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Preserving Employee Morale during Downsizing

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How to avoid destroying employees' trust and empowerment during layoffs.

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"The real question is how downsizing is done, rather than whether to downsize. Companies that downsize through buy-outs and attrition, that help their workers get new jobs, and that sometimes provide outplacement services, end up much better positioned than companies which simply wield the ax. [They have] a better chance of retaining the loyalty of the surviving workers. Trust is one of the most valuable yet brittle assets in any enterprise. So over the long term, it's far better for companies to downsize in a humane way." — Robert Reich[1]

Companies began downsizing in the late 1970s to cut costs and improve the bottom line. Today, companies with record profits carry on the quest to become lean and mean. More than 3 million jobs have been eliminated each year since 1989, for a loss of 43 million jobs since 1979. Government budget cuts alone have resulted in more than 1.1 million lost jobs in the defense industry since 1987, with another 700,000 cuts expected through 1998.[2] To put these numbers in perspective, 50 percent more people have been victims of layoffs than victims of violent crime.

Downsizing has become almost a way of life for U.S. companies. In fact, a first round of downsizing is generally followed by a second round a short time later: 67 percent of firms that cut jobs in a given year do so again the following year.[3] Unfortunately, many companies have found that the expected payoffs from downsizing (higher productivity, better stock performance, and more flexibility) have been sparse.

In this paper, we explore the reasons that many of the expected gains from downsizing have not been achieved. Drawing on findings from an ongoing research program on effective strategies for downsizing, we argue that maintaining the trust and empowerment of survivors is essential to minimize costs and realize the expected gains. The research program began in the late 1980s and draws on extensive interviews with top managers who have implemented downsizings, surveys of employees who have both been laid off and survived downsizings, and in-depth case studies of companies that have successfully downsized.

The Dark Side of Downsizing

The promised payoffs of downsizing have been mixed at best. One study found that (1) a 10 percent reduction in people resulted in only a 1.5 percent reduction in costs, (2) the average downsized firm's stock price rose 4.7 percent over three years as compared to 34.3 percent for matched firms that did not downsize, (3) profitability was up in only half the firms that downsized, and (4) the results on productivity were not conclusive.[4] The financial costs often incurred by downsizing firms explain some of the mixed findings.

For example, laid-off employees often receive a severance check that includes one week's pay for every year of service, their accrued vacation and sick pay, supplemental unemployment benefits, and outplacement benefits that can be as high as 15 percent of their salaries. The loss of key talent also minimizes the expected gains from downsizing. Crucial skills disappear, and organizational memory is disrupted or completely lost.[5] Thus companies may be losing the very employees most able to revitalize their competitive advantage. More than half the downsizing firms cut too much of their workforce and have to rehire laid-off employees as consultants.[6] In addition to the direct hiring costs, there are the indirect but significant costs of forgone opportunities while searching to replace lost talent.

Perhaps the most prominent reason that the expected benefits of downsizing are not achieved is the survivors' poor morale. A Right Associates survey found that only 31 percent of survivors agreed that they still trusted their organizations after downsizing.[7] Survivors reduce their commitment if they perceive that the company's downsizing process is unfair.[8] Several studies also have shown that survivors often exhibit resistance to change, fear, withdrawal, and paralysis due to increased cynicism and burnout as their workload doubles or triples and their department size shrinks by one-half to two-thirds.[9]

Those managers who must implement layoffs suffer too. Two researchers found that managers often become abrasive, narcissistic, withdrawn, alienated, apathetic, or depressed. Many blame themselves for the harm that they have caused others.[10] The irony is that downsizing companies are unwittingly destroying the very qualities they need for competitive advantage, namely their employees' *trust* and *empowerment*.[11] At the same time they are downsizing, many companies are advocating the implementation of high-involvement work systems and total quality management strategies.[12] Yet employee trust and empowerment, often shattered in the process of downsizing, are the engines that make these initiatives work.

Collision Course

Trust between managers and employees is critical for effective work relationships, especially under conditions of high uncertainty or conflict.[13] We define trust as an individual's willingness to be vulnerable to another based on the belief that the other party is competent, open, reliable, and concerned about the individual's own interests. Empowered employees have a sense of meaning, competence, and personal control over their work environment. We define empowerment as a proactive orientation to one's work. Empowerment becomes critical because it is a prerequisite to employee risk taking and proactivity.[14]

Downsized organizations in particular depend on empowerment and trust as hierarchies are dismantled and fewer managers remain to monitor employee behavior. This is especially true in the 1990s when white-collar rather than blue-collar workforce reductions are the norm.[15] With weakening hierarchies, individuals are increasingly faced with situations in which formal controls and sanctions do not exist and where trust becomes essential to coordinated action. Indeed, some scholars have argued that trust and empowerment are replacing hierarchy and transactional contracts as central control mechanisms in organizations.[16]

