

# Strategies for responsible restructuring

Wayne F. Cascio

## Executive Overview

*As organizations struggle to enhance their competitive positions, employment downsizing continues as a preferred part of a restructuring strategy. Its objective is to reduce operating costs as a way of increasing earnings and stock prices. A study of S&P 500 firms from 1982–2000, however, casts serious doubt on the long-term payoff of this approach. The purpose of this article is to suggest several alternative approaches to restructuring. In contrast to employment downsizing, a strategy that regards people as costs to be cut, a responsible restructuring strategy focuses on people as assets to be developed. This focus recognizes that people are the source of innovation and renewal, especially in knowledge-based organizations, and that the development of new markets, customers, and revenue streams depends on the wise use of a firm's human assets. The article presents company examples and research-based findings that illustrate mistakes to avoid and affirmative steps to take when restructuring responsibly.*

## Employment Downsizing: The Juggernaut Continues

The job churning in the labor market that characterized the 1990s has not let up. If anything, its pace has accelerated. However, the free-agent mentality of the late 1990s that motivated some people to leave one employer so that they could make 5 percent more at another, a strategy that benefited men more than women,<sup>1</sup> is over. Layoffs are back—and with a vengeance. Thus, in 2001, companies in the United States announced layoffs of almost two million workers, with firms such as American Express, Lucent, Hewlett-Packard, and Dell conducting multiple rounds in the same year. Corporations announced 999,000 job cuts between September 11, 2001 and February 1, 2002 alone!<sup>2</sup> Indeed, the 443,134 job cuts announced in the first quarter of 2002 exceeded those announced in the first quarter of 2001 by nine percent.<sup>3</sup> Medium- and large-sized companies announced most layoffs, and they involved *all* levels of employees, top to bottom. A study by Bain & Company's Worldwide Strategy Practice reported that in 2000, for example, 22 percent of the CEOs of the largest publicly traded companies either lost their jobs or retired, as opposed to just 13 percent in 1999.<sup>4</sup> Morgan Stanley estimates that about 80 percent of the U.S. layoffs involved white-collar, well-educated employees.

According to Morgan Stanley's chief economist, that's because 75 percent of the 12.3 million new jobs created between 1994 and 2000 were white-collar jobs. What the companies created, they are now taking away.

---

***Morgan Stanley estimates that about 80 percent of the U.S. layoffs involved white-collar, well-educated employees.***

---

Are there gender differences in the likelihood of layoffs and in their consequences? A longitudinal data set of more than 4,000 large Australian firms covering the period 1990–1998 found that men were more likely than women to experience employment downsizing, but that women's re-employment rates after downsizing were lower than men's.<sup>5</sup> Evidence indicates that such career disruptions have particularly negative consequences on the future earnings of women.<sup>6</sup>

## The Economic Logic That Drives Downsizing

What makes downsizing such a compelling strategy to firms worldwide? The economic rationale is straightforward. It begins with the premise that there really are only two ways to make money in

business: either you cut costs or you increase revenues. Which is more predictable, future costs or future revenues? Anyone who makes monthly mortgage payments knows that future costs are far more predictable than future revenues. Payroll expenses represent fixed costs, so by cutting payroll, other things remaining equal, one should reduce overall expenses. Reduced expenses translate into increased earnings, and earnings drive stock prices. Higher stock prices make investors and analysts happy. The key phrase is "other things remaining equal." As we shall see, other things often do not remain equal, and therefore the anticipated benefits of employment downsizing do not always materialize.

### What Does Research on the Economic Consequences of Employment Downsizing Tell Us?

In a series of studies that included data from 1982–1994, 1995–2000, and 1982–2000, my colleagues and I examined financial and employment data from companies in the Standard & Poor's 500. The S&P 500 is one of the most widely used benchmarks of the performance of U.S. equities. It represents leading companies in leading industries and consists of 500 stocks chosen for their market size, liquidity, and industry-group representation. Our purpose was to examine the relationships between changes in employment and financial performance. We assigned companies to one of seven mutually exclusive categories based upon their level of change in employment and their level of change in plant and equipment (assets). We then observed the firms' financial performance (profitability and total return on common stock) from one year before to two years after the employment-change events. We examined results for firms in each category on an independent as well as on an industry-adjusted basis.<sup>7</sup>

In our most recent study, we observed a total of 6,418 occurrences of changes in employment for S&P 500 companies over the 18-year period from 1982 through 2000. As in our earlier studies, we found no significant, consistent evidence that employment downsizing led to improved financial performance, as measured by return on assets or industry-adjusted return on assets. Downsizing strategies, either employment downsizing or asset downsizing, did not yield long-term payoffs that were significantly larger than those generated by Stable Employers—those companies in which the complement of employees did not fluctuate by more than  $\pm 5$  percent.

---

### ***We found no significant, consistent evidence that employment downsizing led to improved financial performance, as measured by return on assets or industry-adjusted return on assets.***

---

This conclusion differs from that in our earlier analysis of the data from 1982 to 1994.<sup>8</sup> In that study we concluded that some types of downsizing, e.g., Asset Downsizing, do yield higher ROAs than either Stable Employers or their industries. However, when the data from 1995–2000 are added to the original 1982–1994 data, a different picture emerges. That picture suggests clearly that, at least during the time period of our study, it was not possible for firms to "save" or "shrink" their way to prosperity. Rather, it was only by growing their businesses (Asset Upsizing) that firms outperformed Stable Employers as well as their own industries in terms of profitability and total returns on common stock. With respect to such returns, Asset Upsizers generated returns that were 41 percent higher than those of Employment Downsizers and 43 percent higher than those of Stable Employers, by the end of Year 2.

This is not to say that firms should not downsize. In fact, many firms have downsized and restructured successfully to improve their productivity. They have done so by using layoffs as part of a broader business plan. As examples, consider Sears Roebuck & Company and Praxair, Inc. In January 2001 Sears cut 2,400 jobs as part of a restructuring that included closing 89 stores and several smaller businesses. Shares rose 30 percent in six months. Praxair, Inc., a \$5 billion supplier of specialty gases and coatings, cut 900 jobs in September 2001 in response to the economic slowdown. At the same time, however, it also announced initiatives designed to pull it out of the slump, including two new plants for products where demand was on the rise. The result? The value of its shares rose 30 percent in three months.

