

## [Head]How to Downsize Your Company Without Downsizing Morale

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

[byline] Aneil K. Mishra, Karen E. Mishra, and Gretchen M. Spreitzer

[Bio] Aneil K. Mishra is currently a visiting associate professor of management at Duke University's Fuqua School of Business, in Durham, North Carolina. This summer he will join Michigan State University, in East Lansing, as a professor and Associate Director of Executive Education. Karen E. Mishra is currently an assistant professor at Meredith College in Raleigh, N.C., will join the faculty of Michigan State University's Department of Advertising, Public Relations and Retailing this fall. Gretchen M. Spreitzer is a professor of management and organizations at the University of Michigan's Ross School of Business. Contact them at [smrfeedback@mit.edu](mailto:smrfeedback@mit.edu)

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 needed to develop resilience so they could take advantage of new opportunities that arise during periods of economic retrenchment.<sup>1</sup> 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 leads to increased trust and empowerment between managers and employees.

In our original article, we presented four widely accepted goals of downsizing: reducing total costs; increasing labor productivity; improving quality; and enhancing the efficiency with which capital is employed<sup>2</sup>. As we recommended in our original Sloan article, downsizing programs should take place over four stages:

**Stage 1:** The decision to downsize

**Stage 2:** Planning the downsizing program

**Stage 3:** Making the announcement

**Stage 4:** Implementing the downsizing program

For each of these stages, we advocated for openness and honesty about the state of the business, the reasons for the 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 equally important for survivors of the downsizing (see “Survivor Responses to Downsizing”).

Following our original SMR publication, 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 with 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. As Bob Lintz, the plant manager of the General Motors' 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 organizations 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 not only permits organizations 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 not only by having employees cross-train one another, but also by engaging in regular cross-training assignments with customers and suppliers. For example, when overall demand declined during the 1990s, Rhino Foods was able to leverage its relationships with its customers and suppliers. 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 firms, it empowered employees who remained at Rhino Foods to learn new skills and abilities so they could step in for their reassigned colleagues. We would argue that this approach also enhanced organizational flexibility; as new talents were discovered, less important talents were set aside or outsourced, and skills and knowledge development efforts were directed at talents with the highest possible payoffs.

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 workforce 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 another the company's locations rather than go 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 as well.<sup>7</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 creates 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 needed 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 the downsizing, instilling hope will help stakeholders (survivors, customers, and suppliers) see how there is a viable path forward. The hopeful message should neither be glib nor naïve but incorporate present realities (e.g., “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>8</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>9</sup> and trust<sup>10</sup> of an organization’s employees by creating shared values. Research shows that internal communication affects the degree of trust between employees and managers<sup>11</sup>. The process of creating trusting relationships between management and employees depends on openness and meaningful exchanges<sup>12</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 as possible as soon as possible, it reduces the stress and anxiety that accompanies a downsizing event.<sup>13</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>14</sup>. Finally, managers must find a way to make the communication 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>15</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 on-going 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 to be 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>16</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. Moreover, the salaried employees lacked the job protection or benefits of UAW-represented employees and faced a greater threat from downsizing. Once Lintz realized this, he began to focus 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 enhanced their skills, made them feel part of the Parma team again, and removed barriers between hourly and salaried employees at levels below Lintz.<sup>17</sup>

Lintz made his realization of unintentionally disempowering his front-line managers only after reading a case study we wrote about his organization and the perspectives from the supervisors and managers we interviewed.<sup>18</sup> As a result, Bob 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 workforce of the stamping plant. The plant, which had been scheduled

