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Briefing Notes:
The Downsizing Dilemma:
Leadership In the Age of Discontinuity

Layoffs, plant closings, and head count reductions are not new, but today they occur with increasing frequency—during business upturns as well as downturns. At a recent meeting of the Business Council, the leaders of major corporations announced that they would rehire few of the workers laid off during the recession, “no matter how strongly the economy recovers.”

Companies are permanently restructuring their operations. Senior managers are designing leaner, less layered organizations with fewer specialized staff groups, wider spans of control, and more semiautonomous work groups. In the past, white-collar layoffs were confined to a specific industry, such as aerospace, which experienced difficulties for particular reasons. But in the recession of the mid-seventies more than three-fifths of the Fortune 500 companies implemented personnel cuts, with higher-level employees more likely to face permanent cuts than blue-collar workers. Companies are demanding fewer professionals and managers, while the number of educated people looking for work continues to grow. As companies adapt to the economic challenges of the eighties, white-collar layoffs will increase.

Four socioeconomic processes are converging to make retrenchment an issue of central importance for managers. They are:

- Shifts in career patterns and decreased opportunities for vertical mobility.
- Increased emphasis on white-collar productivity.
- Retrenchment-driven shifts in the traditional culture and style of management.
- Long-term reorganization of the economy.

Lets examine the implications of these trends for managers.

Shifts in Career Patterns and Decreased Opportunities for Vertical Mobility

There is ample evidence that the design of managerial careers is changing. Twenty years ago, managers were expected to be loyal to their companies and not switch jobs simply because another

firm offered better opportunities. Senior managers believed that job hopping is valued as a sign of flexibility, initiative, and entrepreneurialism. An institutionalized executive labor market, in the form of executive recruiting firms and career counseling services, has emerged to structure and facilitate the job switching process.

In addition, middle managers born between 1945 and 1955 face an unfavorable labor market—the supply of potential top managers far exceeds the demand for them. The people in this cohort face new problems managing their careers: some will have to adjust to a failed career; others will have to find new opportunities as entrepreneurs.

Companies, in turn, must learn to manage the commitment of managers and other employees in a promotion-poor hierarchy. The cohort-specific decline in career opportunities, combined with a job culture that devalues loyalty, creates a more complex climate for managing people. Commitment becomes a scarce commodity, and managers must learn to create work conditions and individual opportunities that encourage commitment. The convergence of retrenchment with the changing structure of careers further complicates the process of managing retrenchment itself.

Increased Emphasis on White-Collar Productivity

Career pressures are escalating with the reorganization of white-collar work. As companies invest in new office equipment, they are coming to view the productivity of decision making as central to their profitability. Each company must determine if the administration of managerial activities and time (in phone calls, meetings, memo preparation, and sales discussions) maximizes the use of its “intellectual” capital. In the past, managers felt relatively autonomous, deploying their own time as they saw fit. Increasingly, however, top management will scrutinize a manager’s activities, not only with respect to performance, but also with respect to “inputs”—the allocation of human and material resource. Managers may feel that they are being treated as “factors of production” just when, ironically, an increasing number of blue-collar workers are becoming salaried, being offered lifetime employment, and being organized into teams which output, not input, becomes the central measurement for monitoring activity. The measurement of managerial productivity will, in turn, converge with retrenchment management as superiors look for systematic, impersonal criteria by which to evaluate who should be retained and who should be dismissed.

Retrenchment-Driven Shifts in the Traditional Culture and Style of Management

Retrenchment, particularly when it raises issues concerning an organization’s mission, can often distort traditional patterns of supervision and control. For example, a company may encourage a culture in which managers at the bottom propose initiatives and managers at the top approve or disapprove. Yet, in times

of retrenchment, the managers at the bottom may feel paralyzed; they may feel a need for leadership and clarification of priorities from the top. Simultaneously, the top may feel impatient with subordinates for failing to propose options.

