# Strategic management of downsizing

## Introduction

This has become a major strategic alternative by well known firms such as DuPont, AT&T and IBM (Hopkins, S & Hopkins W., 1999). It is not only told in the daily newspapers but as well as in the entertainment industry. The recent movie entitled “ Up in the Air” starred by George Clooney wherein his job was to tell employees that their position is no longer available.

Top management plays an important role in this course of action. The strategic decision to downsize implies some ethical issues: first, the managers’ obligation for the best interest of the company and secondly, making sure not to violate the rights of the employees. It is in fact, the most preferred option of companies to sustain operating costs and comply with the existing scope of the business. It is an important management venture and requires large assistance from the human resource management team. Downsizing is extremely difficult. No one looks forward to being laid off. The extremely difficult decisions of who must be laid off, how much notice they will be given, the amount of severance pay, and how far the company will go to help the laid-off employee find another job are given less than adequate attention. These are critical decisions that have as much to do with the future of the organization as they do with the future of the laid-off employees.

## How It All Started

Downsizing is the ‘ conscious use of permanent personnel reductions in an attempt to improve efficiency and/or effectiveness’ (Budros 1999, p. 70). Since the 1980s, downsizing has gained strategic legitimacy. Indeed, recent research on downsizing in the US (Baumol et al. 2003, see also the American

Management Association annual surveys since 1990), UK (Sahdev et al. 1999; Chorely 2002; Mason 2002; Rogers 2002), and Japan (Mroczkowski and Hanaoka 1997; Ahmakjian and Robinson 2001) suggests that downsizing is being regarded by management as one of the preferred routes to turning around declining organizations, cutting cost and improving organizational performance (Mellahi and Wilkinson 2004) most often as a cost-cutting measure.

Euphemisms are often used to “ dsoften the blow” in the process of firing and being fired, (Wilkinson 2005, Redman and Wilkinson, 2006) including “ downsize”, “ excess”, “ rightsize”, “ delayering”, “ smartsize”, “ redeployment”, “ workforce reduction”, “ workforce optimization”, “ simplification”, “ force shaping”, “ recussion”, and “ reduction in force” (also called a “ RIF”, especially in the government employment sector). “ Mass layoff” implies laying off a large number of workers. “ Attrition” implies that positions will be eliminated as workers quit or retire. “ Early retirement” means workers may quit now yet still remain eligible for their retirement benefits later. While “ redundancy” is a specific legal term in UK labor law, it may be perceived as obfuscation. Firings imply misconduct or failure while lay-offs imply economic forces beyond one’s control.

During the past several weeks, major staff reductions taking place across the world. Tens of valued professional Jewish communal workers along with competent and loyal administrative and support staff have received pink slips – in some cases they were given just two days notice to clear out their offices – as their jobs were being retrenched. These costs saving measures are not unique to Jewish organizations and have been seen thorough-out the public, private and not-for-profit sectors the world over. However, these massive layoffs raise the issue of the ethics of downsizing and whether or not there is a Jewish approach to these practices, particularly when it concerns employees who work for the Jewish community.

## Why Downsizing is an Ethical Issue

Anytime we're faced with a decision that can affect the rights or well-being of others, we're looking at an ethical issue. No matter how strong the justifications for reducing the workforce are or seem to be, laying off loyal and productive employees is an upsetting experience for all concerned, and those on the receiving end face not just financial but psychological injury.

How so? For many of us, the workplace isn't just a place for work; it's where we develop and maintain some of the most important relationships we have. During the week, we spend more time with co-workers than with our families, and for better or worse, work is how many of us define ourselves and give meaning to our lives. Getting laid off compromises all of these things, so managers should think of downsizing as a deep and painful trauma for those being let go, and not as a mere setback or reversal of fortune.