Employee trust and empowerment decline considerably during downsizing for various reasons. Survivors may no longer trust top management's openness because communication is not credible or information is withheld. Survivors may not believe that management cares about employees' needs if they see that their welfare has been sacrificed for top managers' personal gain. Their trust in top management's competency may also suffer. Finally, survivors may also think that the company is unreliable if it has reneged on promises or been inconsistent in stated intentions and subsequent actions.[17]

Survivors' sense of empowerment also suffers. As they become increasingly suspicious of management, they may see themselves as independent contractors, viewing the organization in purely instrumental terms and refusing to integrate themselves into the work culture. Empowerment languishes, as survivors' sense of meaning is lost due to insufficient communication. Survivors' competency may also be threatened as they take on the jobs of laid-off coworkers, which often require different skills. Their sense of personal control may suffer because of unclear or constantly changing job responsibilities or frequent layoffs that leave them wondering if they are next. Not surprisingly, their willingness to take risks may decline, and they may become more resistant to change.[18]

Fending off the Collision

Can a company mitigate employees' mistrust and disempowerment with an effective downsizing process? In our research, we sought to discover whether and how companies can preserve trust and empowerment during downsizing.[19] Through interviews and surveys, we identified effective and ineffective strategies.[20] Downsizing strategies that focused strictly on eliminating individuals were less effective in reducing costs and improving quality and were also associated with various dysfunctional responses from survivors, including decreased morale, resistance to change, reduced innovation, and restricted communication. In contrast, more encompassing downsizing strategies

High-Wire Act at High Steel Structures, Inc.

Founded in 1931, High Steel Structures of Lancaster, Pennsylvania, is a leader in the bridge-building industry. Trust and empowerment are core aspects of its philosophy. After sixty-one years without a layoff, in 1992, an industry downturn forced it to downsize.

Ongoing communication with all employees affected by the downsizing was critical to securing their commitment as the news went from bad to worse. When moving from three shifts to two shifts failed to be sufficient, management reluctantly decided to close the Williamsport facility. Robert Kase, vice president for fabrication, described the process for informing and motivating employees:

"We sat down quarterly with all the remaining employees and let them know the current status. In addition, they saw weekly information about work contracts. So they knew our destiny was questionable. Pat Loftus (High Steel Structures president) announced that if things didn't improve, we'd have to shut down. Their questions were about timing and whether the market would turn around.

"It would have been easy to avoid answering them. We could have lost the ballgame if the employees took on the attitude that no one cared about them. Everything — quality, efficiency, safety — could have gone to pot. We took the approach that even though we'd recently purchased this facility from another company, Williamsport was part of our organization. We had to deal with the remaining people.

"While we were downsizing, there were two years when there was no lost time due to accidents. The first year that happened, two of us personally cooked steaks for all 200 employees. The president served the meals. We had the dining room set with tablecloths, and employees came in from the shop. The second year, it would have been easy to say, 'Well, there's just a small group left; let's forget it.' But instead we promised them something better — surf and turf. So we made steaks again, and the president served shrimp cocktails. I think all these little things helped. The workers realized that we cared about them.

"When we finally had to shut down, we chose a core group to help close the facility and someday maybe reopen it. Some employees had to look for other jobs. But at least with a core group, we could come back faster, stronger, and quicker. That approach had an amazing affect on people because they saw our sincere effort in the long run.

"As it turned out, the market did rebound, and within six months of closing the Williamsport facility, we reopened it. Not only did the core group return, even though they had found jobs at other companies, but so did many others who had been laid off earlier. These employees' critical knowledge about how to run the plant safely and efficiently, based on the company's efforts to maintain their skills and morale during the downsizing, was instrumental in successfully reopening the facility."

that identified redundancies and inefficiencies in an organization's processes and products and involved rethinking culture, structures, and systems were much more effective in reducing costs, improving quality, and preserving survivors' good will.[21]

A successful downsizing process requires planning that begins long before the formal announcement.