This vicious circle can create a stalemate in which neither top nor bottom takes action until the top, anticipating a crisis, makes a unilateral decision. Subordinates then feel betrayed because they were not consulted. In turn, the top feels angry that subordinates feel betrayed, since they did not act when they were expected to. Thus, during times of retrenchment, previous managerial patterns may prove ineffective.

Long-Term Reorganization of the Economy

The skill of managing decline is becoming more important as mission redefinition and market turbulence problems replace business cycle problems as the major determinants of market dynamics and structure. In the past, decline was caused by expected economic processes that periodically created excess supply in the market for goods and services. Declines could be interpreted as temporary, overhead could be carried through the downturn, and variable costs could be reduced by laying off blue-collar workers.

In contrast, in turbulent times, decline is the outcome of a long-term and pervasive process of market reorganization. The historical boundaries between products, services, and consumers break down. For example, communications-computer technologies are reorganizing the markets of many industries. Newspapers, television stations, movie houses, and telephone companies now find themselves in each other's backyards. Past sales and production strategies do not suffice, and as companies adjust, many have to reduce their activities without understanding how they will adapt to their new situations. In this setting, retrenchment take place in a climate of chronic uncertainty, and many managers feel that the first wave of cutbacks may be followed by others until the new market organization becomes clear.

Dilemmas of Downsizing

Managers face unique dilemmas in managing cutbacks. Four are critical:

- I. Whether to reveal or conceal bad news.
- II. How to manage participation when many participants will lose their jobs or prior positions.
- III. How to be a credible and effective leader in an atmosphere of inadequate information.
- IV. How to balance pressures for quick cuts with thoughtfulness.

Dilemmas are not problems. Problems are solved through *analysis*—the problem solver separates the issue from its context, applies tools of reasoning, designs solutions, and selects strategies to implement them. Dilemmas cannot be solved. Every proposed solution creates new problems in its wake, and crucial issues simply cannot be separated from their context. Therefore, managers must accept both sides of a dilemma, using a *both-and* rather than *either-or* framework. They must reveal and conceal, lead *and* mobilize, consider alternatives *and* reduce options, balance acting *and* waiting.

Dilemma I: Communication

During downsizing periods, managers face difficult choices concerning the revealing and concealing of information. Research on military organizations has long established that sharing information is critical in maintaining morale. The troops particularly want to know what is happening to them and how their actions fit into the big picture.

Consider the following: The senior managers of a large company with numerous divisions and businesses face a strategic quandary—should they sell many recently acquired high-technology subsidiaries? A series of process questions immediately appear: Should they reveal their debate to the CEOs of the different subsidiaries? Or, should they wait until they've made a decision and then “signal” the CEOs that “things may be changing?” If they announce that they plan to sell the subsidiaries, won't key scientists and engineers abandon ship? What if the CEOs who own equity in the subsidiaries turn on the executives and try to negotiate their own deals with potential buyers? Moreover, won't potential buyers hold back, hoping to buy a subsidiary later on at a fire sale price?

In working with a large multinational company with many subsidiaries we found that the aforementioned fears influenced strategic planning and policy. Yet the hypotheses behind these fears—people will abandon you at the first sign of bad news, and buyers will wait for a better price—were neither grounded in fact nor tested in practice. And they certainly were not self-evident.

When senior managers expressed these fears to us, we found it easy to produce counter-hypotheses. For example, when you tell people that the subsidiary will be sold, local technical leaders, executive staff, and employees will work to preserve the integrity of the company. They will push hard to finish key projects—bring and invention to the prototype stage, for instance—so buyers will pay a high price for the company. They want to stay with the company since they are professionally interested in its products and enjoy working with their colleagues. The more they know about senior executive thinking and planning, the more they can help the parent company sell the subsidiary for substantial profit.

High-tech companies can be profitable only if their corps of scientists and engineers is committed. If you keep these people in the dark, and confuse them with “signals,” you may reduce commitment and paradoxically increase the rate

of “flight” from the company. The ceiling price for the company will drop *because* senior management kept its plans secret. As one senior executive of the multinational company told us: “You can’t sell bodies, you can’t sell people. We need their [the scientists’] cooperation.” He suggested giving a bonus to the senior executive and technical staff of the subsidiaries that would vary with the final sale price.