Yes, downsizing has legal implications, and it is understandable that companies want to minimize their liability when they downsize. Yes, there are economic matters to consider, which makes downsizing a management issue, too. But at its core, downsizing is an ethical issue, and the good manager is concerned not just with protecting the company's financial and legal interests but also with honoring the dignity and integrity of the human beings who work on the front lines and who are the lifeblood of the organization.

## What Are Your Ethical Responsibilities

Downsizing successfully is immensely difficult. The following ideas can help to focus thinking for anyone considering such a move.

- Treat all employees with respect. Communicate too much rather than withhold information.
- Research applicable laws and follow the spirit of the legislation.
- Then afterwards, give employees the psychological space to accept, and discuss, Downsizing refers to a company's decision to reduce its workforce not because of poor performance, criminal conduct, or unethical behavior on the part of those being let go. The word is a euphemism meant to soften the blow as much for the company as it is for the soon-to-be eliminated. There is nothing wrong with making a difficult task easier to bear. In fact, there are good ethical reasons for doing so, as we'll soon see. Still, there is no getting around the fact that downsizing is a type of layoff, with all that this implies. The ethical manager will keep in mind what is really going when he or she is charged with letting good people go. Do it the right way. Showing compassion for these employees is the right thing and ethical thing to do no matter what the ultimate decision of the outcome.

1. Do it in person. This seems obvious thing to do, but surprisingly a number of reports said about employees who were downsized on the phone or by e-mail. Managers who use this method claim it makes the whole thing easier to deal with. Yes, but for whom? Certainly, not for

the employee being let go. As uncomfortable as it is to end someone's employment, the right thing to do is to have a private conversation with him or her in person. The ethical principle of respect for others (BusinessWeek. com, 1/31/07) requires nothing less.

2. Do it privately. Respecting others means honoring their wishes and values, and it is reasonable to assume that most people would prefer to have troubling news delivered in private. This means in your office, with the door closed. I've heard of managers who broke the bad news at the employee's cubicle within earshot of everyone in the vicinity. Again, one would think that this would be a matter of common sense and common decency, but apparently neither is all that common.
3. Give the person your full attention. Interrupting the conversation to take phone calls, check your BlackBerry, or engage in other distractions isn't just rude, it tells the other person that the matter at hand isn't all that important to you. That's yet another violation of the principle of respect. The impulse to turn your attention to less troubling matters is understandable, but along with the privileges of being a manager come responsibilities, and downsizing with integrity is one of the most important obligations you have.
4. Be honest, but not brutally so. Must you always tell the truth, the whole truth, and nothing but the truth? Yes, if you're giving sworn testimony in a court of law, but beyond the courtroom the duty to tell the truth is constrained by the duty to minimize harm. In practical terms, this means being forthright with the employee but also choosing with the care the words, tone of voice, and demeanor you use. Compassion (BusinessWeek. com, 2/22/07) – literally, " suffering with" someone –

honors the dignity of your employee and speaks to the better part of your nature.

We can’t always make things better (BusinessWeek, 1/18/07), but we shouldn’t make things worse.

5. Don’t rush. A shock takes time to absorb. Imagine that your physician says you have a serious illness. Wouldn’t you expect him or her to allow the news sink in, rather than to summarily dismiss you and call for the next patient? Being let go isn’t as serious as getting a diagnosis of cancer or heart disease, but it is still a major, life-changing event. You owe your employee the space to absorb the information, and you may have to explain more than once what is happening and why. You would demand nothing less if it were happening to you, and you would be right to do so.

These guidelines assume that the organization has good reasons for downsizing – but what if you don’t see things this way? For example, suppose your company believes that it is necessary to shift its customer service jobs overseas (BusinessWeek. com, 9/27/07), and you believe that doing so is both unethical and bad for business. In this case, you not only have a right to object, you have an ethical obligation to object.

Does this mean that you should be prepared to give up your job on moral grounds? Not necessarily. Depending on your personal circumstances, your duties to your family or to yourself might justifiably override the value of making a statement by quitting. Even if you are committed to keeping as many jobs in the U. S. as possible, this goal will take time to achieve, and it may be easier to do so from within the company than from the outside.

