- Freeze hiring.

Use staff flexibly.

- Send production workers out to customers to see how product is used
  - They'll come back with new ideas for products
- Send production workers out to call on potential new customers
- Train, Train, and Retrain
- Use part-time employees, leaves of absence, etc.
- Use downtime to undertake delayed maintenance, product development.
- Etc

Things to be done in the next boom to cushion against future downturns.

Adopt a compensation system similar to that used by many large Japanese firms.

– For all employees compensation includes a base salary coupled with a bonus based upon profitability and exceeding performance standards. If the bonus in the most profitable year is about 20% to 25% of base salary, then in years that the firm is not profitable, a major cost saving can be achieved without layoffs.

Adopt the “hour bank.”

– Instead of overtime allow employees to bank their hours. These then get paid for during less booming times.

Further Readings

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Web Sites

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