



How companies implement downsizing has a significant impact on its success.

# Downsizing the Company Without Downsizing Morale

When downsizing is unavoidable, smart managers look for opportunities to improve flexibility, innovation and internal communication to improve trust between managers and employees.

BY ANEIL K. MISHRA, KAREN E. MISHRA AND GRETCHEN M. SPREITZER

AFTER MORE THAN two decades of research into corporate downsizing, there remains a fundamental question: “How can managers and employees rethink their organizations even as they confront the need to downsize?” More specifically, how can organizations support learning, innovation and creativity while at the same time finding effective ways to improve costs, quality and productivity? Some might argue that these goals are at odds with one another — that you can’t build a *better* and a *leaner* organization. We disagree. In our 1998 *Sloan Management Review* article, “Preserving Employee Morale During Downsizing,” we maintained that strong organizations need to develop resilience so they could take advantage of new opportunities that arise during periods of economic retrenchment.<sup>1</sup>



## THE LEADING QUESTION

How can managers and their employees rethink their organizations as they confront the need to downsize?

## FINDINGS

- ▶ Rather than focusing on being smaller and more efficient today, the goal should be to become better and more competitive tomorrow.
- ▶ The most successful companies focus on building trust and empowerment.
- ▶ Front-line managers need to be trained and empowered to become liaisons between top management and employees.

Our subsequent research, consulting and management coaching has reaffirmed our view that downsizing isn't just about "doing more with less." It is also about creating flexibility, innovation and better communication that lead to increased trust and empowerment between managers and employees. (See "About the Research.")

In our original article, we presented four widely accepted goals of downsizing: reducing total costs; increasing labor productivity; improving quality;

### ABOUT THE RESEARCH

All three authors have spent the past two decades studying manufacturing and service companies, focusing on understanding how trust and empowerment are built during both tough and favorable economic conditions. Our research has integrated both quantitative and qualitative methods, utilizing scores of in-depth interviews with leaders and their followers, publishing several case studies of exemplary organizations and conducting survey research with thousands of employees to examine how trust and empowerment influence a number of related outcomes, including employees' commitment to the organization, job performance and voluntary turnover.

We have followed several organizations for more than a decade, focusing on leadership and its psychological and behavioral effects on employees as well as organizational performance. We have continued to follow one organization, the General Motors stamping plant in Parma, Ohio, profiled in our original SMR article, as it has downsized from more than 5,000 employees in the 1980s to fewer than 1,500 today. In recent years, we have begun studying companies in aerospace, financial services, food products and transportation industries.

For most of the organizations we have studied, we have adopted a form of action research in which we have disseminated findings from each phase of our studies with the participant organizations, offering recommendations where appropriate. However, we have not actively participated in any of the change efforts that have taken place within these organizations. Our methodology has required us to build a considerable amount of trust with each organization in order to obtain frank and honest perspectives and to collect confidential employee turnover data and proprietary organizational performance metrics.

and enhancing the efficiency with which capital is employed.<sup>2</sup> As we recommended then, downsizing programs should take place in four stages:

- **Stage 1:** the decision to downsize;
- **Stage 2:** planning the downsizing program;
- **Stage 3:** making the announcement; and
- **Stage 4:** implementing the downsizing program.

For each of these stages, we advocated openness and honesty about the state of the business, the reasons for downsizing, the process by which the downsizing program would take place and the future of the business. This type of open and honest communication is essential to building trust and empowerment among those who have been designated to leave the organization, but it is equally important for survivors of downsizing. (See "Survivor Responses to Downsizing.")

Following the original publication of our article, we focused on two key factors that can influence downsizing success (whether it is measured by psychological outcomes like commitment or bottom-line results such as lower voluntary turnover): (1) the survivors' level of trust in their organization's leadership during and after a downsizing, and (2) the survivors' level of empowerment.<sup>3</sup> Interestingly, we found that while these factors are fundamental, they often suffer as organizations undergo the challenges of downsizing. Moreover, in some settings such as the U.S. automotive industry, where significant downsizing has occurred in recent years, we found that the level of trust that top management had in lower echelon employees was positively related to the level of empowerment employees had in decision making. Such empowerment, in turn, was positively related to labor productivity, innovation and employee morale at the business-unit level.<sup>4</sup> In other words, how companies implemented their downsizing had a significant effect on its success. (See "Views From the Trenches," p. 42.) As Bob Lintz, the plant manager of General Motors Corp.'s Parma stamping plant, in Parma, Ohio, who we profiled in our 1998 SMR article, reflected recently:

*When we started the transformation in the 1980s and 1990s, we were leveraging off a significant emotional event mentality, i.e., either make significant improvements or we're not going to survive. That worked for all of us to create a culture of mutual trust and respect for one another. Today, it might look as though the entire organization operates as if every day is a significant emotional event. But in today's global economy, that's actually not a bad way to look at things because now that's precisely the case. Looking back, I am extremely proud of the process of openness and trust that the union and management leaders developed.<sup>5</sup>*

### The New Imperatives

In the last decade, we have continued to follow the organizations we profiled in our original article and have started studying additional organizations that have undergone significant change, including downsizing. We have conducted scores of additional interviews with top executives, surveyed hundreds of employees and collected performance data. We have also coached managers whose orga-

nizations have initiated downsizings as part of their global outsourcing efforts. Through these efforts we have identified three additional success factors that are important to successful downsizing: (1) Organizations must become more flexible; (2) they must become more innovative and creative; and (3) they must improve their communications with stakeholders who are increasingly skeptical of downsizing efforts. The emphasis on flexibility, innovation and communications will require even greater levels of trust and empowerment.

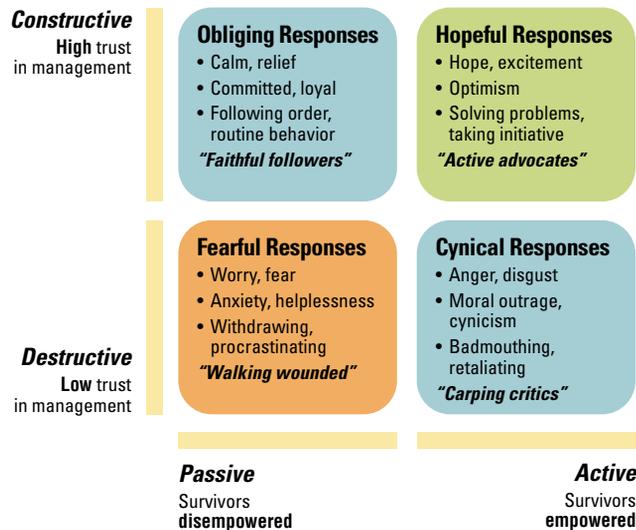
**Develop Greater Flexibility** The importance of organizational flexibility has grown as business environments have become more unstable and unpredictable. Flexibility can take many forms, including asking individuals to perform a wider variety of tasks and expanding management ability to mobilize organizational resources (human, financial and technological). Such flexibility permits organizations not only to respond more rapidly in declining environments but also to take advantage of opportunities where environments are changing less dramatically.<sup>6</sup>

Greater organizational flexibility can enhance human capital. This can be achieved by having employees cross-train one another as well as by engaging in regular cross-training assignments with customers and suppliers.

For example, as a response to a decline in overall demand during the early 1990s, Rhino Foods Inc., a dessert manufacturer in Burlington, Vermont, was able to leverage its relationships with its customers. Ted Castle, the president, asked his best employees to volunteer for assignments outside the company, promising them their regular jobs back when conditions improved. Sending the best people not only built trust with the other companies; it empowered employees who remained at Rhino Foods to learn new skills and abilities so they could step in for their reassigned colleagues.<sup>7</sup> In recent years, Rhino Foods has continued using this program, and it currently has five partnering companies that have been willing to hire its employees during the slow-demand months of the year. While the program to date has involved hourly production and shipping and receiving employees, Rhino Foods is considering extending it to salaried employees; an employee in

## SURVIVOR RESPONSES TO DOWNSIZING

We identified four archetypes of survivor responses to downsizing.<sup>1</sup> Survivors who have a low degree of trust in their managers and who feel disempowered will exhibit fearful responses, withdrawing from work because of worry and a sense of helplessness. If survivors have a high degree of trust in management but aren't empowered, they will obligingly go along with whatever they're told to do but refrain from taking any initiative on their own. If survivors have a high degree of empowerment but a low degree of trust in management, they will be cynical, angry and even outraged, and exhibit retaliatory behaviors. We have found that only if survivors have a high degree of both trust and empowerment are they apt to be hopeful, optimistic and willing to engage actively in solutions to improve the organization.



marketing or finance, for example, might work 32 hours a week at Rhino and eight hours at a partnering company.<sup>8</sup> We would argue that this approach also enhances organizational flexibility: As new talents are discovered, less important talents are set aside or outsourced, and key talents, skills and knowledge are retained for whenever business conditions improve and growth can be pursued again.