## Conclusion

There are two main issues to keep in mind when planning a layoff: respecting employee dignity and business planning. No one, from the mailroom to the board-room, take pleasure in downsizing; but when the need for a reduction in staff is unavoidable, a layoff can be accomplished in such a way that the problem is fixed and the organization excels. The bottom line is important, but so are the values of respect, compassion, and simple human decency. The good manager takes all of these into account – always.

## Derivative terms

Downsizing has come to mean much more than job losses, as the word downsize may now be applied to almost everything. People describe downsizing their cars, houses and nearly anything else that can be measured or valued.

This has also spawned the opposite term upsize, which means to grow, expand or purchase something larger.

Ask the Ethics Guy! September 12, 2008, 11: 57AM EST text size: TT

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**From Alan Downs in Business: The Ultimate Resource**

- Downsizing or doing layoffs is a toxic solution. Used sparingly and with planning downsizing can be an organizational lifesaver, but when layoffs are used repeatedly without a thoughtful strategy, downsizing can destroy an organization’s effectiveness. How you treat people really matters – to the people who leave and the people who remain.
- One outcome of downsizing must be to preserve the organization’s intellectual capital.
- How downsized employees are treated directly affects the morale and retention of valued, high-performing employees who are not downsized.
- Downsizing should never be used as a communication to financial centers or investors of the new management’s tough-minded, no-nonsense style of management – the cost of downsizing far outweighs any benefits thus gained.

So what happens? These decisions are handed to the legal department, whose primary objective is to reduce the risk of litigation, not to protect the morale and intellectual capital of the organization. Consequently downsizing is often executed with a brisk, compassionless efficiency that leaves laid-off employees angry and surviving employees feeling helpless and de-motivated.

Ineffective methods of downsizing abound. Downsizing malpractices such as those that follow are common; they are also inefficient and very dangerous.

Furthermore, attorneys advise against saying anything more than what’s absolutely necessary to either the departing employees or the survivors. This caution is designed to protect the company from making any implied or explicit promises that aren't then kept. By strictly scripting what is said about the layoffs, the company is protecting itself from verbal slips by managers who are themselves stressed at having to release valued employees.

This approach may succeed from a legal perspective, but not necessarily from the larger and more important concern of organizational health. First, laying off employees by a flat percentage across different departments is irrational. How can it be that accounting can cope with the same proportion of fewer employees as human resources? Could it be that one department can be externalized and the other left intact? The decision of how many employees to layoff from each department should be based on an analysis of business needs, not an arbitrary statistic.

The concept of laying off employees strictly on the basis of seniority is also irrational. The choice of employees for a layoff should be based on a redistribution of the work, not the date the individual employee was hired. Sometimes an employee of 18 months has a skill far more valuable than one with 18 years' seniority.

## Always Respect People's Dignity

The methods employed in many poorly executed layoffs treat employees like children. Information is withheld and doled out. Managers' control over their employees is violated. Human resource representatives scurry around from one hush-hush meeting to another. How management treats laid-off employees is how it vicariously treats remaining employees — everything you do in a layoff is done in the arena, with everyone observing. How laid-off employees are treated is how surviving employees assume they may be treated.

Why does this matter? Because successfully planning for the new organization will keep it going and improve its results. You must keep that exceptional talent, who are also the employees most marketable to other organizations. When they see the company treating laid-off employees poorly, they'll start looking for a better place to work, fearing their heads will be next to roll.

While it's important not to allow the legal department to design a layoff, it's nevertheless important that you respect the employment laws. In different countries such laws include entitlements tied to civil rights, age discrimination, disabilities, worked adjustment, and retraining. These laws are important and should be respected for what they intend as well as what they prescribe — or proscribe. If you have planned your lay-off according to business needs, and not on head count or seniority, you should have no problem upholding the law. You will almost always find yourself in legal trouble when you base your layoff on factors other than business needs.