In the aggregate, the productivity and competitiveness of many firms have increased in recent years. However, the lesson from our analysis is that firms cannot simply *assume* that layoffs are a quick fix that will necessarily lead to productivity improvements and increased financial performance. The fact is that layoffs alone will not fix a business strategy that is fundamentally flawed. Thus when Palm, Inc. trimmed 250 jobs in an effort to cut costs after a delayed product launch slowed demand, shares lost nearly half their value in one day and never recovered. In response, Palm's

chief financial officer, Judy Bruner, noted, "There were a lot of questions about the viability of the business."<sup>9</sup>

In short, employment downsizing may not necessarily generate the benefits sought by management. Managers must be very cautious in implementing a strategy that can impose such traumatic costs on employees, both on those who leave as well as on those who stay.<sup>10</sup> Management needs to be sure about the sources of future savings and carefully weigh those against *all* of the costs, including the increased costs associated with subsequent employment expansions when economic conditions improve.

### **What's Different About Current Layoffs in the United States**

In some important ways, the cuts that firms in the United States are making now differ from those they made in the 1990s.

#### ***Preemptive Layoffs by Large Firms***

Today's job cuts are not solely about large, sick companies trying to save themselves, as was often the case in the early 1990s (e.g., IBM, Sears). They are also about healthy companies hoping to reduce costs and boost earnings by reducing head count (e.g., Goldman Sachs and AOL). They are about trying to preempt tough times instead of simply reacting to them. These layoffs are radical, preventive first aid.<sup>11</sup> On the other hand, small companies, especially small manufacturers, tend to resist layoffs because they are trying to protect the substantial investment they made in finding and training workers.<sup>12</sup>

#### ***Tailoring the Complement of Skills***

At the same time that firms are firing some people, they are hiring others, presumably people with the skills to execute new strategies. According to the American Management Association's annual survey of its member companies, which employ one-quarter of the American workforce, 36 percent of firms that eliminated jobs in the previous 12 months said they had also created new positions. That's up from 31 percent in 1996.<sup>13</sup> As companies lose workers in one department, they are adding people with different skills in another, continually tailoring their workforces to fit the available work and adjusting quickly to swings in demand for products and services. What makes this flexibility possible is the rise in temporary and contract workers.<sup>14</sup> On a typical day, they allow companies

to meet 12 percent of their staffing needs. On peak days that figure may reach 20 percent.<sup>15</sup>

---

***As companies lose workers in one department, they are adding people with different skills in another, continually tailoring their workforces to fit the available work and adjusting quickly to swings in demand for products and services.***

---

#### ***Sympathy Toward an Employer's Reasons for Layoffs, and a Refusal to Personalize the Experience***

From the perspective of employees, layoffs have a new character. More managers are briefing employees regularly about the economic status of their companies. This information raises awareness and actually prepares employees for what might happen to them. To many, the layoffs seem justified because of the slowdown in economic growth, the plunge in corporate profits, and the dive in stock prices. While being laid off even once used to be traumatic, some employees can now expect to go through that experience twice or even three times before they reach 50.<sup>16</sup>

#### ***Outplacement Centers as Hiring Halls***

Outplacement centers have become America's new hiring halls—gathering places for those between assignments. As the managing principal of the New York office of outplacement firm Right Associates put it, "These people are not ashamed, but they do feel dislocated, and there is anger. They were on track, and now they are trying to get back on track." Right has redesigned its offices to accommodate the new matter-of-factness about downsizing. Instead of enclosed offices and cubicles, where the downsized of the 1990s kept to themselves as they pursued jobs, there are many more glass walls and open gathering places where the downsized of the 21<sup>st</sup> century get to know each other. They socialize, and they even re-create office buzz. Said the managing principal, "It took us awhile to recognize that this had become important."

#### **Layoffs in Other Countries**

The phenomenon of layoffs is not limited to the United States. Asia and Europe have been hard hit as well. Japan's chip and electronics conglomer-

ates have shed tens of thousands of jobs in the past year as the worldwide information-technology slump and fierce competition from foreign rivals have battered their bottom lines. High-profile firms such as Hitachi, Fujitsu, NEC, Toshiba, Matsushita Electric Industrial, and Sony have cut deeply, as has Mazda in automobile production.<sup>17</sup> In Hong Kong, fully 43 percent of firms in a recent survey expect to lay off workers in 2002, and in mainland China, more than 25.5 million people were laid off from state-owned firms between 1998 and 2001. Another 20 million are expected to be laid off from traditional state-owned firms by 2006.<sup>18</sup>

---

***The phenomenon of layoffs is not limited to the United States. Asia and Europe have been hard hit as well.***

---

The incidence of layoffs varies among countries in Western Europe. Labor laws in countries such as Italy, France, Germany, and Spain make it difficult and expensive for companies to dismiss workers. In Germany, for example, all "redundancies" must by law be negotiated in detail by a workers' council, which is a compulsory part of any big German company and often has a say in which workers can be fired. Moreover, setting the terms of severance is tricky, because the law is vague and German courts often award compensation if workers claim that they received inadequate settlements. In France, layoffs are rare. As an example, consider that now-bankrupt appliance maker Moulinex, once considered an icon of French industry, repeatedly tried to restructure in 2001 but was blocked by the French Socialist government because its cost-cutting plans included layoffs. At present, even if companies offer generous severance settlements to French workers, as both Michelin and Marks & Spencer did in 2001, the very announcement of layoffs triggers a political firestorm.<sup>19</sup>

Multinational companies are dealing with this problem in several different ways. One strategy is to turn to other locations within the 15-nation European Union where labor laws are more flexible. Thus Britain has attracted car assembly plants from Nissan Motor Company and PSA Peugeot Citroen, while Ireland hosts EU-wide operations for such technology companies as Microsoft and Intel. A second strategy, practiced by multinationals such as General Motors and Ford, is to move production to Eastern Europe, Turkey, and other lower-cost areas.<sup>20</sup>

U.S.-style layoffs are more common among some European multinationals. Thus London-based EMI

Recorded Music, facing a declining global market and growing threat from Internet piracy, recently announced cuts affecting 18 percent of its workforce. Stockholm-based LM Ericsson, the world's largest manufacturer of equipment for cell-phone networks, with operations in 140 countries, had 107,000 employees in April 2001. By January 2002 it was down to 85,000, and in April 2002 it announced an additional 17,000 job cuts.<sup>21</sup> Such massive corporate and personal disruption once again raises important questions about the long-term benefits of strategies that emphasize reductions in the workforce. To put that issue into perspective, let us consider a key driver of business success in the new millennium: business concept innovation.