We also sought to identify factors that enhanced the more effective, encompassing downsizing strategies.[22] The final phase of our ongoing research, which most directly informed this article, sought to determine how to maintain trust and empowerment during downsizing.[23] Two case studies provide examples *(see the sidebars)*.[24]

A Timeline for Downsizing

A successful downsizing process requires planning that begins long before the formal announcement. Unfortunately, many organizations engage primarily in damage control, reacting to negative employee reactions following the announcement rather than proactively planning the downsizing to minimize survivor angst and preserve trust and empowerment. From our interviews and surveys, we learned that effective downsizings have four distinct stages in which companies must pay close attention to trust and empowerment *(see Figure 1):*

1. Making the Decision to Downsize

Never easy or painless, this decision must be made with care. Just because the competition has downsized is not a viable reason. Two managerial actions will help mitigate pressures on trust and empowerment:

Use Downsizing as a Last Resort. Employees often see downsizing as a failure by top management to control costs and hiring in the first place. It also represents a failure to count employees as valued assets but to see them simply as costs. Senior managers must counteract mistrust by addressing the needs of both survivors and laid-off workers. Managers can show their concern by exhausting all possible alternatives before deciding to downsize. For short-term declines, some companies have successfully implemented hiring freezes, salary freezes, overtime restrictions, pay cuts, elimination of bonuses, shortened workweeks, or unpaid vacations. Some companies have come up with creative alternatives; for example, Rhino Foods lent several of its key employees to customers and suppliers until its business turned around. This concern for employees built significant trust. However, such alternatives to downsizing are successful for short periods of time but can be demotivating if used for too long.

Once all options have been exhausted, companies can offer voluntary separation with severance benefits or early retirement. Some employees welcome a change of employment or a switch to consultant status. Often, they use this as a chance to start a new business that they may have dreamed of for years. The real danger in offering voluntary separation is that the best performers may be the first to leave because they have the most attractive employment alternatives.[25] Thus companies must manage such separations carefully to avoid losing people with key skills or competencies. Companies that have successfully downsized often make a special point of telling high performers how much they are valued to encourage them to stay, once the downsizing has been announced in stage three.

Only after the company offers other alternatives and voluntary separations should it consider forced layoffs. This approach shows employees that management is concerned about their interests and needs rather than just its own short-term needs to reduce costs. While this approach may take longer and incur upfront costs, it will pay for itself in the long term through survivors' increased trust.

Craft a Credible Vision. Management should never see downsizing as a short-term fix. Instead, it must integrate the decision to downsize into a well-crafted, credible vision that makes clear how downsizing will create a competitive advantage. The vision must be part of a corporate improvement plan that is integrated into the firm's overall strategic position.[26] Indeed, Aaron Feuerstein, CEO of Malden Mill Industries, has managed to downsize continually without impairing the morale of his workforce. As he puts it, "Legitimate downsizing as a result of technological advances or as a result of good industrial engineering? Absolutely. I'm in favor of it. And we do it here all day long." The trick, he says, is to keep growing fast

Figure 1
The Decision to Downsize

Making the Decision to Downsize	Planning the Downsizing	Making the Announcement	Implementing the Downsizing
Stage 1	**Stage 2**	**Stage 3**	**Stage 4**
■ Use downsizing as a last resort. ■ Craft a credible vision.	■ Form a cross-functional team. ■ Identify all constituents. ■ Use experts to smooth the transition. ■ Provide training to managers. ■ Supply information on the state of the business.	■ Explain business rationale. ■ Announce the decision. ■ Notify in advance. ■ Be specific and time the announcement appropriately. ■ Offer employees the day off.	■ Tell the truth and overcommunicate. ■ Help departing employees find other jobs. ■ Announce subsequent separations as planned. ■ Be fair in implementing separation and generous to laid-off workers. ■ Allow for voluntary separations. ■ Involve employees in downsizing implementation. ■ Provide career counseling. ■ Train survivors.

enough to give new jobs to the people whom technology displaces, to weed out unnecessary jobs "without crushing the spirit of the workforce. . . .If you just have a scheme to cut people, you're never forgiven."[27] The vision will help reinforce employees' trust in senior managers as competent leaders who can revitalize the firm and restore competitive advantage. It gives employees a sense of empowerment, meaning, and direction amid uncertainty and ambiguity. It also helps employees to feel in control as they can see a real future for themselves in the company.

2. Planning the Downsizing

The implementation plan must consider all stakeholders' needs. Laid-off employees and survivors must trust that management is concerned with their needs, not just those of shareholders, so they feel in control of their destiny, even if it involves layoffs. Our research shows that almost 50 percent of the effort to implement downsizing should be done before the downsizing announcement. Well-trained, well-respected managers who know the business and its people must do the planning. Downsizing without planning can make managers look incompetent, as they initiate random, poorly thought-out cuts.

Form a Cross-Functional Team. The team to plan and implement the downsizing should represent all members' interests so employees see that management is looking carefully at everyone's needs and concerns. At a minimum, it should include representatives from human resources, labor relations, operations, finance, public relations, and legal affairs. In addition, there should be links to technical and customer relations — key parts of the company that can determine the downsizing's success.

The team members should divide up the responsibility for communicating to stakeholders. For example, their general manager should give employees downsizing information, and the public relations officer should always keep the media informed. The team should also have a clear agreement on the reasons for downsizing, so workers don't perceive disagreements among team members.

