



### **The Realities of Downsizing**

by Alice Winkler

No question, that as a nation, we have fallen on hard economic times. But there are certain steps you need to take to safeguard and preserve your business for the future. Whether you like it or not, your actions today, will have an impact on your company's performance when the economy picks up, and you need to act decisively to protect your most important asset; your human capital.

#### **Cutting Costs**

If your first instinct is to cut costs by downsizing, remember that a layoff is a dramatic step that will have lasting implications. The experience and knowledge that your employees have accumulated over time, not to mention the relationships they have developed with your clients, are unquantifiable.

In fact, contrary to your gut impulse to stay afloat by cutting staff, a study conducted after the 1990 recession by Watson Wyatt found that fewer than half the companies surveyed met their profit goals after downsizing. Similarly, another study conducted by Bain & Co. concluded that companies that underwent mass layoffs underperformed the market for the following three years. Although the reasons for these productivity losses are complicated, you can bet that they had something to do with the exit of talented human capital, and the resulting drop in morale among surviving employees.

So, what you really need to do before laying off valuable employees is evaluate all your options. Can you reduce expenses another way . . . perhaps with a payroll cut or workweek reduction? Offer your employees the opportunity to take sabbaticals, or share jobs. A close examination of your monthly bills may reveal mistaken billing practices, or alternatives to current purchasing policies. You may even be able to reduce rental expenses by encouraging employees to telecommute.

#### **Downsizing**

But, if you simply cannot see yourself out of your current economic condition without downsizing, don't make the critical mistake of alienating your "surviving" employees. These employees are crucial to your company's turnaround and you've got to maintain their morale and loyalty.

In this respect, communication is critical. Keep your employees in the loop by explaining what you are doing, why and your long term projections for the company. Offer them opportunities to voice their opinions as you reorganize and redistribute work. Try setting up meetings where employees can address top executives directly and most importantly communicate a long term vision for the company to reassure surviving employees that they have a future.

Another critical factor is the treatment of outgoing employees. If you mess this up, you will have a very difficult time regaining the respect of surviving employees, and they will take the first opportunity to jump ship when the economy turns around.

So really think about how to conduct the actual terminations and stay away from group layoff announcements where several employees are notified at the same time and immediately whisked out of the building. In the case of a mass layoff, make sure you comply with any applicable legal regulations including the notice provisions of the WARN act. Also, the availability of severance packages as well as outplacement, are not lost on jittery surviving employees who are looking for indications of their own treatment in the event of another round of layoffs.

Along this same line of thinking, continue your relationship with downsized employees. After all, when the economy picks up who will be better suited to fill vacancies in your company than former employees with a proven track record and expertise. Get their e-mail addresses or create a website to keep them informed of job opportunities that become available in your company. Cisco Systems has developed one of the more creative programs in this area by continuing to pay laid off employees a third of their salaries for a year if they choose to work for an approved non profit during that time. With the same goal in mind, Charles Schwab has announced generous rehiring bonuses for former employees that are rehired within eighteen months.

### **After the Axe Falls**

Finally, if you have already been laid off, there are a couple of things you should remember. First and foremost, don't panic and don't take your company's actions personally. As heartless as it seems, in these economic times hard choices must be made and you unfortunately were in the wrong place at the wrong time. Use your friends and family as support systems, max out your usage of any outplacement services that came in your severance package and if you are really feeling stressed, seek out professional help.

Also, review your former employer's employee handbook so you have a clear understanding of your entitlements. These entitlements are not necessarily limited to severance packages, and may extend to unexercised stock options as well as unused vacation or sick pay. It is of utmost importance that you continue to be covered by a health insurance policy either through COBRA, an alternate

vendor or under your spouse's plan. Apply for unemployment immediately, and reevaluate your budget and living expenses. Depending on your particular situation, you may be able to reduce expenses or may need to prioritize the payment of your bills. (As a general rule, secured debts such as car payments, should always be paid before unsecured debts, such as credit cards.) Finally, remember that you should only raid your 401K plan and take out a second mortgage on your home in an emergency. Don't do anything rash that you will come to regret in the future.

Remember that as an employer, you need to safeguard your company's long term outlook for recovery, and as a laid off employee you need to protect your long term financial position. So no matter how tough things get, don't panic and take a close look at the implications of your actions before you take a step that has unexpected consequences.

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