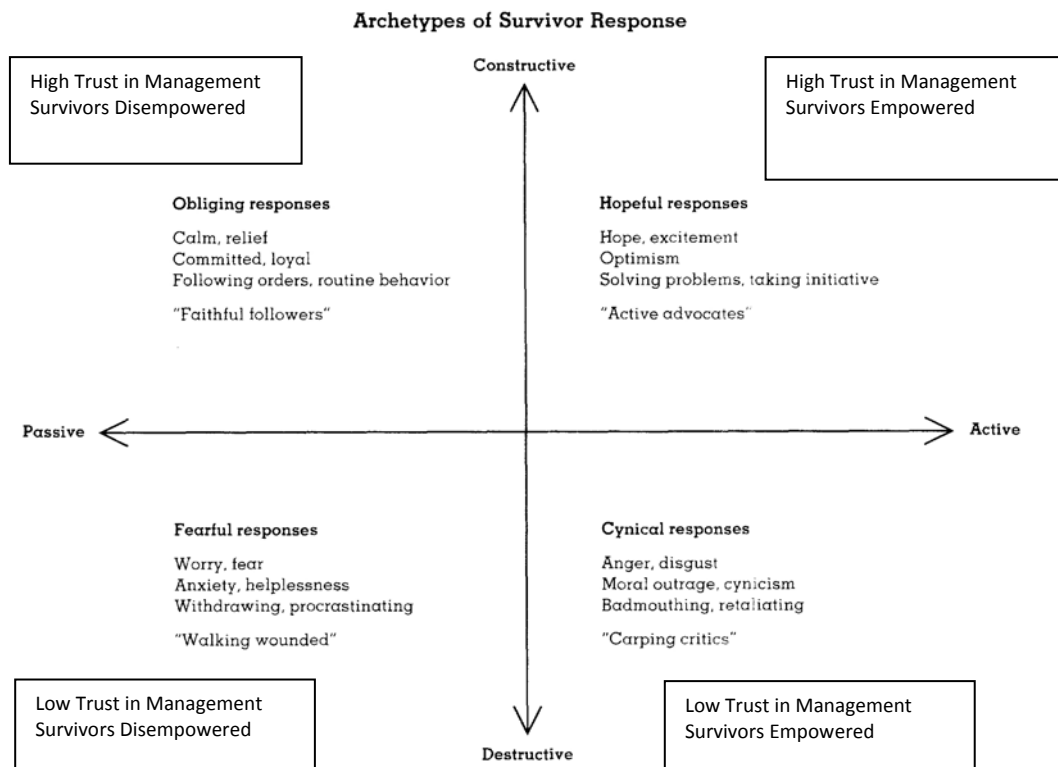
to shut down in the 1980s, today is a billion-dollar operation, and is recognized as the highest-quality, most productive automotive stamping plant in North America.

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>19</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 we have taught at. We now have a network of more than 1,000 people who we can contact when individuals are on 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 alums in difficult economic times.

Sidebars located below

## Survivor Responses to Downsizing

We identified four archetypes of survivor responses to a downsizing.<sup>20</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 the worry and 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, then 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.



## Views From the Trenches

How does it feel to be in the middle of downsizing initiatives? We have 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. Our foremost goal with any layoff 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 workforce, reallocating resources to where they are most advantageous, and assessing the impact of the layoff on the remaining employees, all of which takes time. As an example, a key efficiency derived from laying off a sales representative is remaining sales representatives can now call on those customers who belonged to the laid off sales rep at no additional cost. Allowing them to take on a bigger customer base further emphasizes that they have management's trust and support.

*Ben Holcomb, CFO, Green Resource LLC, Colfax, North Carolina*

I have spent many minutes of every day re-living phasing 17,000 fine individuals out of jobs and closing 6,000,000 square feet of manufacturing floor space over an eight-year period starting in September of 1984. 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 workforce; far better to maintain the trust of the workforce 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 workforce 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 General Motors Plant Manager, Detroit, Michigan*

(Following three previous downsizing efforts) 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 are Employee Concerns Boards, which are standard whiteboards located throughout our facilities - in work centers, near time and attendance stations, and break rooms, etc. 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 workforce. We have now sown the seeds of trust through focused attention to employee communication.

*Rick Salanitri, President of TIMCO Aerosystems Inc., Greensboro, North Carolina*