Finally, potential buyers may not want to wait for a lower price. They can’t buy human beings either. They want to inherit coherent research and production teams based on the long-standing relationships and interpersonal commitments. The longer it takes to negotiate the sale, the greater the chance that key employees will leave.

These counter-hypotheses suggest that senior managers will mobilize employee commitment, not undermine it, by revealing their thoughts and plans. Paradoxically, senior executives who assume that it is best to conceal rather than reveal their thinking may produce what management scholar Chris Argyris has termed “self-sealing behavior.”

In the above company, for example, senior management followed a strategy of concealment from the very beginning of the retrenchment process. As losses grew and subsidiaries failed to bring inventions to market as planned, the management committee made a decision that no more funds would be committed to new product development. Yet the decision was never announced; as one executive explained, “Senior management decided not to announce their decision but simply to turn down all proposals for product development until the message was clear.” Development efforts were wasted, scientists were frustrated, and mistrust between subordinates and senior management increased.

This process of signaling continued to shape the communications between the parent company and its subsidiaries throughout the retrenchment process. The subsidiaries continued to get signals that the parent company might cut them off, but they couldn’t be sure. People who looked for positive signals could find them. For example, when the parent company appointed a new vice president to oversee the subsidiaries, many local executives argued that since the vice president came from an outside company in which risk taking was valued, this was surely a sign that the parent company was committed to the future of its high-technology acquisitions.

When the parent company’s management committee asked the subsidiaries to produce new business plans in which they would “evaluate their overall potential,” subsidiary managers declined to see the request as a negative signal and instead took the opportunity to attempt to signal back to senior management that all was well and the future was bright. Senior management, of course, did not believe the plans, because they were not believable.

Thus, both senior management and the local CEOs were caught in a “self-sealing” process. In this atmosphere of confused signals, the quality of information available to both sides declined dramatically. Mutual trust and respect evaporated.

When confronting communication dilemmas, we suggest the following.

Be sensitive to the psychological process inherent in accepting bad news. Management consultants Rosabeth Moss Kanter and Barry Stein write, “Disengagement, depression, self-doubt, anger, activism, are all possible reactions. But for the most part, emotions are expressed in erratic behavior, in suspicion and mistrust, in self-protective disinterest in the organization, and in departure from routine practice. The “rules” cease to have the same compelling meaning under conditions of extreme uncertainty.” Leaders must seek ways to channel some of the emotions stirred up by threats.

Often, reactions to substantive threats follow the pattern of coping with terminal illness: anxiety about the impending threat; denying the threat; and accepting it. Because employees have varying roles, individuals may be at different stages at a given moment. These differences may be level- or unit-related. For example, top executives may have reached the stage of psychologically accepting the threat because they were confronted with it some time ago. When they disclose it, they may not be aware of how long they took to come to terms with the situation, and they may expect immediate problem-solving behavior from those below them. The newly informed groups, however, are in the stages of denial or anxiety. Leaders who do not attend to these psychological patterns will often misread some of the reactions of units, perhaps mistaking short-term reactions for long-term trends.

Since it takes time to come to terms with bad news, managers should consider disclosing it as early as possible. This will help subordinates adapt and be ready to contribute to problem-solving work earlier in the process.

Allocate and organize the work of worrying. One senior manager who had been intimately involved in the substantial downsizing of a multinational business noted that those outside the inner circle knew “as much as we did, but did not know that they knew as much. They kept imagining that we had some secret information that might make sense of the situation.” The result was that outsiders were slow to become mobilized, awaiting a full briefing from senior management. In this instance, senior management did undertake systematic briefings early in the process, which greatly increased the ability of others to play constructive roles.

Restricting information to a limited group has another consequence—significantly inhibiting the delegation of work. For example, senior human resource managers may find themselves handling routine personnel matters, fearing disclosure if these tasks are given to the appropriate level. As a consequence, just when the

top people are most needed for strategic guidance, they are weighted down with operational tasks.