Dennis Quaintance, CEO of Quaintance-Weaver Restaurants and Hotels, based in Greensboro, North Carolina, has also benefited from reservoirs of trust and empowerment. He has managed to create a flexible work force that allows people to move back and forth across different units within the organizations. For example, when Quaintance decided to close one of his Lucky 32 restaurants, the manner in which he informed employees served to reinforce the trust and empowerment he had built over time; 16 of the employees requested and received transfers to other company locations rather than going to work for a competitor.

**Foster Innovation and Creativity** Improvements in cost, quality and the bottom line may have constituted successful downsizing in the past. But in the future, innovation will also be necessary.<sup>9</sup> Unfortunately, innovations require trust and empowerment — the very qualities that often suffer during corporate downsizings. As Jeff DeGraff, clinical professor of management and organizations at the University of Michigan’s Ross School of Business and a leading expert on innovation in organizations, told us, “A winning culture and competencies are what create the unique value propositions of firms. These take

years to develop because they grow through the interactive work of leaders. Conversely, they can be quickly undone by downsizing and the obligatory clumsy treatment of hard-won talent.”

In order for innovation to take hold during downsizing, managers must instill hope and craft a credible vision of the future. In our 1998 article, we argued that managers need to lay out a credible vision of the future in order for employees to trust their competence and to give employees a greater sense of empowerment amidst uncertainty and ambiguity. Today, we would emphasize the word “hope” as much as “credibility,” and we would include customers and suppliers more explicitly in the set of stakeholders that must be attended to. Although a credible vision of the future will help others see how the organization will survive and even improve as a result of downsizing, instilling hope will help stakeholders (survivors, customers and suppliers) see that there is a viable path forward. The hopeful message should be neither glib nor naïve but incorporate present realities (for example, “We will have to work harder in the short term”) with future benefits (“We will work smarter and create professional and personal opportunities that don’t exist presently”).<sup>10</sup> Survivors need to believe that managers are reliable, open and competent, and that they can be trusted to lead the downsizing effort. All stakeholders must believe that their managers are compassionate and willing to balance short-term bottom-line necessities with the welfare of everyone who is vital to the long-term welfare of the enterprise.

### Improve Communications with Stakeholders

Communicating effectively during downturns is also increasingly important for building critical relationships that harness the enthusiasm, loyalty<sup>11</sup> and trust<sup>12</sup> of an organization’s employees by creating shared values. Research shows that internal communications affect the degree of trust between employees and managers.<sup>13</sup> The process of creating trusting relationships between management and employees depends on openness and meaningful exchanges.<sup>14</sup>

We define effective communications in such contexts as being highly transparent, integrated consistently across the organization’s various stakeholders and participative. Transparent communication is promoted through honesty and cooperation. When managers are able to tell employees and other stakeholders as much

### VIEWS FROM THE TRENCHES

How does it feel to be in the middle of downsizing initiatives? We invited former students and research subjects to reflect on their experiences. Here is a sampling of responses:

Ours is a small business with 42 employees, so when downsizing occurs it is very difficult for us, as I imagine it is for all small businesses. We view layoffs as something of a last resort. In November of last year, we in fact mandated a no-overtime policy and reduced the work schedule for all hourly employees. We positioned this to our hourly employees as “would you rather have a job that has great benefits, or potentially be laid off and have no job at all?” With this approach, it is like everyone is taking one for the team, rather than eliminating team members. We fully expect business to pick up, and we would rather keep everyone rather than lose anyone. If a layoff becomes necessary, our foremost goal is to turn a negative into a positive. Laying off employees requires us to rethink our strategy, identifying efficiencies that can be gained through a reduced work force, reallocating resources to where they are most advantageous and assessing the impact of the layoff on the remaining employees, all of which takes time.

— BEN HOLCOMB, CFO, Green Resource LLC, Colfax, North Carolina

I have spent many minutes of every day reliving the eight-year period that began in September of 1984 when I had to phase 17,000 fine individuals out of jobs and close six million square feet of manufacturing floor space. The leader of a downsizing effort must spend far more time managing down the organization chart than up the organization chart. Failing to do so will only alienate the work force; far better to maintain the trust of the work force than spending time maintaining good political relationships with one’s superiors. The “worker bees” will remember forever, the “brass” for a nanosecond. More than a decade later, I still receive more compliments from members of the work force I led than from the managers I reported to at the time — and this is the way I would wish things to be.