### **Business Concept Innovation**

As Gary Hamel notes in his book *Leading the Revolution* (2000), the age of incremental progress is over. Its mantra—faster, better, cheaper—is true of fewer and fewer companies. Today change has changed. No longer is it additive. No longer does it move in a straight line. In many industries it is now discontinuous, abrupt, and distinctly non-linear, as radically different ideas and commercial developments render established products and services obsolete.<sup>22</sup> Perhaps the most far-reaching change of all is the Internet, which has rendered geography meaningless.

In the age of incremental progress, companies practiced rigorous planning, continuous improvement, statistical process control, six sigma quality-enhancement programs, reengineering, and enterprise resource planning.<sup>23</sup> If companies missed something that was changing in the environment—for example in TVs, stereos, and other consumer electronics, as in the 1970s and 1980s—there was plenty of time to catch up.

Today, if a company misses a critical new development—for example in digital phones, Internet auctions, or corporate extranets (networks that connect firms to their suppliers or customers, that is, the entire value chain)—it may never catch up. As an example of the latter, consider enterprise resource planning (ERP). Firms employed armies of consultants to help them use ERP to integrate internal operations like purchasing, manufacturing, and accounting. Such activities are important and useful, but now many companies use the Web to link up with suppliers and customers. Many ERP consultants (and their firms) are not players in this area, and the Web is the wave of the future.

Industrial-age management is a liability in a post-industrial world. Never before has there been such an incredible need for visionary leadership



and the capacity to manage change effectively. Today the challenge is to think differently—to move beyond scientific management and kaizen (continuous improvement). As Hamel points out, the focus today is not on the slow accretion of scientific knowledge but on leaps of human imagination. In a non-linear world, only non-linear ideas will create new wealth and lead to radical improvements in human welfare.

The starting point today is not a product or a service. It's the entire business concept. Here are just a few examples:

- Internet telephony (the use of Internet facilities, where voice transmission is one form of communication) versus dedicated voice networks (e.g., telephones, allowing only voice transmission)
- Buying insurance over the Internet versus going to a physical agency
- Searching for a job at Monster.com versus help-wanted ads in a local newspaper
- Downloading music via MP3 files versus purchasing CDs at a music store
- Instant buyer co-operatives (Mercata.com) versus shopping at a mall

---

***The starting point today is not a product or a service. It's the entire business concept.***

---

The list goes on and on. Now let's consider what business concept innovation is not.

#### **What Business Concept Innovation Is Not**

Some popular strategies today are spin-offs of non-core businesses, stock buy-backs, tracking stocks, and efficiency programs. All of these release wealth but they do not create wealth.<sup>24</sup> This is financial engineering, not business concept innovation. Strategies like these do not create new customers, markets, or revenue streams. Their only purpose is to wring a bit more wealth out of yesterday's strategies. Sure, money talks, but it doesn't think. Machines work efficiently, but they don't invent. Thinking and inventing are done by the only true, long-term source of innovation and renewal that organizations possess: smart, well-trained people.

How do you increase the probability that radical, new, wealth-creating ideas will emerge in your organization? Certainly not by indiscriminate downsizing of your workforce or by trying to imitate the best practices of other companies. Rather, a key task for leaders is to create an environment

in which the creativity and imagination of employees at *all* levels can flourish. In many cases doing so requires a radical shift in the mindset of managers at all levels. That new mindset is called *responsible restructuring*.

#### **Responsible Restructuring—What Is It?**

In 1995 I wrote a publication for the U.S. Department of Labor entitled *Guide to Responsible Restructuring*.<sup>25</sup> As I investigated the approaches that various companies, large and small, public and private, adopted in their efforts to restructure, what became obvious to me was that companies differed in terms of how they viewed their employees. Indeed, they almost seemed to separate themselves logically into two groups. One group of firms, by far the larger of the two, saw employees as *costs to be cut*. The other, much smaller group of firms, saw employees as *assets to be developed*. Therein lay a major difference in the approaches they took to restructure their organizations.

- *Employees as costs to be cut*—these are the downsizers. They constantly ask themselves: What is the minimum number of employees that we need to run this company? What is the irreducible core number of employees that the business requires?
- *Employees as assets to be developed*—these are the responsible restructurers. They constantly ask themselves: How can we change the way we do business, so that we can use the people we currently have more effectively?

The downsizers see employees as commodities—like paper clips or light bulbs, interchangeable and substitutable one for another. This is a “plug-in” mentality: plug them in when you need them; pull the plug when you no longer need them. In contrast, responsible restructurers see employees as sources of innovation and renewal. They see in employees the potential to grow their businesses.

#### **Downsizing's Hidden Risk to Learning Organizations**

Learning organizations, from high-technology firms to the financial services industry, depend heavily on their employees—their stock of human capital—to innovate and grow. Learning organizations are collections of networks in which interrelationships among individuals, that is, social networks, generate learning and knowledge. This knowledge base constitutes a firm's “memory.” Because a single individual has multiple relationships in such an organization, indiscriminate, non-

selective downsizing has the potential to inflict considerable damage on the learning and memory capacity of organizations.<sup>26</sup> That damage is far greater than might be implied by a simple tally of individuals.