Open communications about the retrenchment situation enables a manager to empower different groups to shoulder responsibility for different aspects of the threats and opportunities. For example, in one organization, multiple task forces were created to work on specific issues so that key people felt authorized to play a leadership role with respect to one particular issue, and felt the comfort of others tackling other issues.

Structure participation to allow for work on both organizational and individual issues In facing the uncertainty that retrenchment brings, employees should be encouraged to think of their individual futures as well as the future of the company. When a business's future is unclear, employees will naturally think about their past and prospective career decisions. But if the company culture demands only "loyalty" in the face of economic "challenge," personal concerns are driven underground. This has two unfortunate consequences. First, employees may be inspired to "fight" the enemy—the competitors, the market—but may do so unrealistically. Because they do not think of their individual futures, they place all their hope in the success of the company's turnaround strategy. At the first signs of failure, they may become unduly pessimistic, disappointed, and angry at senior management. They "gave their all" and now have nothing.

Second, if thinking about one's future is forbidden (signaled by an unrealistically upbeat atmosphere, by managers who break up lunchroom huddles or by managers who pose scrutinizing questions), then employees will make their own career plans secretly. Such secrecy will breed management suspicions of plots against the company, and also resentment by employees that they are mistrusted. This resentment may turn to anger, and staff may steal company resources—materials, time—while looking for new jobs. The unacknowledged activity is destructive precisely because it is unacknowledged.

It is best for senior managers to facilitate individual as well as collective future planning. If employees can openly consider their own options, a decision to remain is reliable. Similarly, if people are allowed to develop a realistic picture of their opportunities outside the company, they are less likely to panic. Their worst-case fantasy—"I will never work again, unless I leave here soon"—will be balanced by their up-to-date knowledge of the marketplace.

Balance optimism with pessimism. In threatening conditions, leaders often become excessively optimistic in the belief that the troops need to be rallied. This is a dangerous tactic. First, it can lead followers to adopt a "prove it" stance and to avoid taking appropriate initiatives. By stressing the upbeat aspects of a situation, managers often make subordinates even more pessimistic, as they seek to correct what they perceive to be an unbalanced presentation. Second, we have seen many situations in which a leader's optimism has completely destroyed his

credibility when subsequent events have been particularly negative. For example, a manager announces that the tough cuts are behind the company and that people need to get back to work. A second round of cuts four months later is particularly devastating because of his prior promise that the worst was already over.

Managers need to balance the optimistic and pessimistic positions so that all the people in the company can acknowledge both moods within themselves, and link these feelings appropriately to work issues. For example, in a complicated divestment situation, a manager announced the plan to seek a buyer for a fledgling venture, expressing his belief that the technology was salable. At the same time, he openly discussed the worst-case scenario of a shutdown and fully briefed the group on severance benefits.

Rather than treating the worst case as unmentionable and thus repressing it in each individual, the manager aired the possibility and consequently it was far less disruptive to the group's morale and productivity. During the search for a buyer, the group was particularly productive. The human resource manager later commented, "They made more substantive progress in the six months of uncertainty than they had in the previous years." Employees realized that much of the value of the company was the human capital. Potential buyers visiting on site saw the esprit de corps of the key people. It's hard to imagine such a situation resulting from a low-disclosure strategy.

Looking backward and forward. Leaders, especially in a new situation, find it tempting to look hopefully to the future, and to cut off peremptorily any discussion of the past. But all responses to cutback pressures leave scars: broken-up work groups, physical dislocations, friends who lost their jobs, reassignments. Leaders who look exclusively to the future may not provide the outlets necessary for people to make sense of what they have been through. If not vented, feelings related to past events may interfere with present work.

In addition, while pressuring employees to get on with work, leaders may overlook key issues that affect productivity. For instance, in an organization that used, in its appraisal process, a force distribution system that required at least 5% of its employees to be in the bottom rating category, those retained in the next category worried that they would be artificially downgraded to fill the quota. If managers do not address such concerns, they are adding to the inherent uncertainty about the business's future. This particular worry could easily be alleviated by adopting a standard policy.