The method of separation may have an effect on a former employee's ability to collect whatever form of unemployment compensation might be available in their jurisdiction. Unemployment claim and receive compensation. unemployment benefits, as are those who are fired for gross misconduct. Also, lay-offs due to a firm's moving production overseas may entitle one to increased re-training benefits.

Certain countries (e. g. France), distinguish between leaving the company of one's free will, in which case the person isn't entitled to unemployment benefits and leaving the company voluntarily in the frame of a RIF, in which case the person is entitled to them. An RIF reduced the number of positions, rather than laying off specific people, and is usually accompanied by internal redeployment. A person might leave even if their job isn't reduced, unless the employer has strong objections. In this situation, it's more beneficial for the state to facilitate the departure of the more professionally active people, since they are less likely to remain jobless. Often they find new jobs while still being paid by their old companies, costing nothing to the social security system in the end.

There have also been increasing concerns about the organizational effectiveness of the post-downsized ' anorexic organization'. The benefits, which organizations claim to be seeking from downsizing, centre on savings in labor costs, speedier decision making, better communication, reduced product development time, enhanced involvement of employees and greater responsiveness to customers (De Meuse et al. 1997, p. 168). However, some writers draw attention to the ' obsessive' pursuit of downsizing to the point of self-starvation marked by excessive cost cutting, organ failure and an extreme pathological fear of becoming inefficient. Hence ' trimming' and ' tightening belts' are the order of the day (Tyler and Wilkinson 2007)

**Here are your ethical responsibilities**

By Bruce Weinstein, PhD

Most discussions about downsizing focus on the legal, economic, or psychological issues raised by this practice. These are essential concerns, but we rarely consider how or why downsizing is also an ethical issue. The next two columns are an attempt to redress that problem. Here, we'll consider your ethical responsibilities if you are the one charged with giving the bad news. In the second column, we'll look at what you ought and ought not to do if you are the one being downsized. (Weinstein, 2009)

March 17, 2009 by Stephen G. Donshik http://ejewishphilanthropy. com/the-ethics-of-downsizing/

No one is oblivious to the massive firings that have been taking place over the last eight months. As the recession has been felt in countries throughout the world we have witnessed not only the collapse of financial markets but also the retraction taking place in multi-national corporations and among the largest manufacturers on all continents. More and more people are finding themselves unemployed, either the result of firms closing or staff reductions.

In dealing with the ethics of downsizing our communal organizations we have an opportunity to demonstrate both our leadership and our commitment to

Even though a number of Federations have already implemented cuts and made difficult decisions it is not too late to assist others who are yet to face the need to retrench staff members. This is an area that is clamoring for both clarity and direction.

Let's hope we can rise to the occasion. After all, it is in our tradition that we are a light unto the nations.

Stephen G. Donshik, D. S. W.,

Managing Leadership The strategic role of the senior executivehttp://managingleadership. com/blog/2006/10/25/corporate-ethics-and-downsizing/

Ethics cannot survive the retention in the management team of anyone who is responsible for the downsizing dilemma. They must resign, or, at a minimum, the CEO must resign. Furthermore, any member of the board of directors complicit in the development of the crisis forcing this decision must resign also. Indeed, in the absence of a board that creates and enforces such an environment of ethical acknowledgement and acceptance of responsibility for executive and managerial decisions, there is not only no corporate ethics in the conventional sense – there is also a fundamental lack of executive fiduciary responsibility; a lack that will ineluctably continue to damage its shareholders, and as a result of that, also 1) the company; 2) its employees, customers, and vendors; and 3) its community.

The unethical environment arises in the absence of a board that establishes and supervises this fiduciary responsibility.