When one considers the multiple relationships generated by one individual, it is clear that restructuring which involves significant reductions in employees can inflict damage and create the loss of significant "chunks" of organizational memory. Such a loss damages ongoing processes and operations, forfeits current contacts, and may lead to foregone business opportunities. Which kinds of organizations are at greatest risk? Those that operate in rapidly evolving industries, such as biotechnology, pharmaceuticals, and software, where survival depends on a firm's ability to innovate constantly.

---

***When one considers the multiple relationships generated by one individual, it is clear that restructuring which involves significant reductions in employees can inflict damage and create the loss of significant "chunks" of organizational memory.***

---

### Ten Mistakes to Avoid When Restructuring

Downsizing a learning organization is not the only mistake that some companies make. Here are ten others to ponder and learn from.<sup>27</sup>

1. *Failure to be clear about long- and short-term goals.* Always ask: What do our customers expect from us, and how will restructuring affect our ability to meet those expectations?<sup>28</sup>
2. *Use of downsizing as a first resort, rather than as a last resort.* In some cases, firms downsize because they see competitors doing it. This is a "cloning" response, in which executives in different firms follow one another's actions under conditions of uncertainty,<sup>29</sup> but it fails to consider alternative approaches to reducing costs. Such alternatives include delaying new-hire start dates, reducing perks, revoking job offers, freezing salaries and promotions, and asking employees to take unpaid vacations.<sup>30</sup>
3. *Use of non-selective downsizing.* Across-the-board job cuts miss the mark. So also do cuts based on criteria such as last-in-first-out (because then firms lose all their bright young people), removing everyone below a certain level in the hierarchy (because top-heavy firms become even top heavier), or weeding out all middle managers (because firms lose a wealth of experience and connections).<sup>31</sup> Are all departments and all employees equally valuable to the firm? Probably not. With respect to employees, think about performance and replaceability.<sup>32</sup> Employees who are top performers and who are difficult to replace are most valuable. They are the "stars" that firms will depend on to innovate, to create new markets and new customers. Do everything you can to retain them.
4. *Failure to change the ways work is done.* Some firms mistakenly believe that they can keep making products or delivering services the same way as before downsizing. They fail even to consider changing from an old way to a new way of working. The same amount of work is simply loaded on the backs of fewer workers. Such a "pure-employment downsizing" approach does not lead to long-term improvements either in profitability or in total returns on common stock.<sup>33</sup>
5. *Failure to involve workers in the restructuring process.* It is a truism that employees are more likely to support what they helped to create. Yet many restructuring efforts fail to involve employees in any decisions either about the process or the desired outcome. As a result, employees feel powerless and helpless, and there is massive uncertainty in the organization. Conversely, when employees were asked to rate various factors that affect attracting, motivating, and retaining superior employees, one of the most important factors was "opportunities to participate in decisions."<sup>34</sup>
6. *Failure to communicate openly and honestly.* Failure to provide regular, ongoing updates not only contributes to the atmosphere of uncertainty; it also does nothing to dispel rumors. Open, honest communication is crucial if employees are to trust what management says, and trust is crucial to successful restructuring.<sup>35</sup> People trust leaders who make themselves known and make their positions clear.<sup>36</sup>
7. *Inept handling of those who lose their jobs.* Failure to treat departing employees with dignity and respect (e.g., having security guards escort them off company property), failure to provide training to supervisors in how to handle emotional factors, and failure to provide assistance to departing employees (financial, counseling, redeployment, training, outplacement) is another crucial mistake.<sup>37</sup>
8. *Failure to manage survivors effectively.* Employee morale is often the first casualty of

downsizing, as survivors become narrow-minded, self-absorbed, and risk averse.<sup>38</sup> Many firms underestimate the emotional damage that survivors suffer by watching others lose their jobs. In fact, a great deal of research shows that survivors often suffer from heightened levels of stress, burnout, uncertainty about their own roles in the new organization, and an overall sense of betrayal.<sup>39</sup> In unionized environments, downsizing may be related to increased grievances, higher absenteeism rates, workplace conflict, and poorer supervisor-union member relations.<sup>40</sup> In fact, survivors are looking for signals such as the following. Were departing employees treated fairly, and with dignity and respect? Why should I stay? What new opportunities will be available to me if I choose to do so? Is there a new business strategy to help us do a better job of competing in the marketplace?

9. *Ignoring the effects on other stakeholders.* In addition to survivors and victims, it is important to think through the potential consequences of restructuring on customers, suppliers, shareholders, and the local community. A comprehensive program addresses and manages consequences for each of these groups.
10. *Failure to evaluate results and learn from mistakes.* Restructuring is not a one-time event for most firms. I have found in my research that unless firms are brutally honest about the processes and outcomes of their restructuring efforts, they are doomed to repeat the same mistakes over and over again. Don't be afraid to ask employees and managers at all levels, "What did you like most and like least about our restructuring effort?" Don't be afraid to ask customers if the firm is now meeting their needs more effectively, and for suggestions on how it might do so.

---

***Unless firms are brutally honest about the processes and outcomes of their restructuring efforts, they are doomed to repeat the same mistakes over and over again.***

---

### **Three Downsizing Strategies for Responsible Restructuring**

Now that we have seen what so many firms do wrong, let's examine three responsible restructuring strategies that some firms are doing right.

These examples are by no means exhaustive, but they do represent the strategies of firms in several different industries (financial services, management consulting, high technology, telecommunications, manufacturing) and countries (the United States and Singapore).