Dilemma II: Structuring Effective Participation

The management literature is filled with accolades for employee participation in decision making—management stands to gain relevant information and to win the commitment of participants to the proposals that are developed. In the context of retrenchment, both of these benefits become less reliable. Relevant information may be hard to separate from self-serving justifications for the continued existence of an employee’s job, project, or unit. Commitment and partnership become problematic objectives if some of the participants will not be around to share the future the group develops. Therefore, the common techniques for structuring effective participation are unlikely to provide the desired results.

Given the complex circumstances surrounding downsizing, here are some suggestions for structuring participation.

Design a transition process that steers between the dangerous extremes of too much conflict and too little conflict. The classic error is to take a “bite-the-bullet” approach and make cuts quickly with little or no consolation, as if the method of retrenchment does not matter because its casualties will not be with the unit in the future. This process, however, can produce scars that substantially compromise the ability of the newly streamlined organization to perform, regardless of how technically correct the decisions were.

The opposite error is inviting too much participation. Each unit, for example, may be asked to give back an equal percentage—an across-the-board approach that does not raise difficult questions about strategy and effectiveness. Although this method may leave fewer scars, the outcome is to not sufficiently restructure the organization’s effort and enable it to meet new challenges.

Treat decisions about the process, the options, and the final choice separately. The pressures on the top decision makers during retrenchment can be crushing. If the debate about process, options, and the final decision all are restricted to the top, senior management will be overloaded and subordinates will be unable to grapple realistically with the crisis. A manager who treats the three processes separately has a rich array of options. For example, he or she can be authoritative in designing the process, participative in generating the options, and combine both approaches in reaching the final decision.

Clarify the process promptly. Downsizing raises considerable uncertainty that cannot be put to rest easily. But an effective leader can clearly outline the process, ground rules, and timetable for making difficult decisions. There are two positive effects of this strategy. First, members of the organization are reassured that someone is actively managing the situation, and that they are not being simply abandoned. Second, because there are no secrets, members can make

informed choices about their own participation. If the process is secret or confused, people become less competent to act in their own behalf.

Regardless of how participatory the culture of the organization or unit has been previous to the retrenchment crisis, it is unwise to request much participation in the design of the process itself: this would increase confusion precisely when employees are looking for leadership to reduce uncertainty.

If an array of options is desired, multiple task forces are often effective. The charge to task forces can vary from simply generating ideas to evaluating their advantages and disadvantages, or even to giving a recommendation. It is critical that the group clearly understands its purpose. Task forces should be given clear deadlines and held to them, especially when the work of different groups is interdependent. Given the pervading uncertainty, deadlines and ground rules can create a businesslike structure for difficult work.

Task forces are better able to think creatively early in the process than when deadlines for making the cuts draw near. A group retreat can be a powerful way to start.

Leadership of task groups is crucial and requires process skills. Because of the increased emotionality, the leader must be able to manage the group's anxiety, being neither inappropriately reassuring nor panicked. Process skills do more than make the planning run smoothly; they will dramatically affect the quality of information, the degree of creative problem solving, and the commitment to various alternatives that are developed.

Make clear who will make the final decisions and what criteria or values will guide that process. Establish whether there is an appeal process and have an implementation plan ready as soon as the decision is reached. If deadlines are missed because of external events, promptly inform people of the delay and the reasons for it.

In summary, managers cannot rely on the usual participatory methods of decision making for downsizing. They need to assert greater leadership and, at the same time, encourage greater initiative from those below them. They must not avoid conflicts, but they must attend to the psychological processes through which people come to terms with bad news. Finally, they must find ways to integrate the discussion of individual futures with work on the unit's or company's future. If they successfully address these issues, they will produce better-quality decisions.