- <sup>1</sup> Mishra, K. E., Spreitzer, G. M. Mishra, A. K. (1998). Preserving employee morale during downsizing. *Sloan Management Review*, 39 (20), 83-95.
- <sup>2</sup> Mishra, K. E., Spreitzer, G. M., & Mishra, A. K. (1998). Preserving employee morale during downsizing. *Sloan Management Review*, 39 (20), 83-95.
- <sup>3</sup> Mishra, K. E., Spreitzer, G. M. Mishra, A. K. (1998). Preserving employee morale during downsizing. *Sloan Management Review*, 39 (20), 83-95; Spreitzer, Gretchen M. and Mishra, Aneil K. (2002) To stay or to go: Voluntary survivor turnover following a downsizing, *Journal of Organizational Behavior*, 23, (September): 707-729.; Brockner, Joel, Spreitzer, Gretchen M., Mishra, Aneil, K., Hochwarter, Wayne, Pepper, Lewis, & Weinberg, Janice. (2004) Perceived Control as an Antidote to the Negative Effects of Layoffs on Survivors' Organizational Commitment and Job Performance, *Administrative Science Quarterly*, 49 (1/March): 76-100. We define empowerment as a personal sense of control in the workplace as manifested in four beliefs about the person–work relationship: meaning, competence, self-determination, and impact (Spreitzer, G.M. 1995. "Psychological empowerment in the workplace: Dimensions, measurement and validation." *Academy of Management Journal*, 18: 1442–1465.)
- <sup>4</sup> Spreitzer, Gretchen M. and Mishra, Aneil K. (1999) Giving Up Control Without Losing Control: Trust and Its Substitutes' Effects on Managers' Involving Employees in Decision Making. *Group and Organization Management*, 14 (2): 155-187.
- <sup>5</sup> Phone interview with Bob Lintz, January 9, 2009.
- <sup>6</sup> Mishra, Aneil & Mishra, Karen (2008). *Trust is Everything: Become the Leader others will follow*. Chapel Hill: Lulu Press. In this book, we profile several leaders who created high levels of trust and empowerment before they needed to downsize their organizations. After 20 years of studying trust through scores of interviews and several thousand surveys, we have found that trust is made up of four components, Reliability, Openness, Competence, and Compassion: we call this the ROCC of Trust.
- Reliability:** You can demonstrate reliability by showing up on time and following through with your promises.
- Openness:** Be honest in your communication and transparent in your actions. This lets people know that you have nothing to hide and that you are not being manipulative.
- Competence:** Demonstrating that you have the ability to "do the job." This gives your followers the confidence that you will succeed.
- Compassion:** This is the hardest for leaders to demonstrate because it means putting others concerns in line with your own. This is not something we ordinarily think of as being a manager's job, but when you have accomplished the first three, compassion "seals the deal".
- <sup>7</sup> Mahroum, S. Innovate out of the economic downturn. *Business Week*, 10-27-08.  
[http://www.businessweek.com/innovate/content/oct2008/id20081027\\_851140.htm](http://www.businessweek.com/innovate/content/oct2008/id20081027_851140.htm)
- <sup>8</sup> Mishra, Aneil K. & Mishra, Karen E. 2008. *Trust is everything – Become the leader others will follow*. Chapel Hill, NC: Lulu Press.
- <sup>9</sup> Reichheld, F. F. (1996). *The loyalty effect*. Cambridge, MA: Harvard Business School Press.
- <sup>10</sup> Mishra, A. K. & Mishra, K. E. (2005). Trust from near and far: Organizational commitment and turnover in franchise-based organizations. Presented at the 65<sup>th</sup> annual meeting of the Academy of Management, Honolulu, Hawaii.
- <sup>11</sup> Gavin, M. B., & Mayer, R. C. (2005). Trust in management and performance: Who minds the shop while the employees watch the boss? *Academy of Management Journal* 48(5), 874-888.

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- <sup>12</sup> DuBrin, A. (2000). *Applying psychology: individual and organizational effectiveness*. Upper Saddle River, NJ: Prentice Hall.
- <sup>13</sup> Mishra, Aneil K. & Mishra, Karen E. 2008. Trust is everything – Become the leader others will follow. Chapel Hill, NC: Lulu Press. A good example of this can be found in the e-mail Princeton University President Shirley Tilghman sent to alumni/ae on January 8, 2009, in which she wrote:  
“*Our planning is guided by the goal of preserving the "human capital" that is so essential to the quality of the University - its students, faculty and staff. The value of the endowment, which supports 45% of our operating budget, has declined significantly since July 1, and we now estimate it could be down by as much as 25% by the end of June. Although our endowment spending policy is designed to "smooth" the impact of volatility in market returns, a decline of this magnitude is unprecedented in recent times. Thus, for the fiscal year beginning July 1, 2009, we are planning a number of measures to reflect a more constrained economic environment. Some of the cost-savings measures that we will institute include limiting salary increases for the coming year, and focusing resources on the lowest paid faculty and staff by capping salary increases for the best compensated individuals at \$2,000.*”
- <sup>14</sup> Gronstedt, A. (2000). *The customer century: Lessons from world-class companies in integrated marketing communication*. New York: Routledge.
- <sup>15</sup> Deetz, S. A. (1992). *Democracy in an age of colonization*. Albany, NY: SUNY Press.
- <sup>16</sup> Likert, Rensis (1967). *The Human Organization: Its Management and Value*. New York: McGraw-Hill.
- <sup>17</sup> Mishra, Aneil K. & Mishra, Karen E. 2008. Trust is everything – Become the leader others will follow. Chapel Hill, NC: Lulu Press: 59-60.
- <sup>18</sup> Mishra, Aneil K., Mishra, Karen, E., & Cameron, Kim S. (2005) Power or empowerment at General Motors? In Schermerhorn, J. R. Jr., Hunt, J. G., & Osborn, R. N., Managing Organizational Behavior, Ninth Edition, (W58-W60). New York: John Wiley & Sons. (Previously published in the Eighth (2003), Seventh (2000), and Sixth (1997) editions.)
- <sup>19</sup> Gandolfi, F. 2008. Learning from the past – Downsizing lessons for managers. *Journal of Management Research*, 8 (1/April), 3-17.
- <sup>20</sup> Mishra, A. K. & Spreitzer, G. M. (1998). Explaining how survivors respond to downsizing: The roles of trust, empowerment, justice and work redesign. *Academy of Management Review*, 23 (3/July), 567-588.