Identify All Constituents. The team's first task is to identify constituents and address their concerns throughout the implementation. They include:
• The firm's employees — those who will be separated, survivors, corporate staff, and any other facility receiving a transfer of people, machinery, or business.
• The community — employees' families, community leaders, and local businesses.
• The local and, perhaps, the national press.
• Any government agency that might be affected, such as local politicians, community service agencies, and relevant private industry councils.

Next the team should ascertain all constituents' needs and potential risks and formulate an action plan for dealing with each one *(see Table 1 for an example).* Not considering all stakeholders can create bad publicity and a poor image.

Use Experts to Smooth the Transition. While the cross-functional team should plan and execute the downsizing, there will be some areas, such as placement and counseling, for which the team will want the knowledge of outside experts. The Job Training and Partnership Act (JTPA) provides federal funds to states for worker readjustment efforts, including training, job development, and job placement. Applying for these funds takes about sixty days, so it is important to start the process early. Outplacement companies can help employees obtain new positions quickly. Other firms specialize in personal and financial counseling to downsized workers.

Employees who have full knowledge of the company's finances and its industry feel personally in control amid the uncertainty.

Experts can help preserve employees' feelings of empowerment and fight feelings of helplessness. Many resources — from job retraining to outplacement to financial counseling — enable a company to better respond to the immediate needs of all employees. Using outside experts may also increase survivors' trust, because they do not expect management to know all the answers in a highly stressful, often ambiguous situation.

Provide Training to Managers. Training should explain how to communicate the downsizing announcement empathetically and convincingly. It should give the managers who execute the layoffs skills and practice in telling employees that they will lose their jobs. Managers, including the human resources manager, should be able to answer any questions.

Sharing bad news with employees is never painless and is often accompanied by "terminator guilt." These managers can become the scapegoats for a top management decision.[28] Some laid-off workers will be unable to comprehend what is happening and will lash out at the messenger or become violent. But managers prepared to deal with their emotions and those of employees in advance can feel competent in executing this difficult task. Often these managers need counseling and support after they share the news with employees to deal with their own guilt and stress.

Supply Information on the State of the Business. Employees want to know that there is a purpose for their continued employment and participation in the ongoing business. Research suggests that when workers have a premonition about a future plant closing, they are able to devise coping mechanisms that reduce stress.[29] The information may help stakeholders arrive at their own conclusions about the industry or company situation and prepare themselves for potential layoffs.

Employees who have full knowledge of the company's finances and its industry feel personally in control amid the uncertainty. Downsizing becomes less a crisis and more an expected path. In addition, sharing sensitive financial or competitive data ensures employees that they can trust management to be open and honest.

A critical issue during the second stage is the need to maintain confidentiality until the official announcement. One manager remarked: "The key challenge in downsizings that we really, really fouled up a couple of times was the security. We have a tendency, with e-mail and all that stuff, to put too many things on the table." As he implies, there is tension between the need for broad input from stakeholders and the cross-functional team and the need for confidentiality throughout the planning process. Indeed, confidentiality during planning risks undermining the trust and empowerment that managers should try to preserve. Many managers suggested that to minimize the potential for leaks, managers involved in planning should focus on communicating face to face, through secured channels, or in off-site meetings, rather than through easily intercepted memos or faxes. But this does not begin to address all confidentiality issues.

For example, in order to retain the most desirable employees, top managers may discuss aspects of the downsizing planning to reassure them that they still have a position in the company, perhaps an even better one. One danger, of course, is that "less desirable" employees will learn of the conversations or hear distorted versions and feel devalued. As a result,