— CRAIG PARR, former plant manager, General Motors, Detroit, Michigan

The leaders of our business units now hold quarterly all-hands briefings, where workload is a regular agenda item. Gaps in orders are clearly visible, and employees can make their own decisions about their prospects. The briefings also cover other key indicators such as company financial health, pay and benefit changes and operational metrics. We have also implemented Employee Concerns Boards, which are standard whiteboards located throughout our facilities — in work centers, near time and attendance stations and break rooms. They provide our 3,000-plus employees the opportunity to write concerns of any kind on the boards — for all to see. Each concern is logged and responded to by management within a certain period of time, with the response entered on the board — for all to see. A Concerns Board is also posted on our intranet. While simple, these communication techniques have gone a long way in demonstrating transparency and stabilizing our work force. We have now sown the seeds of trust through focused attention to employee communication.

— RICK SALANITRI, President, TIMCO Aerosystems Inc., Greensboro, North Carolina

as possible as soon as possible, it reduces the stress and anxiety that accompany a downsizing event.<sup>15</sup>

In addition, it is important that information be consistent across different sets of stakeholders, since the roles of an organization's various publics are often overlapping (for instance, both employees and investors may be activists).<sup>16</sup> Finally, managers must find a way to make the communications two-way. Employees and other stakeholders want to hear transparent and consistent information from their managers, but they also want an opportunity to ask questions, share feedback, clarify the situation and prepare for the future. Communication between a company and its employees is not participatory or effective unless it is interactive.<sup>17</sup>

Face-to-face communication is the best method for communicating about downsizing. But in the age of electronic communication, managers need to understand how to utilize many methods of communication in order to facilitate an ongoing dialogue with employees and other stakeholders, as well as how to be proactive about sharing company information to minimize the surprise element that characterizes most downsizing announcements. How will electronic communication impact the speed with which company information about downsizing is transmitted? Although electronic communication can be a tool for sharing information quickly, it can also be intercepted by outsiders who may not have the ability to put the information in proper context. In addition, effective communication must provide a mechanism for employees to have dialogue and share feedback. We believe that this is a fruitful area for research and further exploration.

## **Empower Managers as Organizational Linking Pins**

Are top managers doing enough to empower their front-line managers who are the linking pins of the organization?<sup>18</sup> If top management trusts and empowers these managers effectively, they can provide the flexibility to move across and between the various stages of downsizing. To the extent that front-line managers are the links between the downsizing strategy and those who execute it, top management must train managers to communicate the organization's vision and mission. Front-line managers are also crucial in conveying the compassion that top management

should be articulating. Have these managers been trained in the art of two-way communication? How well prepared are they to help reduce uncertainty and anxiety among their employees? We are continuing our research to answer these questions, but already in our follow-up work with Bob Lintz, the GM plant manager who has been downsizing continually over the past two decades, we have learned how critical it is to empower front-line managers. In the 1980s, Lintz empowered his hourly employees through an open-door policy in which they could meet with him to discuss any issue that they felt was important.

One unintended consequence of the policy was that the salaried supervisors and managers felt that allowing hourly employees to go over their heads to Lintz undermined their authority. The salaried employees lacked the job protection or benefits of UAW-represented employees and faced a greater threat from downsizing. Once Lintz became aware of this concern, he focused his efforts on building trust with his management and supervisory employees. Even though he couldn't promise them the same type of job security, he initiated several important training initiatives, including a Supervisors College, which allowed supervisors to enhance their skills, made them feel part of the Parma team again and removed barriers between hourly and salaried employees at levels below Lintz.<sup>19</sup>

Lintz realized he was disempowering his front-line managers only after reading a case study we wrote about his organization and the perspectives of the supervisors and managers we interviewed.<sup>20</sup> As a result, he initiated efforts to provide front-line managers with specific training and leadership responsibility so that they felt included in the ongoing change effort. We maintained an ongoing dialogue with Lintz over the next decade as he continued to reshape the work force of the stamping plant. The plant, which had been scheduled to shut down in the 1980s, today is a billion-dollar operation, and is recognized as the highest quality, most productive automotive stamping plant in North America.

Downsizing is not a fad. Managers will continue to use downsizing because the impact can be large and immediate. But even as companies seek ways to reduce costs, managers must remember the human costs of downsizing and consider alternatives.<sup>21</sup> Business schools and academics have their own roles

to play in helping organizations and individuals adapt — not only in assessing the effectiveness of different approaches but also in advancing hands-on solutions. Since we began teaching in 1992, we have built a database of former students from each school at which we have taught. We now have a network of more than 1,000 people we can contact when individuals are in the job market again. This provides an opportunity for colleges and universities to leverage their own human and social capital to help their students and alumni in difficult economic times.

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