#### ***Charles Schwab & Company: Use downsizing as a last resort; at the same time reinvent your business***

At the end of the second quarter of 2001, Schwab's commission revenues were off 57 percent from their peak 15 months earlier. Overall revenue was down 38 percent, losses totaled \$19 million, and the stock had dropped 75 percent from its high. Something had to give. How did the company respond? It took five steps *before* finally cutting staff.<sup>41</sup>

- When Schwab first saw business begin to deteriorate the year before, it put projects on hold and cut back on such expenses as catered staff lunches, travel, and entertainment. Management went out of its way to explain to employees the short-term nature of these cuts.<sup>42</sup>
- As it became clear that more savings were needed, top executives all took pay cuts: 50 percent each for the company's two CEOs, 20 percent for executive vice presidents, 10 percent for senior vice presidents, and 5 percent for vice presidents.
- It encouraged employees to take unused vacation and to take unpaid leaves of up to 20 days.
- Management designated certain Fridays as voluntary days off without pay for employees who didn't have clients to deal with.
- Only after the outlook darkened again, at the end of the first quarter of 2001, did the firm announce layoffs: 2,000 out of a workforce of 25,000. Even then the severance package included a \$7,500 "hire-back" bonus for any employee rehired within 18 months. It also included between 500 and 1,000 stock options, cash payments to offset the increased costs of healthcare insurance for laid-off employees, and a full range of outplacement services.<sup>43</sup> Further, everyone being laid off, nearly 5,000 people by the end of September 2001, was eligible for a \$20,000 tuition voucher paid for by the founder himself. That could cost him as much as \$10 million.

Over the past decade or so, Schwab & Company has had a lengthy record of product innovation. Perhaps its greatest innovation was one of the gutsiest moves of the 1990s: offering online trading in a bigger and better way than anyone else, even though it meant cutting commission rates by more

than half. The result? In early 2000 Schwab could boast of having generated a better 10-year return for investors than Microsoft!

Today, however, the company is reinventing its business model. Sure, it is cutting costs by making its website easier to use, thus cutting down on expensive phone traffic, and it is raising fees for customers who don't trade very often and are unprofitable for the firm. But its biggest bet—where it thinks the bulk of its future revenue will come from—will be a radical new approach to winning and keeping business. The firm that was founded on the principle that it would never tell customers what stocks to buy is about to do just that—but with an ingenious twist.

The plan is to have computers analyze customers' portfolios, compare them with a computer-generated list of Schwab-recommended stocks for that investor's risk profile, and then convey that message to the client. When the objective analysis is supplemented with research reports from partner Goldman Sachs, plus occasional access to a salaried investment specialist, the company feels that these steps will fill in the final gap in what will be a complete set of services for virtually every investor.<sup>44</sup>

Schwab is practicing responsible restructuring. How? At the same time that it is demonstrating by its actions that it sees its employees as assets to be developed, it is developing business concept innovations that will allow it to generate new customers and new streams of revenue in order to grow its business.

***Cisco Systems, Accenture, Motorola: "Park" the best; respect the rest***

A second downsizing strategy is to retain top employees, while generating good will, even loyalty, among those departing. The United States has just sailed through five years of labor shortfalls on a scale not seen in more than three decades. What's more, the unemployment rate, while still rising, remains at historically low levels. Indeed, the unemployment rate for white-collar workers remains at just 2.2 percent.<sup>45</sup> Many employers are cautious about laying off too many workers, only to find themselves scrambling to refill the positions when demand picks up. To avoid that scenario, some are developing ingenious plans to "park" their most highly skilled employees until the economy recovers, and to promote good will, even loyalty, among those they have to let go.

---

***Many employers are cautious about laying off too many workers, only to find themselves scrambling to refill the positions when demand picks up.***

---

Cisco Systems, which is shrinking its staff to 30,500 from 38,000 and paying six months' salary to those who sign severance agreements, is also trying a 21<sup>st</sup>-century version of the old industrial furlough. In a pilot program, it is paying 70 employees one-third of their salaries while lending them to non-profit organizations for a year. In effect Cisco is warehousing them until they might be needed.<sup>46</sup>

Accenture, a large management consulting firm, did cut 600 support staff last June. But to retain skilled employees, it developed the idea of partially paid sabbaticals. The firm pays 20 percent of each employee's salary for six to twelve months, plus benefits, and it lets the employee keep a work phone number, laptop, and email. About 1,000 employees took the offer. Said Accenture's managing partner for internal operations, "This is a way to cut costs that gives us the ability to hang onto people we spent so much time recruiting and training."<sup>47</sup>

Motorola has been hard hit by the global slowdown in telecommunications. As a result it is eliminating 30,000 jobs of the 147,000 that existed in January 2001, but at the same time it does not want to waste the results of its assiduous recruiting during the late 1990s. Every laid-off employee in the United States is getting a minimum of eight weeks' pay as severance, a benefit that until the late 1990s was not so broadly available to lower-ranking employees.

Motorola has also become more active in sponsoring job fairs and outplacement clinics where those leaving the company can receive help in writing resumes, honing interviewing skills, and making contacts.<sup>48</sup> Why is Motorola going to such lengths to generate goodwill among departing employees? It views these initiatives as subtle tools for future recruiting, once the economy revives and hiring resumes.

***Philips Electronics Singapore: Offer training, counseling, and job-finding assistance to displaced workers***

A third downsizing strategy for responsible restructuring is to help displaced workers find new jobs. Philips has operations in more than 60 countries in the areas of lighting, consumer electronics, domestic appliances, components, semiconduc-



tors, medical systems, business electronics, and information technology services. It began manufacturing operations in Singapore in 1969.<sup>49</sup>

Since the 1980s, manufacturing companies operating in Singapore have been following the global trend of relocating low-end production to lower-cost countries in the region. More recently, the trend has been to relocate to China and newly emerging economies with large supplies of low-cost labor and growing markets. In 1999 Philips Singapore took advantage of this opportunity to relocate part of its consumer electronics and domestic appliances business to China, Eastern Europe, and Mexico, thus lowering its operating costs while remaining based in Singapore. This restructuring exercise resulted in about 750 excess production operators, technicians, and related support staff.

In an effort to maintain a lean and flexible workforce in its low-end production in anticipation of an eventual relocation out of Singapore, Philips adopted the following human resource management strategies:

- Managers were required to assess long-term workforce projections carefully before recruiting new employees.
- Vacancies had to be filled from within the organization unless present staff could not meet the requirements.
- Philips recruited contract workers rather than full-time workers to meet increased demand and to provide flexibility when demand fluctuates.

When it became clear that the relocation would result in 750 excess employees, management informed the union, a branch of the Union of Workers in Electronics and Electrical Industries (UWEEI), of the situation. They worked together to ensure that the retrenched workers were given as much support and help as possible in finding alternative work.