Table 1
Action Plan for Dealing with Constituents

Constituent	Needs / Risks	Potential Action Plan
Employees		
• Separated	Stress	■ Offer personal counseling and stress management workshops.
	Advance notice	■ Decide how much time is appropriate.
	Reemployement and retraining	■ Develop a career transition model in conjunction with human resources. Work with an outplacement firm or local economic development firm to find potential replacement jobs. Offer onsite outplacement services. Ask local community colleges to participate.
	Benefits	■ Give employees a detailed letter outlining benefits and have individual meetings to describe them.
	Burnout	■ Provide managers with counseling or resources to help them help their employees.
	Training	■ Train managers about the selection process for determining who will be retained.
	Control	■ Give employees information so they feel in control.
	Union	■ Contact appropriate labor relations personnel regarding the local contract.
• Survivors	Stress	■ Offer personal counseling.
	Poor morale	■ Treat displaced employees fairly to retain high morale.
		■ Provide challenging goals, recognition, and rewards.
	Turnover	■ Consider incentives for them to stay.
	Burnout	■ Redesign jobs and eliminate unnecessary work to reduce burnout.
Other company constituents		
• Corporate/divisional staff	Schedule	■ Communicate rationalization plan.
	Bonus compensation	■ Corporate staff may want to continue providing bonuses as compensation. Be sensitive to public disclosure and timing. Be prepared to address the media.
• Facility receiving transfer of people or products	Work methods	■ Develop manual to incorporate knowledge of people, machinery, and work methods. Have joint team manage operations and customer issues. Identify employees with highly specialized knowledge.
Community		
• Community leaders and local businesses	Concern about impact on city	■ Develop database of key community leaders.
		■ Identify team members to contact community leaders.
		■ Offer surplus buildings to local economic development agency or provide grant to attract new industry.
	Hiring	■ Invite local employers looking for employees to hold interviews onsite.
• Families	Future	■ Include spouses in onsite meetings that describe benefits and reasons for downsizing.
Media		
• Local press	Concern for local economic and human impact	■ Distribute press releases emphasizing ways the organization is helping employees with job transition.
• National press	Concern for impact on corporation	■ Distribute press releases discussing how this will make the firm more competitive in the long run.
Government agencies		
• Local, state, and federal	Timely information	■ Include in information dissemination so they can provide any services to employees in a timely manner.
	Local impact	■ Possibly provide indemnity payments to the local government as it experiences lost tax revenue attributable to shutdown.
• Government representatives and politicians	Timely information	■ Share business rationale and action plans to assure them that the company is acting in employees' best interests.
• Private industry council and Job Training Partnership Act funding	Early involvement	■ Develop career transition program.
• Community services	Access to people	■ Invite them onsite to describe their services, such as financial planning, reemployment specialists, and community services, to employees.

Turning Dregs into Stars

In the 1980s and early 1990s, Craig Parr ran and, all too often, closed General Motors (GM) assembly plants. In 1986, shortly after Parr became plant manager of the Pontiac-Central assembly plant, GM's top brass informed him that they were shutting down the plant within two years. Immediately, many high-potential managers and staffers began looking for jobs at other GM facilities and elsewhere. Parr's future at GM depended on his ability to close the plant without disrupting GM's production schedules or failing to satisfy the customers who were still buying its parts and trucks.

Although many managers would have tried to persuade the best employees to remain, Parr saw one of his roles as an outplacement specialist. He enthusiastically worked to get his people good jobs within or outside GM. Because of this, he learned some important lessons about motivating people during a downsizing.

Parr discovered that people will achieve seemingly impossible goals even during the worst organizational upheaval. Many of the salaried people who stayed at Pontiac-Central had been formally and informally classified as "dregs" or "bottom of the barrel" by their managers. As a result, they had poor performance ratings, small raises, and low career-potential ratings. Parr refused to accept these assessments but demanded that the remaining employees prove GM wrong. He said, "We're going to show those bureaucrats that the 'worst' GM has in terms of people, plant, and equipment can still turn out the very best products."

Once the star employees had departed, the remaining salaried and hourly workers achieved record levels of quality and productivity and, in the process, became stars themselves. Medium-duty truck customers, in particular, were amazed at the reduced defects and better service they received and helped delay the shutdown by more than two years. The quality and productivity improvements occurred even as GM continued to allocate capital away from Pontiac-Central — financial resources that could have been used to upgrade equipment, improve plant layouts, and modernize facilities.

Parr did not empower the "dregs" simply by fiat. He felt that if they were good enough to be asked to do the impossible, they were good enough to invest in. He obtained funds for training by working with local union leaders and the International UAW. Parr also deemed painting the plant to be critical to morale, but because GM was closing the plant, it wouldn't approve the expense. He found a way to get it done anyway. Finally, Parr upgraded as much equipment as he could through jawboning divisional and corporate management to return some of the money that they continued to take away each quarter.

Parr learned that the performance appraisal, promotion, and career planning systems that corporate bureaucrats had developed were insidious. Top management had assumed that the systems empowered employees by helping them achieve an ideal fit with the organization. As downsizing progressed and the former stars left, however, Parr realized that the systems engendered prejudice and stereotypes that, in effect, said, "Once a loser, always a loser." Once the barriers were removed, people naturally rose to the challenges and learned to do jobs that they had been told they could not do. One of those barriers was the performance evaluation and merit pay system that employees felt did not objectively reward performance. As a result, Parr instituted a system of flat percentage raises for all salaried employees. Employees widely praised the new system.

Parr rebuilt trust by communicating frequently and visibly. While opening his mail and doing paperwork each morning in his working office, the plant cafeteria, he talked to scores of employees, heard their concerns and complaints, and promised to act when appropriate. As Parr told us several years after Pontiac Central finally closed:

"I tried to tell the folks as candidly as I could what the next steps were, and, if I didn't know, I told them I didn't know. For example, the plant closing date for Pontiac Central slipped for years. I told them, 'Regarding the date I just gave you about the plant closing, you just have to understand that I may come back to you tomorrow with a different story.' I could have said, 'I won't tell you a damn thing. That way you'll never get upset because things change.' But I chose instead to tell them exactly what was going on and that they'd just have to understand that next week something is going to be different."

