



# Exploring Alternatives to Downsizing

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## The Need to Change

Market pressures force organizations to change rapidly. Given this unrelenting pace, leaders find they no longer can mull over decisions before taking action. Organizations must be nimble in considering and acting on changing needs in staffing. Leaders must ask:

- What mix of skills do we need today?
- What skills are we likely to need in the future?
- Do we have the right number of people employed today?
- How will these numbers change in the future?
- How do our staffing costs compare to others in our type of business?

These are difficult, but essential, questions. Those who fail to address them will be forced to react quickly when crises occur. Shoot-from-the-hip responses almost always result in a reduction in force. Research shows us that downsizing is a risky gamble, with less than half seeing improvements in productivity or revenue.

There are alternatives to downsizing. This paper lists thirteen alternatives that either address long-term staffing needs or provide short-term expense reduction. Option fourteen—downsizing—is considered as one possible option. Although I believe it is a bad choice for people and organizations, it is so much a part of corporate thinking these days, that it must be considered along with the other options.

## The Alternatives

Many of the alternatives rest on two important pillars.

**They Share the Pain.** This seems to be a significant factor in the success of alternatives, according to researcher Wayne Cascio. Sharing the pain means that no one—from executive to maintenance worker—is immune from the strategies for saving money.

**Strong Human Resource Initiatives.** The Human Resources Department must be proactive in developing career assessment, training and placement opportunities, and creative wage and benefit packages.

## **Long-term staffing alternatives**

### **1. Hiring linked to vision**

The institution identifies what skills it will need in order to meet its vision and goals. During job interviews, human resources and department managers need to ask questions specifically related to skills it will need now and in the future. This strategy helps assure that you are recruiting and hiring people who can meet future challenges.

### **2. Cross training**

By understanding the skill mix of staff today and linking it to the skills needed in the future, the organization allows individual employees to determine what they need to do in order to remain gainfully employed. It also gives the training department a clear mandate regarding the type of skills training they need to make available to staff.

### **3. Succession planning**

The institution needs to identify the types of management and technical skills it needs in various positions. Human Resources should work with line managers to identify likely candidates so that they can begin preparing them for positions once they become vacant. Often, succession planning is left to chance. Baseball provides a good analogy for effective succession planning. With its farm systems, players move up from A to AA to AAA as their skills increase and as openings occur.

### **4. Redeployment within the organization**

Redeployment can be linked to 'Alternative Placement,' but it seems to be used most often within the organization. Successful redeployment requires:

- A sophisticated career management process so that managers and employees are aware of open positions.
- Career assessment and development activities that allow people to get ready for positions. One company linked individual career planning to corporate objectives so that people could see how their plans fit into overall direction. It allowed individuals who wished to remain within the company to make career development and placement decisions that increased their chances of succeeding.

### **5. Creating value-added and revenue-enhancing opportunities**

This is an 'Employee Buy Out' within the organization. A group of employees create a new business or line of service that the company can market. (3M is a leader in this form of entrepreneurship.) Of course, the company does not enter this agreement lightly. When Ford was about to sell the name Mustang to a foreign automaker, engineers asked Ford leadership for a chance to reintroduce a Ford

version of the car. Leaders said they would agree if the engineers could demonstrate that the car could be built to certain stringent quality specifications and manufacturing time that rivaled their most efficient operations. On their own time, the engineers developed plans that met these requirements.

## **Cost-saving strategies**

### **6. A comprehensive model**

Automakers, as well as other industries in Japan, have adopted a series of steps they use as an alternative to downsizing. If the first step does not get the needed savings, they move to the next.

- Compensation. 50% of compensation is set, the other 50% is determined by profit or productivity measures.
- Hours. Cut the number of hours.
- Wages. Cut salaries.
- Placement. Make arrangements with other employers who will agree to take displaced workers.
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### **7. Reduced hours**

A policy is established that either places everyone in a particular job category on a flexible working arrangement or creates a flex-pool made up of volunteers from the department. The goal is to reduce the number of hours worked by each employee.

Job sharing is a variation of flextime and has been used successfully in many organizations. People divide a job between them, with each person receiving proportionate benefits.

### **8. Lower wages**

Wages are lowered in order to save money. Wage reduction programs differ, but here are some typical elements:

- Everyone in the institution is part of the wage reduction program.
- Executive compensation is reduced by the highest percentage, followed by middle management, with non-management staff suffering the smallest percentage of loss.
- This is usually a temporary program instituted to get through a downturn or until other reductions such as attrition can take place.

### **9. Attrition**

Attrition, or waiting for people to retire or leave on their own, can work in two ways:

- Natural attrition. Positions are not filled as people leave. This can work in an organization where turnover is sufficiently high to gain the savings quickly.
- Offer voluntary early retirement or other packages to people within a certain category, such as particular position or years of service. If this offer does not result in enough savings, it is extended to a broader pool. In an agreement between the Communication Workers of America and NYNEX, they created an eight-step process for reducing costs. They offered early retirement incentives to pension-eligible employees in a specific area. If that didn't get sufficient response, they expanded the pool and so on. None of these options includes downsizing.

### **10. Alternative placement**

The organization makes arrangements with similar institutions or suppliers for placement. A variation of this occurred at AT&T: after the company said it would downsize, they ran ads letting other technology companies know that there were many talented men and women available for positions. Although they have been accused of using this as a public relations gimmick, it has resulted in a significant number of requests for more information about potential candidates.

### **11. Leave of absence**

People are offered a leave of absence with full benefits for a specified period of time to help an organization weather a downturn. Although people are promised a job upon completion of the leave, it may not be the same job or at the same pay level. This alternative must be used as a temporary measure to help an organization through a crisis.