In such an unethical environment, the real specific ethical violations occur well before the dilemma – such as the need to downsize – that attracts all the attention. This is in seemingly better times, when the CEO, executive teams, and consultants inflate the role and capabilities of the company's senior management, leading to what can only be described as juvenile ill-discipline and playing to the crowd. This is when they make the ill-advised decisions evaluated more for the force of the impact they create about the pseudo-gravitas and paradigm-shifting vision of these great personages, than for their contribution to the advancement of corporate aims and the growth of shareholder value – both of which should be delineated to management by the board. These are the decisions that create the inflated work force.

In the current environment of non-accountability, where half of a board consists of company management, and the other half of managers of other companies familiar with the game, it is only the work force that is downsized, and, possibly junior levels of management who have not yet attained the corporate version of tenure in this collusion. In such circumstances, the only possible outcome is downsizing, and this is not unethical in and of itself, taken as a distinct business decision. Taken as a whole, however, as I've attempted to portray it, it is an extension of an unethical situation and of a chain of unethical decisions.

Crocodile tears will be shed by a management team professing to be compelled to oh-so-reluctantly make tough business decisions and effect practical remedies that cannot be avoided and which must be taken to discharge their executive duties and serve the company and its shareholders – considerations which neither concerned nor motivated them sufficiently, if at all, when they created the circumstances leading to the crisis.

This was written by Jim Stroup. Posted on Wednesday, October 25, 2006, at 10: 02 am. Filed under Boards, CEOs, Ethics, Organizational Leadership. Bookmark the permalink. Follow comments here with the RSS feed. Post a comment or leave a trackback.

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## Reasons for Downsizing

Corporate downsizing has been the biggest fallout of the troubled times, the world is witnessing. As we continue our efforts to fight the global downturn, downsizing has become a stark reality.

Downsizing refers to a process where a company or a firm simply reduces its work force in order to cut the operating costs and improve efficiency. It has become a legitimate option for business growth strategies, especially after the 1980s. It is in fact, the most preferred option of companies to sustain operating costs and comply with the existing scope of the business. It is an important management venture and requires large assistance from the human resource management team.

## There are a number of reasons why a company downsizes its employee base.

- Merging of two or more firms: When a certain firm combines its operations with another firm and operates as a single entity, in order to stay in profit or expand the market reach, it is called a merger. In case of a merger, certain positions become redundant. The same work is done by two different staff members. Usually in such a case, the company cuts staff to eliminate redundancy in work. It is characterized by some employees leaving an organization voluntarily, or by lay-offs, especially in case of higher management positions.
- Acquisition: If one organization purchases another one, there is a definite change in the management and the acquired company staff

has to face unemployment. The reason for this is the same as the earlier case, viz to cut costs and and increase the revenues.

- Change in management: The change in the top brass of a company can also result in downsizing. The working methods and procedures vary with the management. Therefore, a significant change in the management roles may drastically affect the employee size to suit a particular style of working.
- Economic crisis: This is the single biggest cause of downsizing. Often, it consists of huge lay-offs by a number of organizations across various domains. The recent economic recession facing the world, has triggered a number of lay-offs in many reputed and popular firms in the world. According to a survey conducted by the US Bureau of the Census, organizations consisting of higher percentage of managerial staff downsize more than the ones with higher percentage of production process employees.
- Strategy changes: Some companies may reduce certain areas of operation and focus on other areas. For example, if a company is working on a project in which there are no assured returns, it may downsize it's employees working on that particular project. It focuses its resources on specific projects, which could be profitable ventures.
- Excessive workforce: In a period of high growth, a company hires excess staff, to meet the needs of a growing business. However, in times of recession the business opportunities dwindle, leading to downsizing of the surplus staff that was hired.
- Increase in efficient work flow and computerized services: If an organization work process is extremely fast and easily meets the

requirements of the market, it may downsize some of its workforce. Similarly, if manual work can be done by a machine, in a much better and cost-efficient way, it also results in the reduction in the number of employees.

- Outsourcing practice: Organizations catering to international markets require a huge and efficient employee base. If this labor can be obtained by ‘ exporting’ the job to other countries, a huge downsizing takes place in the parent country. For instance, if a certain job can be done more effectively in India and is more viable economically there, than in the United States, the business is operated from that country.