To regain his employees' trust and get them to achieve, Parr had to risk his superiors' lack of trust:

"I was probably trusted less by the upper levels for the very reasons I earned the trust of my people. When you're closing a facility, you just know some things have to be done, but they don't fit the rules. You just do them. I also had been much more open to employees than top management wanted me to be. I didn't want to be openly defiant, but sometimes it was absolutely necessary. I learned that you get only as much loyalty from your people as you give them."

trust is undermined, and employees' empowerment may be reduced. Unfortunately, none of the organizations we studied had completely solved this problem; it is an issue for investigation as our research continues.

3. Making the Announcement

At this stage, the company must not only show concern for employees' needs (whether survivors or laid-off workers) but must also be open and honest about the reasons for the downsizing and the implementation process, thus helping to mitigate distrust. The company must communicate its vision so that survivors can have a sense of hope and personal control about the future and feel empowered. Severance packages and other benefits for downsized employees are critical so that they feel in control and can find other employment.

Employees should know why downsizing will help rejuvenate the organization.

Explain Business Rationale. Managers should explain to employees where the company is headed.[30] By emphasizing the necessity of downsizing due to market changes or unanticipated decreases in product demand, they can help employees see that downsizing does not reflect on their contributions. One manager stated, "I tried never to leave employees with the impression that they were burdened with the responsibility of the plant closing in the sense that they caused it." An ex-aerospace employee said, "It's like the company telling you that you're no damn good."[31]

Employees should know why downsizing will help rejuvenate the organization. Communicating a clear vision helps them trust management's competence in turning the company around. If they see the larger vision, they will also feel more in control. Such a vision engenders hope rather than helplessness. One manager commented:

"People wanted something more definite so they could create their own life. All we could do was supply them with the most current information and let them make their own decisions. A lot of folks wanted us to make decisions for them; that's just not realistic. They had to determine what was best for them; we couldn't do it for them."

Announce the Decision. Because senior managers have made the decision to downsize, ultimately they must be responsible for announcing it. Their presence tells employees that senior management is concerned about employee well-being. If they do not participate in the announcement, employees are likely to feel abandoned. But their presence is more than symbolic; they must be prepared to help employees and answer any stakeholder questions to enhance trust and open communication. Senior management must listen to employees who may need to vent their emotions immediately after the announcement.

Notify in Advance. The 1988 WARN Act requires that a company give employees sixty days of advance notice when closing a facility or laying off workers. While some companies think that advance notice will encourage employees to leave when they are still needed, studies have shown that employees notified in advance are more loyal and will delay starting a new position until the appropriate time. Kimberly-Clark went further and announced all expected layoffs at once to prevent people from spending twelve months wondering what would happen.[32] Advance notice helps employees feel in control so that they can better plan their futures. It also enhances their trust in management's openness and willingness to share sensitive information.

Be Specific and Time the Announcement Appropriately. Employees want to hear about their company's downsizing from the organization itself, not from the newspaper or television. Thus it is critical to communicate the downsizing announcement simultaneously to all affected constituencies. Various members of the cross-functional team should talk to their respective constituencies in a carefully prepared statement.

The company should make the announcement early in the week and early in the day to allow constituencies time to adjust to the information and use the resources available. A Friday or the day before a major holiday is not an appropriate time because employees have no time for questions and answers. The announcement also should provide a timeline for completion, if known, to dispel further panic. The information should enhance trust in management's reliability, assuming that managers adhere to the timeline and explain any deviations. Finally, a company should give information about the separation process and the benefits and services for those losing their jobs. Communicating all this information in the announcement will enhance employees' feelings of control and mitigate some of the disempowering effects.

Offer Employees the Day off. Most companies find that productivity plummets on the day of the announcement. Giving people some time off allows them to absorb the news and to begin to take responsibility for themselves. After employees are notified of the layoff, they must tell their families that life will change. It is important that they understand the resources that the company will make available to them and what benefits they will receive. This symbolic act will enhance feelings of trust.

4. Implementing the Downsizing

While the first three stages are critically important to effective downsizing, a company must implement the last stage carefully to avoid decimating whatever trust and empowerment it has so far preserved. This is also the time to rebuild any lost trust and empowerment. The fourth stage emphasizes maintaining openness and honesty during implementation and following through on promises made to all employees. Reneging on promises devastates employees' trust in management. At the fourth stage, survivors become involved in the implementation process, which increases their empowerment. And when survivors know that the company has taken care of laid-off workers, their feelings of trust and empowerment are preserved.