Philips puts a high priority on employee self-development, with the belief that people are its most valuable resources. It has earned a reputation for being an enlightened and caring employer, having won several prestigious awards from the National Trade Union Congress (NTUC) and from the government. Its demonstrated commitment to its employees, as stated in its philosophy of management, is that employees should be respected, challenged, encouraged, and given equal opportunities.

### **Key Initiatives at Philips**

*Skills upgrading and training for employability.* Together with the UWEEI and the NTUC, Philips

encouraged all of the affected workers to take advantage of a program that had been initiated by the NTUC: the Skills Redevelopment Program. That program provides attractive training grants to companies. Its objective is to help workers, especially those who are older and lower skilled, to become more employable through skills upgrading. Philips encouraged the 750 affected workers to enroll in the Certificate of Competence in Electronic Maintenance program under the Skills Redevelopment Program.

*Counseling and employment assistance.* On the day that the retrenchments were announced in December 1999, the company made sure that all affected workers were registered with the NTUC Employment Assistance Program, and company and union representatives were available to answer questions. Later, a job fair was organized by the Ministry of Manpower and union representatives to assist affected workers in their job search.

*Job matching.* The first priority was to help workers secure alternative employment, by trying to match them with vacancies in job data banks kept by the NTUC Employment Assistance Program and the government-sponsored Employment Services Department. In an initial effort in December 1999, more than 30 retrenched workers were identified as having the necessary qualifications to pursue further training for a higher skills job such as wafer fabrication. The union approached ST Microelectronics, which had vacancies in this area, and got its agreement to interview interested workers. The union encouraged other workers who were qualified or interested to undergo training in order to qualify for higher-paying employment opportunities.

*Financial assistance.* To minimize financial hardship, retrenchment benefits were paid according to the collective bargaining agreement: one month's pay for every year of service for those with three or more years of service, and one week's pay for every year for those with fewer than three years' service. In addition, workers received one month's pay in lieu of notice of retrenchment, and those retrenched in December still received the one-month annual wage supplement normally paid at the end of the year.

### **Outcomes**

Many of the laid-off workers had worked for Philips for more than 20 years, and this had been their first job. They understood the company's need to reduce operating costs and to remain competitive. At the same time, they appreciated the support provided both by the management and by the union in help-

ing them to adjust to the sad reality. Such support also boosted the morale and confidence of those who continued to work in the plants.

### Restructuring Responsibly: What To Do

At this point you are probably wondering how to proceed. We have highlighted some things not to do and have provided examples of how to use downsizing as part of a strategy for responsible restructuring. We believe it can all be put together by following these suggestions.

1. *Carefully consider the rationale behind restructuring.* Invest in analysis and consider the impact on those who stay, those who leave, and the ability of the organization to serve its customers.<sup>50</sup> Do you have a long-term strategic plan that identifies the future mission and vision of the organization, as well as its core competencies? Does the plan consider factors such as changes in the firm's external environment and industry, the business cycle, the stage of internationalization of the firm, market segments, and life cycles of products in the various segments? Does the plan consider how processes can be redesigned while retaining the high performers who will be crucial to the firm's future success? Is there a plan to sell off unprofitable assets? Is employment downsizing part of a plan or is it *the* plan? All of these factors could impact the need for and extent of restructuring.
2. *Consider the virtues of stability.* In many cases, companies can maintain their special efficiencies only if they can give their workers a unique set of skills and a feeling that they belong together. Teams work best if the team members get to know and trust each other and if each team member masters a broad enough range of skills to be able to fill in for absent colleagues. Moreover, profit sharing as a reward system makes sense only if the employees are around when profits are disbursed. Sometimes the virtues of stability outweigh the potential benefits of change.<sup>51</sup>
3. *Before making any final decisions about restructuring, managers should make their concerns known to employees and seek their input.* Sometimes workers have insightful ideas that may make layoffs unnecessary. However, even if layoffs are necessary, seeking employee input will foster a sense of participation, belonging, and personal control. Make special efforts to secure the input of "star" employees or opinion leaders, for they can help communicate the rationale and strategy of restructuring to their fellow em-

ployees and can also help to promote trust in the restructuring effort.<sup>52</sup>

---

### ***Sometimes workers have insightful ideas that may make layoffs unnecessary.***

---

4. *Don't use downsizing as a "quick fix" to achieve short-term goals in the face of long-term problems.* Consider other alternatives first, and ensure that management at all levels shares the pain and participates in any sacrifices employees are asked to bear. Make downsizing truly a last resort, not a first resort.
5. *If layoffs are necessary, be sure that employees perceive the process of selecting excess positions as fair, and make decisions in a consistent manner.*<sup>53</sup> Make special efforts to retain the best and the brightest, and provide maximum advance notice to terminated employees.
6. *Communicate regularly and in a variety of ways in order to keep everyone abreast of new developments and information.* Use newsletters, emails, videos, and employee meetings for this purpose. Sharing confidential financial and competitive information with employees establishes a climate of trust and honesty. High-level managers should be visible, active participants in this process. Be sure that lower-level managers are trained to address the concerns of victims as well as survivors.<sup>54</sup>
7. *Give survivors a reason to stay, and prospective new hires a reason to join.* As one set of authors noted, "People need to believe in the organization to make it work, but they need to see that it works to believe in it."<sup>55</sup> Recognize that surviving employees ultimately are the people you will depend on to provide the innovation, superior service to customers, and healthy corporate culture that will attract and retain top talent. Do everything you can to ensure their commitment and their trust.
8. *Train employees and their managers in the new ways of operating.* Restructuring means change, and employees at all levels need help in coping with changes in areas such as reporting relationships, new organizational arrangements, and reengineered business processes. Evidence indicates clearly that firms whose training budgets increase following a restructuring are more likely to realize improved productivity, profits, and quality.<sup>56</sup>
9. *Examine all HR systems carefully in light of the change of strategy or environment facing the firm.*<sup>57</sup> Training employees in the new ways of

operating is important, but so also are other HR systems. These include workforce planning based on changes in business strategy, markets, customers, and expected economic conditions; recruitment and selection, based on the need to change both the number and skills mix of new hires; performance appraisal, based on changes in the work to be done; compensation, based on changes in skill requirements or responsibilities; and labor relations, based on the need to involve employees and their unions in the restructuring process.