### **12. Employee buy outs**

Some organizations have allowed employees to buy the operation that was slated for closing and set up their own business.

### **13. Shared ownership**

An alternative to 'wage cuts' is concessions for equity. In other words, trading pay increases or pay cuts in return for company stock. This requires a high degree of employee participation in decision making. Employee ownership seems to falter when people are owners in name only, but are shut out of the decision making process.

### **14. Downsizing**

Downsizing means that the organization makes a decision to terminate people against their will. Although sometimes described as 'getting rid of dead wood,' the sweep of downsizing is much broader. (If an organization really has so much dead wood, shouldn't those who allowed this condition to persist be the ones to go?)

There appears to be no good way to downsize. Studies indicate that in over half the cases, it does not meet its intended goals. And many companies find that they must rehire staff within a year. Morale and productivity often plummet. Among employees who remain after downsizing, more than half report increased stress. And the risk of violent behavior of people laid off is six times that of their employed counterparts. In a study of 531 large corporations, three-quarters reported having cut payrolls. Of the 85 percent that sought higher profits, only 46 percent saw any measurable increase. 58 percent sought higher productivity, but only 34 percent saw even a slight increase. 61 percent wanted an increase in customer service but only 31 percent achieved it.

## Considering the Alternatives

There are a series of questions that must be considered when thinking about staffing. To answer them will require knowledge of the current situation, clear assumptions regarding the likely possible futures that face the organization, and an ability to speak candidly and listen carefully to the knowledge, thoughts, and opinions of other key decision makers. These questions are divided into two parts: anticipating the future and exploring options.

### **1. What's our vision for where we would like to be?**

Although conditions will certainly change, and unexpected challenges will arise, leaders must have a clear picture of where they want to go.

### **2. Do we have the skills to meet the vision?**

Often organizations find that they need to change dramatically in order to meet their vision. This requires an examination of the core competencies and skills as they relate to the vision.

Each of the alternatives should be considered separately using the following questions. These questions should help you determine which mix of options is most suitable for your organization.

### **3. Will this option help us move toward our vision?**

Some options are quick-fix, others are longer range. It is important to examine each as it relates to reaching the vision. The vision may suggest that you will need fewer staff, a different set of skills, or perhaps even increased staff in some critical areas.

### **4. Is this option consistent with our corporate values?**

Many organizations have developed a set of core values. When these are taken seriously, they influence all decision making. Johnson & Johnson's handling of the Tylenol scare by removing all products until the cause of the contamination was discovered, is an example of how values influenced decision making.

**5. What are the short and long-term financial costs of applying this option?**

Some options provide immediate short-term gain (such as downsizing), but studies indicate that for many the long-term benefits are never realized. It is important to look at both the short- and long-term implications of all alternatives.

**6. Will this option help us make a smooth transition from the current state to our vision?**

Change is never easy, but it is important to use options that provide clear steps for making the transition toward the vision.

**7. What impact will this option have on the people who must support us?**

An organization's reputation may be critical to its future success. For example, a healthcare institution's relationship with the community is based on trust. Staffing options that erode the belief that the institution is a part of the community may have an impact on the public's belief that they can receive good care. A hospital's reputation comes from quality of care and from 'the word on the street' regarding the institution.

Public perception may be important to your organization as well.

**8. What impact will this option have on morale, quality, and productivity?**

In order to realize the vision, most employees will need to support this option. When morale is low, people lie low unwilling to stick their necks out and take chances. Most organizations cannot afford to have a risk averse group of employees.

**9. How will corporate headquarters react to this option?**

If your organization is one part of a larger corporate entity, then the values and practices of that parent company must be taken into account when considering staffing options. If your preferred staffing option runs counter to corporate practice, the leaders within your organization must determine if they are willing to attempt to influence headquarters to change their policy.

The final three questions are the most important. Now that you have looked at an option closely, ask:

**10. What are the major benefits of taking this approach?**

**11. What are the major costs or risks in taking this approach?**

**12. If my career were at stake, how would I react to this option?**

(Often this question is neglected. But, addressing it can add a much-needed human dimension to the discussion. For example, while downsizing might sound fine for those folks over there, it may take on a very different flavor when we are the target.)

## Ideas for Getting Started

**Do homework.** In this paper, I list fourteen staffing options. The human resources department should explore organizations in your industry that have used these approaches. Find out what worked and what didn't. They should prepare their findings in easy-to-skim documents, so that executives can grasp the essence of these approaches quickly.

**Convene a meeting of senior management.** Explain why this issue is critical. (Words like survival and profitability come to mind.) Go over the alternatives, and then ask executives to apply the twelve questions to the alternatives that hold the most appeal. Encourage them to consider each alternative like an ingredient in an omelet. One approach might be OK, but blending a few together might make for a more appetizing meal.

**Get staff involved.** People want to be part of shaping their own future. People are more committed to decisions they had a hand in making.

Members of a Human Resources department at Corning were asked to cut 30 percent of their costs, and then finally to eliminate their entire unit. Everyone was involved in considering alternatives that affected their lives. Some choose to take severance packages, others asked for career training, and so forth. It was stressful and contentious at times, but everyone seems to be adjusting well to the changes.

There are many ways of getting an entire organization excited and involved in changes. If you have an internal organization development professional, he or she should be able to design effective ways to meet this goal.

**Experiment.** If the organization is reluctant to try cross training, for instance, try it out before you make it the law of the land. Pilot tests allow you to experiment, work out the glitches, and bail out if the idea doesn't work.

These are suggestions, but you know what works in your organization. Develop a strategy for engaging senior management (and then the rest of the organization) that fits your unique culture. But act now. Unless you are hidden away in some corner of the world that hasn't heard about global competition and the need for rapid change, you have no time to lose.

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