A well-implemented downsizing focuses not only on removing employees but also on changes in work design.

Tell the Truth and Overcommunicate. A company should anticipate employees' questions and answer them throughout the implementation phase. It should ensure time to listen and understand employees' concerns and needs. One organization had a drop-box so employees could submit unsigned questions about the layoff. Another created an anonymous voice-mail system for lodging concerns. In both cases, management was able to take the company's pulse and clear up any misunderstandings. Sometimes the awkward situation of a downsizing or a plant closing can cause management to avoid saying anything. Frequent communication is critical to prevent rumors; without it, employees are likely to give credence to unofficial sources.

Face-to-face communication is most effective in resolving misunderstandings and conveys nuances better than e-mail, newsletters, or faxes. Management's openness and honesty preserves and builds trust by showing its true intentions, undistorted by rumor or third-party interpretation.

Help Departing Employees Find Other Jobs. The crisis is not over until departing employees are gainfully re-employed. Sometimes employees can be absorbed into other parts of the business. Outplacement agencies can facilitate employment in new firms. To help its laid-off employees, AT&T publicized a job bank to encourage other companies to hire them.[33] BankBoston offered to pay the salaries of its employees for six months if they moved to a position in public service. It also supported internships and small grants for new business start-ups. Helping employees secure alternative employment preserves their sense of empowerment and personal control. Employees with greater seniority may need the most assistance in finding alternative employment. The longer they have been with a company, the more specialized skills they have developed and the longer it has been since they have written a résumé, had an interview, or networked.

Announce Subsequent Separations as Planned. Once a company has a timetable in place, it must keep its promises. Employees will count the days until a specific announcement. If it comes early, they will be shocked. If it comes late, the company loses credibility. Reliability builds employees' trust in management and helps them feel in control.

Be Fair in Implementing Separations and Generous to Laid-off Workers. Survivors will judge a company's future interactions with them on how fairly it treats those laid off. The selection process should focus on past performance or some other objective criteria, and the criteria should fit with the vision of the future. For example, if part of the vision is to move into a new business area, it makes sense to retain employees with the requisite skills. In a unionized environment, there may already be criteria for the separation process specified in the labor contract.

A company should also provide generous benefits so workers feel fairly treated. Severance benefits typically include at least one week's salary for every year on the job (more for higher level employees). Medical and dental benefits must, at a minimum, conform to COBRA requirements. Outplacement services can include career counseling, stress management, skills assessment, retraining reimbursement, and job placement assistance such as secretarial support, job fairs, résumé preparation, and interview training. Some companies offer incentives for laid-off employees to remain on the job until they close the doors. Generous benefits repay themselves by making survivors more positive about the downsizing.

This is also the time when senior managers should show that they are sharing in the downsizing burden.

Team Concept at GM

To build trust, Robert Lintz, the plant manager of the General Motors stamping plant in Parma, Ohio, shared important information on the plant's operations with the UAW Local 1005's shop chairman and addressed long-standing grievances between the union and management. Lintz then forged a management team committed to working with the union, easing out those who refused to adopt the new approach through early retirements.

Finally, he adopted a strict open-door policy that allowed any of the more than 5,000 employees to come to his office with concerns. The result was a plantwide "Team Concept," the consolidation of eight unskilled classifications into one general category, and the acquisition of several significant new products that will continue to keep the plant operating into the twenty-first century, more than fifteen years after it was expected to close. Lintz nurtured a culture of trust throughout the plant. "The Memorandum of Understanding" in the agreement with Local 1005 states:

"Through our joint efforts, we will endeavor to produce products competitive in quality and cost, taking into consideration such necessities as a good working environment of respect, dignity, and trust and our obligations to the community.

"This can only be accomplished through encouraging open and honest communication, considering the feelings and viewpoints of others, and encouraging involvement and risk taking in decision making."

Lintz has maintained this culture despite ongoing corporate pressures to reduce costs.* Several employees described his influence in building trust and empowerment:

"The hourly workforce, in particular, believes in him. His strong suit is that he's a people person. Over time, he's achieved credibility."

"The difference between a Lintz and an unsuccessful manager is that he was able to help people envision a larger pie if they were to work together."

"He has kept the plant focused on the Team Concept despite all of the other cost-cutting fads thrown at us from the corporation. Bob always reminded us that this was the key to what we were doing and how we were going to make improvements."

* See A.K. Mishra, K.E. Mishra, and K.S. Cameron, "Power or Empowerment at GM?" in J.R. Schermerhorn, Jr., J.G. Hunt, and R.N. Osborn, eds., *Organizational Behavior*, sixth edition (New York: Wiley), pp. 458-460.