Above all, if you do choose to restructure, do it responsibly, and use it as an opportunity to focus ever more sharply on those areas of the business where your firm enjoys its greatest competitive strengths. By restructuring responsibly through the use of effective downsizing strategies, your organization will be better able to achieve the 3C's of organizational success: Care of customers, Constant innovation, and Committed people.<sup>58</sup>

## Endnotes

<sup>1</sup> Brett, J. M., & Stroh, L. K. 1997. Jumping ship: Who benefits from an external labor market career strategy? *Journal of Applied Psychology*, 82(3): 331-341.

<sup>2</sup> Shadow of recession. 9 February 2002. <http://www.cbsmarketwatch.com>.

<sup>3</sup> Planned job cuts continue fall. 3 April 2002. <http://www.cbsmarketwatch.com>.

<sup>4</sup> Morris, B. White-collar blues. *Fortune*. 23 July 2001, 98-110.

<sup>5</sup> Dawkins, P., & Littler, C. R. (Eds.). July 2001. *Downsizing: Is it working for Australia?* <http://www.ceda.com.au>.

<sup>6</sup> See, for example, Blau, F. D., & Ferber, M. A. 1987. *The economics of women, men, and work*. Englewood Cliffs, NJ: Prentice-Hall; Schneer, J. A., & Reitman, F. 1997. The interrupted managerial career path: A longitudinal study of MBAs. *Journal of Vocational Behavior*, 51(3): 411-434; and Schneer, J. A., & Reitman, F. 1995. The impact of gender as managerial careers unfold. *Journal of Vocational Behavior*, 47(3): 290-315.

<sup>7</sup> Cascio, W. F., & Young, C. E. 2001. Financial consequences of employment-change decisions in major U.S. corporations: 1982-2000. In K. P. De Meuse & M. L. Marks (Eds.). *Resizing the organization*. In press, San Francisco: Jossey-Bass. See also Cascio, W. F., Young, C. E., & Morris, J. R. 1997. Financial consequences of employment-change decisions in major U.S. corporations. *Academy of Management Journal*, 40(5): 1175-1189; and Morris, J. R., Cascio, W. F., & Young, C. E. 1999. Have employment downsizings been successful? *Organizational Dynamics*, 27(3): 78-87.

<sup>8</sup> Cascio, et al., op. cit.

<sup>9</sup> Bruner, J., quoted in Lavelle, L. Swing that ax with care. *Business Week*, 11 February 2002, 78.

<sup>10</sup> Cascio, W. F., 1993. Downsizing: What do we know? What have we learned? *The Academy of Management Executive*, 7(1): 95-104. See also Cascio, W. F. Strategies for responsible restructuring. Keynote address presented at the National Manpower Summit, Singapore, 18 October 2001.

<sup>11</sup> Morris, op. cit.

<sup>12</sup> Ansberry, C. Private resources: By resisting layoffs, small

manufacturers help protect economy. *Wall Street Journal*, 6 July 2001, A1, A2.

<sup>13</sup> American Management Association. 2000. *2000 American Management Association survey: Staffing and structure*. New York: Author.

<sup>14</sup> Eig, J. Shrinking week: Do part-time workers hold the key to when the recession breaks? *Wall Street Journal*, 3 January 2002, A1, A2.

<sup>15</sup> Uchitelle, L. Pink slip? Now, it's all in a day's work. *New York Times*, 5 August 2001. <http://www.NYTimes.com>.

<sup>16</sup> Ibid.

<sup>17</sup> Hitachi decides another 4,000 workers in Japan must go. *South China Morning Post*, 31 January 2002, 1; Kunii, I. Under the knife. *BusinessWeek*, 10 September 2001, 62; and Larimer, T. Worst-case scenario. *Time*, 26 March 2001, 54-56. See also Shirouzu, N. Leaner and meaner: Driven by necessity—and by Ford-Mazda downsizes, U.S.-style. *Wall Street Journal*, 5 January 2000, A1, A10. See also Sony's shake up. *BusinessWeek*, 22 March 1999, 52, 53.

<sup>18</sup> 43pc of firms plan to cut staff, says poll. *South China Morning Post*, 26 February 2002, 1; and China warns of 20 million urban jobless. *South China Morning Post*, 30 April 2002, 1.

<sup>19</sup> Winestock, G. A. reticent European right balks on labor. *Wall Street Journal*, 21 June 2002, A6, A7; and Matlack, C. The high cost of France's aversion to layoffs. *BusinessWeek*, 5 November 2001, 56.

<sup>20</sup> Winestock, op. cit.

<sup>21</sup> Larsen, K. EMI plans job cuts, large cost savings. *Asian Wall Street Journal*, 21 March 2002, M6; Pritchard, S. Deregulation and debt serve to hasten inevitable. *South China Morning Post*, 26 March 2002, 2; and Gamel, K. Ericsson to cut 17,000 jobs. 22 April 2002. <http://www.cbsmarketwatch.com>.

<sup>22</sup> Hamel, G. 2000. *Leading the revolution*. Boston: Harvard Business School Press.

<sup>23</sup> Statistical process control (SPC) is a quality-control technique that is based on statistical theory. Its objective is to study the variation in the output of production processes. Six sigma is a standard in SPC where almost all variability in product or service output has been eliminated. In a six-sigma system, one expects only 3.4 defects per million units of output. Enterprise resource planning is a computer-based software system that integrates all departments and functions into a single information database.

<sup>24</sup> Norris, F. Financial magic looked good, but left companies weak. *New York Times*, 28 September 2001. <http://www.NYTimes.com>.

<sup>25</sup> U.S. Department of Labor. 1995. *Guide to responsible restructuring*. Washington, DC: U.S. Government Printing Office.

<sup>26</sup> Fisher, S. R., & White, M. A. 2000. Downsizing in a learning organization: Are there hidden costs? *Academy of Management Review*, 25(1): 244-251.