These practices result in downsizing, which is a rampant practice prevalent these days. Efficient management of the existing skill set and constantly acquiring new skills and education is a sure way to beat the effects of downsizing.

By Prashant Magar

In today’s business world downsizing, outsourcing, and combining of jobs to eliminate headcount is more prevalent than ever. As the economy swings down, companies find themselves needing to cut costs and increase their return on net assets (RONA). All too often, the easiest way to reduce costs and increase RONA is through reducing staff. The elimination of jobs, or finding more cost effective ways to perform their functions through job integration and outsourcing, reduces the salary expense as well as reduces benefits costs, human resources or payroll costs, and frees up those funds for additional investment activity if needed. Many companies, however, do not look at the potential long term ramifications before making these decisions. Among them are the potential for substandard customer service, costs associated to unemployment claims or placement strategies, potential for higher turnover of remaining employees, or loss of customer confidence.

While cost reduction through job elimination or restructuring poses no legal implications or policy violations, it certainly presents many ethical problems. How the company proceeds could greatly affect the consumer view of their business practices. They also have the potential to place some employees in a position of being ethically challenged should they inform some parties of the possible downsizing but insist the information be kept from others. That will leave those employees who are aware with the ethical dilemma of telling what they know to those who will be affected or of keeping the company secret. The feeling though, that others know more and will not share the information, leads to extreme paranoia and dissatisfaction among lower level employees. If the best decision for the business financially is to centralize functions, the Kantian model of ethical thought would support full disclosure to the affected employees. This would provide them the dignity and respect they deserve. Helping them with counseling for the self esteem issues presented in their job elimination and placement services seems to me the soundest ethical solution. Allowing them to prepare themselves financially for a potential loss of income would show respect for them as people as well as for the time they have spent as loyal, hard working employees. Potential attrition after the announcement might prove to be a challenge but will provide the same end result, less staff.

To keep this information completely from the affected employees would fall under Ethical Egoism theories. It would serve only the officers of the company from having to deal with their own lack of ethics in this circumstance. The employees become a means to an end rather than the end itself. This school of thought tends to violate the morals taught through religious and parental guidance to most individuals. It directly violates all the major principles of the other moral theories. Consequently, following this path would likely lead to moral repercussions for those choosing to venture down this road. Living with the decision you have made and must stand by could be as emotionally traumatic in the end as the damage caused to the employees sacrificed for the company benefit.

All too often the Utilitarianism approach is followed by not disclosing the full details but sharing information only as changes are closer to being implemented. This eliminates the likelihood of employee loss due to fear of the impending changes. A high turnover could cause those remaining employees to become overworked with no relief available. It would be vital though that the company effectively communicate what changes are coming with an accurate timeline of when they would occur in order to still be fair to the affected employees. The company should not hide the coming changes from the employees affected in any solution with a dissolution that trust will remain in tact for other employees unaffected by the changes. Character ethics would support at least this minimal amount of disclosure. The only fair thing to do is treat the employees as those making these decisions would want to be treated if they were in the same position, essentially following the Golden Rule.

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The New York Times reports that the unlucky employees of fob Inc. received a bloodless e-mail informing them of their demise. Some employees of New York Times Digital learned of their fate in The New York Times itself. Dotcoms from Boston to Silicon Alley to San Francisco have behaved thoughtlessly and, yes, unethically as they frantically scrambled to salvage their companies.

The idea of “ downsizing” needs no introduction. Although borrowed from the automotive vocabulary, “ downsizing” is a feared and familiar term throughout the employment ranks. It targets people.

In all cases of downsizing – anticipated, actual, or past – the corporation have ethical obligations to its people. Not least among these obligations is telling the truth.

Here are some principles for employers to consider whenever downsizing is a possibility or has, in fact, happened:

- keep employees informed;
- help employees to keep themselves employable;
- honor all pro