Dilemma III: Managers in the Middle

During periods of retrenchment, decision making often becomes more centralized; sudden shifts are made with little consultation with subordinates. As a consequence, those who have not been privy to critical deliberations and decisions often feel undercut and become less willing to take action without direction from superiors. The quality of their leadership is affected by the fear that their credibility has been undermined and that they are no longer looked to for guidance. These managers often make demands on their bosses for additional information at a time when the inner circle is experiencing enormous stress and may resent the requests. Therefore, a third dilemma that a manager faces is how to work with his or her own uncertainty. Many times a manager in the middle will not be able to get the desired information. In this circumstance, how can he or she act constructively?

This dilemma makes the two previous dilemmas—structuring communication and participation—even more difficult because a manager does not feel able to set the organization's policy. And on some occasions, a manager may be brought in on part of the deliberations with a pledge of secrecy, which may be antithetical to what he or she thinks is appropriate.

Feelings of ignorance lead to passivity and waiting for someone else to set a direction. As more and more employees adopt this stance, the greater the split between a small, embattled inner circle and the outsiders. Furthermore, in times of great uncertainty, more and more people come to feel like middle management—that the key issues are being decided somewhere else. As was noted earlier, this distorted perception can lead each group to imagine that others have more information than they do, resulting in a situation in which no one exercises any real leadership.

Approaches that are constructive in coping with this situation follow.

Use the authority of your role to its fullest. A plant manager was faced with shutting down one location and transferring the production line and inventory to another plant, where he was to assume the job of production manager. Many aspects of the decision leading to this situation were beyond this manager's control. Once given the assignment, he immediately created task forces that drew on staff from both locations. By creating many task groups, he deployed his subordinates productively and use the work itself as a way of creating a calmer climate.

A training director in a company experiencing downsizing observed that many senior managers who were not privy to the major decisions became inactive and waited for direction. Furthermore, when they discussed some small initiative that they might take, they would soon think of the inevitable interference by factors beyond their control, and resolve not to take any action at all. The training director, fully aware of the limitations of any training for this difficult situation, nonetheless proceeded with developing a two-day seminar to support the

managers. In the context of chronic uncertainty, even small actions can be helpful.

Structure uncertainty by creating contingency scenarios. When a manager is faced with great uncertainty and the unwillingness or inability of senior management to give direction, he or she can clarify the situation by developing contingency scenarios. A division faces the difficult situation of overproduction, for example. Rumors sweep the site that the management committee is considering consolidation. Rather than wait for direction, the manager might create several committees and have each prepare for a different scenario. Instead of everyone worrying about all contingencies, each group plans for a specified range of possible outcomes. Employees can focus their anxiety on a specific possibility and draw comfort from the knowledge that other possible outcomes are being attended to by colleagues.

Look for robust actions. A variant on creating scenarios is examining several possible futures and developing a list of the critical tasks for each. Robust actions are those that appear on the greatest number of possible futures. One employee relations manager was in the dark on the amount of time the management committee would look for a buyer prior to shutting down a venture. He analyzed the committee's prior behavior in similar situations and created an early and a late option. He then developed a work plan for each date. A set of tasks showed up on both lists that were "robust" in that they would be valuable regardless of which date the management committee set.

Before seeking clarification from superiors, project the effect of additional information on your ability to respond constructively. In some situations, additional information limits a manager's ability to take individual initiative. For example, in the preceding divestment situation, if the manager had asked, he might have been told the shutdown date but asked to keep it confidential. He then would have been less capable of responding than if he had been left to his own reasoning.

Dilemma IV: The Timing and Depth of Cuts

The asymmetry of planning processes for expansion and downsizing is evident in the frequency with which managers are used to make significant cuts within extremely short time periods with little planning, yet are rarely given directives to expand over comparably short periods without a plan. The decisions surrounding the timing and depth of cuts are difficult. Is a single, quickly taken, deep cut the best approach, or is a slow, more careful process less destructive to the long-term health of the overall enterprise?