<sup>27</sup> The sources of these recommendations, unless otherwise noted, are my own research, as described in *Guide to responsible restructuring*, op. cit., as well as the following: Cravotta, R., & Kleiner, B. H. 2001. New developments concerning reductions in force. *Management Research News*, 24(3/4): 90-93. See also Moravec, M. The right way to rightsize. *Industry Week*, 5 September 1994, 46.

<sup>28</sup> For more on this topic, see Seiders, K., & Berry, L. L. 1998. Service fairness: What it is and why it matters. *The Academy of Management Executive*, 12(2): 8-20.

<sup>29</sup> McKinley, W., Zhao, J., & Rust, K. G. 2000. A sociocognitive interpretation of organizational downsizing. *Academy of Management Review*, 25(1): 227-243.

<sup>30</sup> Lavelle, L. Thinking beyond the one-size-fits-all pay cut. *BusinessWeek*, 3 December 2001, 45.

<sup>31</sup> Ibid. See also The year downsizing grew up. *The Economist*, 21 December 1996, 97–99.

<sup>32</sup> Martin, D. C., & Bartol, K. M. 1985. Managing turnover strategically. *Personnel Administrator*, 30(11): 63–73. See also Cascio, W. F. 2000. *Costing human resources: The financial impact of behavior in organizations*. 4<sup>th</sup> ed. Cincinnati, OH: South-Western College Publishing.

<sup>33</sup> Cascio & Young, op. cit.

<sup>34</sup> Mirvis, P. H. 1997. Human resource management: Leaders, laggards, and followers. *The Academy of Management Executive*, 11(2): 43–56.

<sup>35</sup> Mishra, K. E., Spreitzer, G. M., & Mishra, A. K. 1998. Preserving employee morale during downsizing. *Sloan Management Review*, 39(2): 83–95. See also Gray, R. Internal communication: Its critical role during business reorganizations. Presentation to the Australian Human Resources Institute, Sydney, 1 November 2001.

<sup>36</sup> Darling, J., & Nurmi, R. 1995. Downsizing the multinational firm: Key variables for excellence. *Leadership & Organization Development Journal*, 16(5): 22–28.

<sup>37</sup> As one example of this, see Barrionuevo, A. Jobless in a flash, Enron's ex-employees are stunned, bitter, ashamed. *Wall Street Journal*, 11 December 2001, B1, B12.

<sup>38</sup> Cascio, W. F. Downsizing: What do we know?, op. cit.

<sup>39</sup> Appelbaum, S. H., Everard, A., & Hung, L. T. S. 1999. Strategic downsizing: Critical success factors. *Management Decision*, 37(7): 535–552.

<sup>40</sup> Wagar, T. H. 2001. Consequences of work force reduction: Some employer and union evidence. *Journal of Labor Research*, 22(4): 851–862.

<sup>41</sup> Vogelstein, F. Can Schwab get its mojo back? *Fortune*, 17 September 2001, 93–98. See also Bernstein, A. America's future: The human factor. *BusinessWeek*, 27 August 2001, 118–122.

<sup>42</sup> Boyle, M. How to cut perks without killing morale. *Fortune*, 19 February 2001, 241, 242, 244.

<sup>43</sup> Jossi, F. Laying off well. *HRMagazine*, July 2001, 48.

<sup>44</sup> Schwab versus Wall Street. *BusinessWeek*, 3 June 2002, 64–70.

<sup>45</sup> Bernstein, op. cit.

<sup>46</sup> Uchitelle, op. cit.

<sup>47</sup> Bernstein, op. cit.

<sup>48</sup> Uchitelle, op. cit.

<sup>49</sup> Source: Singapore Ministry of Manpower. February 2001. *Managing excess manpower, case study series*. Singapore: Author.

<sup>50</sup> *Guide to responsible restructuring*, op. cit.

<sup>51</sup> Cascio & Young, op. cit. See also Conlin, M. Where layoffs are a last resort. 8 October 2001. <http://www.businessweek.com>.

<sup>52</sup> See Roth, D. How to cut pay, lay off 8,000 people, and still have workers who love you. *Fortune*, 4 February 2002, 62–68.

<sup>53</sup> Colquitt, J. A., Conlon, D. E., Wesson, M. J., Porter, C. O. L. H., & Ng, K. Y. 2001. Justice at the millennium: A meta-analytic review of 25 years of organizational justice research. *Journal of Applied Psychology*, 86(3): 425–445.

<sup>54</sup> Feldman, M., & Spratt, M. 1999. *Five frogs on a log: A CEO's field guide to accelerating the transition in mergers, acquisitions, and gut-wrenching change*. New York: Harper.

<sup>55</sup> De Vries, M., & Balazs, K. 1997. The downside of downsizing. *Human Relations*, 50(1): 11–50.

<sup>56</sup> Appelbaum, S. H., Lavigne-Schmidt, S., Peytchev, M., & Shapiro, B. 1999. Downsizing: Measuring the costs of failure. *Journal of Management Development*, 18(5): 436–463.

<sup>57</sup> Becker, B. E., Huselid, M. A., & Ulrich, D. 2001. *The HR scorecard: Linking people, strategy, and performance*. Boston: Harvard Business School Press. See also Delery, J. E., & Doty, D. H. 1996. Modes of theorizing in strategic human resource management: Tests of universalistic, contingency, and configurational performance predictions. *Academy of Management Journal*, 39(4): 802–835.

<sup>58</sup> Darling & Nurmi, op. cit.

**Wayne F. Cascio** is a professor of management at the University of Colorado at Denver. He earned his Ph.D. in industrial and organizational psychology from the University of Rochester. His most recent books are *Managing Human Resources: Productivity, Quality of Work Life, Profits* (6<sup>th</sup> ed., 2003) and *Responsible Restructuring: Creative and Profitable Alternatives to Layoffs* (2002). Contact: [Wayne.Cascio@cudenver.edu](mailto:Wayne.Cascio@cudenver.edu).



Copyright of *Academy of Management Executive* is the property of *Academy of Management* and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.