Obviously, this is not an occasion to announce record bonuses to top management. AT&T angered stakeholders when it publicized a record pay raise for its CEO while laying off 125,000 people since 1986.[34] Fair procedures and generosity help enhance survivors' trust that management hears their concerns. If employees perceive that top managers are operating primarily in their own self-interest, there will be a backlash and resentment.

Allow for Voluntary Separations. Compared to forced layoffs, voluntary separations (e.g., employee buyouts, early retirements) help maintain the morale of both survivors and victims. Ideally, people want to choose to walk out, not be pushed out the door. While there is always concern that too many employees will take a buyout, our research and others' shows that employees will reward a company with their loyalty if given a credible vision for the company's future. By continually updating them on the progress of the restructuring and the long-term vision, a company can retain valued employees. When downsizing is accomplished largely through voluntary separations rather than forced layoffs, a company reduces the risk of wrongful discharge suits as well.[35]

Involve Employees in Downsizing Implementation. A well-implemented downsizing focuses not only on removing employees but also on changes in work design. Remaining employees often have ideas about restructuring their jobs and improving internal processes, so companies should involve them. General Electric invented the popular "Work Out" program, in which groups of employees meet to determine where unnecessary work and procedures can be removed. The result is a much more efficient system that requires fewer employees. Mercedes-Benz Credit Corp., the U.S. finance unit of Daimler-Benz, guaranteed employees a new job if they could find a way to eliminate their current one.[36] Involvement in redesign enables survivors to feel they control their futures. *(See the sidebar for an example of how to involve employees.)*

Provide Career Counseling. Internal career development offices or external career counselors can help laid-off employees. Chevron, in anticipation of future downsizings, began encouraging employees to think about other career options, such as new positions at Chevron or elsewhere, or entrepreneurial opportunities. Supporting laid-off workers in future careers can be critical to maintaining and enhancing the loyalty, productivity, and commitment of the remaining workforce.[37] Such counseling helps all employees feel more in control.

Train Survivors. It is easy to assume that the survivors will know how to carry out their responsibilities after the workforce is downsized. But they may feel overburdened in taking on the jobs of former coworkers that require different skills. Training should give them confidence to work in a new environment and make them feel more competent and empowered as they grapple with uncertainty. Often this training focuses on using new technology or working in teams — two critical skills.

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Each stage of downsizing works to mitigate mistrust and disempowerment. Implementing downsizing is stressful for both managers and employees. Nevertheless, trust and empowerment increasingly will become sources of competitive advantage in an environment of uncertainty and rapid change. How managers plan, announce, and implement downsizing will have an impact on employees' contributions. In any future crisis, employees who remember how well the company treated them and managed the implementation will be able to trust the organization and build a better, more effective company.

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■ 19. At each stage of the research process, our goal was not solely to find agreement among top managers, employees, or industry experts. Indeed, disagreement among perspectives often provided the impetus for developing new sets of research questions. We first conducted semistructured interviews with top managers in a few representative organizations in one industry to capture perspectives on their companies' downsizing strategies and outcomes. We interviewed top managers in thirty organizations in the auto industry four times during a two-year period beginning in 1988 to identify typical strategies used to downsize. We then triangulated and elaborated on these perspectives more broadly by surveying approximately 2,000 executives and lower level employees from a larger sample of organizations within the same industry.

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■ 22. Interviews with another 35 top managers and surveys of more than 500 top managers representing 92 different organizations in the automotive industry revealed the primacy of trust and empowerment in effective downsizing. See:
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■ 23. We reviewed both the popular business press and the academic literature on downsizing. We also conducted interviews and survey research in other industries to identify practices that preserved trust and empowerment and to validate our previous findings in a different industry. We interviewed senior

executives, managers, and employees in the aerospace, automotive, consumer products, tobacco, and steel industries who have been involved with, or who managed, previous downsizing activities, including facility rationalizations, plant closures, and reductions. We also surveyed more than 1,000 employees from two aerospace organizations that were at different stages of downsizing. We draw our key findings from the final stage of research conducted across industries.

■ 24. We constructed the first case from more than a half-dozen interviews during several years with the plant manager, two visits to the plant where one of us talked to a cross-section of employees, and a formal survey of all employees at the plant. In the second case study, two of us toured the main facility where we talked with a cross-section of employees and interviewed a vice president, the director of human resources, and several other employees. Building on the case studies and drawing from the final research, we identified some general steps for preserving trust and empowerment. A panel of twelve practitioners with downsizing experience from the aerospace industry reviewed the initial steps and provided constructive criticism. We solicited additional feedback from human resource and manufacturing executives. Each group helped to make sense of our findings through their own perspectives, which were grounded in the experience of managing downsizings.

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