In our research, we have seen success in both quick and slow cuts. The key to success seems to be a strategic conception that drives the cuts and gives them a “face validity”—that is, they appear sensible even to those who are painfully affected. One firm that implemented a 45% cut in its management ranks developed the plan during negotiations with an outside buyer who insisted on one deep cut. Few were involved in the planning. Immediately after the sale was completed, the senior management put the plan into effect, laying off an entire layer of middle management, eliminating many staff functions, and widening spans of control. A senior manager described the cuts as informed by a “knowledge of anatomy”—those making the cuts knew the firm well and had been restructuring it over a year-long period under considerable constraints from the corporate level. This sale was a retrenchment opportunity, though the buyer specified a cut about 10% deeper than management was comfortable with. The company rebounded quickly, however, because of the work that needed to be done, and because those remaining could see a logic to the decision.

The communication of the rationale gave employees a clear sign regarding how their behavior in the future might be linked to their survival. Without this understanding, retained employees feel at the risk of some random process—which is as terrifying as the public reaction to random killings (such as the Tylenol poisonings) suggests. Furthermore, putting the firm’s back to the wall paradoxically reduces the major post-cut anxiety—when will the next round come? The firm will either turn around or everyone will be dismissed.

A successful long-term retrenchment process was employed by a utility facing a two-year period of deregulation. Senior management realized that the company was overstaffed to be profitable in a more competitive environment. A high-level task force intensively studied the human resource needs of the major divisions, and reported its findings to each division manager. The division managers, in turn, submitted head count reduction plans to senior management with timetables and specific targets. The original committee then assumed a new role: overseeing the implementation process and troubleshooting on critical issue, such as readjusting salary scales and designing new career paths. A commitment to downsize without involuntary separation, using attrition, aggressive outplacement, and transfers, was a critical feature of this process.

In several cases, we have seen the damaging effects of a series of cutbacks. At first signs of trouble, senior managers often are reluctant to confront the limits of the current implicit or explicit strategic plan; they begin with expense controls, job freezes, and elimination of frills, thereby hedging the need for deeper cuts. This has a number of negative consequences. First, hedging undermines leaders by sending a signal that they will not or cannot take risks. If the trouble signs are apparent throughout the organization—increasing inventory, reduced sales, industry-wide rumors—subordinates begin to wonder if their leaders are really in touch with the problem. The effects of a business crisis on morale, productivity, and performance will be heightened if employees do not feel that senior management has taken charge. What, to the top, may be justified as “keeping options open” is experienced by the middle and bottom as vacillation. The perspectives of senior management and unit managers vary greatly. For example,

to the top, thinking through a portfolio of options about plant consolidation—a number of alternative futures—is desirable; to the staff associated with each of these units, it's not a portfolio of options, but their jobs that are at stake.

In one case, an organization did not adequately rethink the strategic plan, and yet had to make cuts based on instructions from a higher level. The first response was to control expenses and implement a small cut. Those laid off were treated fairly. Those remaining felt positively about the cuts—the organization was leaner, had pared down some poor performers, and was now ready to meet business challenges. Only six months later, the organization was faced with deeper cuts and a plant consolidation, and still lacked a meaningful product strategy. This cut was devastating to morale. Employees could not see legitimate differences between themselves and those laid off. Instead of feeling chosen, retained employees did not understand the criteria for severance and feared future cuts. Engineers who were retained, but whose projects had been eliminated, left voluntarily in high numbers after the cut. The mistrust between middle and top management grew significantly.

The lessons we draw from these cases and others we have studied follow.

Use the initial pressure to cut as a trigger to rethink and further develop the strategic plan, rather than take short-term steps to buy time. Short-term steps often have the counterproductive effect of reducing the pressure to confront the overall plan. If small cuts are being contemplated, imagining a contingency of much deeper cuts can clarify everyone's thinking. Then, at least, the initial response is taken in the context of where the organization might have to go if the economic threats escalate.

Err on the side of overcutting rather than undercutting. Post-cost revitalization is significantly enhanced by understaffed settings. Many unnecessary, bureaucratic tasks fall away, and the challenge of essential work can reduce worry and anxiety.

Avoid across-the-board strategies. A desire to be fair and to avoid conflict can frequently lead to across-the-board approaches. However, they rest on the highly improbable assumption that all units are operating with equal effectiveness and will weather cuts similarly. Furthermore, across-the-board approaches do not convey any information about the relative importance of different functions or tasks to the firm's survival.

The Need For New Skills

The dilemmas facing managers during downsizing are heightened by the intertwined quality of the issues. Disclosure options interact with participation strategies, which in turn affect the range of options a manager must select from. Let's look at the case of an employee relations manager coping with the downsizing of his unit:

The number of employees in the core subsidiary has dropped by almost 50% in about a year and a half. In this period, the employee relations staff was busy producing pink slips and benefit packages for fired employees. As the company approached its new, planned size (as a result of plant consolidations and corporate staff cutbacks), the employee relations manager, Tom Johnson, had to cut his own staff as well. Johnson sat on the company's management committee and, after much confusion and uncertainty, the senior line management had produced a coherent business plan; the company would focus on two products and revise its sales approach. The plan was a stark one. "The clearer it became," Johnson notes, "the harder it became" to implement.

On the basis of the management committee's plan and forecasts, Johnson estimated that ER's budget would drop by about one-third. He told his eight direct reports that ER staffing would have to be cut to two-thirds of its current level, and that three or four of them would lose their jobs. He told them that he wanted to design alternative staffing patterns and divisional structures for the ER Department. He outlined the constraints that ER faced and the goals that any design had to meet. He said that ER would have to cope with three critical issues in the coming year: the continuing consequences of consolidation, the retraining of the marketing staff, and the closing of one international office. In turn, any design that met these tasks would have to be minimally acceptable to line management, and support the tradition of preventive labor relations. He thus specified the task of any future ER organization and the constraints that limited its potential design.

Johnson gave his subordinates deadlines and offered to speak with each of them privately; all eight met with him. When the group convened, he divided them into two design teams. The top two teams produced a total of nine different designs. Prospective staffing numbers for the department ranged from 22 to 32. All nine plans raised three critical issues: how compensation and benefits would be combined with computer operations, how site operations would be managed, and how service and developmental activities for the sites would be integrated. The plans revealed that Johnson had to choose a single person for delivering both maintenance and development services to the sites. He told the group that he would decide on the final design and staffing within a month.

Johnson argued that this "was the most successful and creative planning meeting" he had ever conducted. Moreover, his managers were clearly committed and serious; he judged only one of the nine plans to be self-serving (it was designed, he felt, to save certain jobs and staff members and lacked functional coherence). The process was successful: He mobilized commitment from his

staff and produced a broad array of alternatives. It also alerted him to key strategic issues that he would have to face, whatever design he chose.

He followed some simple planning rules: he specified clear dates and deadlines; he specified as best he could each person's risk; he further personalized his relationships with subordinates; and he outlined the general shape of an otherwise unknown future. Johnson had to commit himself to a particular line of development, however. He could not keep all his options open. Consequently, he balanced *outcome* uncertainties inherent in the situation—what will the department be like a year from now—with *process* certainties. Thought employees did not know what the future would hold, they did know how decisions about the future would be made.

This case shows a manager coping effectively with a cutback situation. If we look more broadly at the challenges facing American business in the next decade—productivity, restructuring, high commitment work systems, effective participation, innovation, encouraging entrepreneurship and risk taking at all levels, the information revolution, office automation, robotization, the changing boundaries of industries—we see that the primary task of business leaders will be to manage highly uncertain transitions in which there will be substantial dislocations—winners and losers. The leaders who will be effective in coping with these long-term challenges may well be persons who have viewed the challenge of downsizing as the leading edge of a transformation, not simply a business cycle problem.

If managers fail to develop an appreciation of their new role, they may be unable to plan and manage cutbacks in ways that minimize the damage to their employees and their businesses. Furthermore, cutbacks will be missed opportunities to enhance their companies' abilities to adapt to new challenges with new approaches.

Adapted from Gilmore & Hirschhorn, "The Downsizing Dilemma: Leadership in the Age of Discontinuity," *The Wharton Annual*, 1985.

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