

The Downside of Downsizing

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Introduction

Back in the good old days, when General Motors was the undisputed king of the automotive business, AT&T had a monopoly on communications and Xerox was the only photocopy company in the world, people had what amounted to lifetime job security. The expectation of permanent job security was considered a social contract between the company and the employee. So long as you didn't burn the factory down, you had what amounted to a job for life. The primary stakeholders of organizations were the workers. Management increased pay and benefits to keep workers away from the threat of unionization and the strategy worked for a long time.

When the global economy took center stage beginning in the late 1970's, American industry was completely unprepared to compete with world-class companies that were entering the industrial theatre. As the new global scene unfolded, each set in a backdrop of borderless economic competition, American industry struggled to maintain leadership and profit levels. In the desperate final act, domestic organizations hit on a strategy to reduce costs and increase its bottom line. American industry broke from its traditional social contract with workers and cut them loose. In an act of survival, stockholders replaced employees as the key stakeholders, which produced massive cutbacks and layoffs. Jobs vanished and the millions of workers remaining on the payroll were left emotionally scarred and psychologically debilitated. Indeed, this is theatre of reality that human capital now faces.

Issues

Six of the most frequent conversations that can be overheard in both boardroom and lunchroom are:

1. "How safe is my job?"
2. "What can I do to safeguard my job?"
3. "How can our company keep great people and leverage talent?"
4. "Is downsizing an effective organizational strategy?"
5. "Do massive reductions in workforce truly benefit shareholders and the organization?"
6. "What is the real cost of downsizing in tough economic times?"

The Full Cycle

After ten years of a Nasdaq tech boom in the 1990's, the "dot com" bubble burst in the spring of 2001 and left thousands of employees out of work. Employees went from being the most sought-after to unemployed for as many as five years. In the hi-tech downturn nearly a decade past, educated workers

with special technical skills could not find jobs to match their experience and education. Twenty percent of the 1.9 million workers, who were left unemployed for six months or more, were former executives, professionals and managers. But the vast majority, four out of five of the unemployed workers were under-trained, under-educated and unskilled. They were mostly “jobbers,” - a large corps of workers who performed repetitive tasks, lacked any degree of mastery, and failed to work in professions or trades that directly contributed to the company’s profits.

American industry inched its way out of the recession by growing productivity (fewer people doing more) at an average rate of five percent a year. But in the last four months of 2008, industrial growth has ground to a resounding stop. “Growth” and “record profits” were replaced with words like “collapse,” “failure,” “bailout”, “poisoned assets,” and “foreclosure.” Newspapers and television sets are filled with economic gloom and doom. The banking industry is failing. Household names like Citibank, Bank of America, Washington Mutual, and Wachovia are in deep trouble. Monolithic investment banks like Lehman Brothers, Morgan Stanley, Goldman Sachs, and Merrill Lynch have fallen by the wayside or are struggling to survive. Government bailouts to a failed global insurer and banks are running up the national debt. American car manufacturers are on the ropes threatening massive job losses. Retail stores like Ann Taylor have closed 117 stores nationwide, Lane Bryant, Fashion Bug, and Catherine’s - 150 stores nationwide, Eddie Bauer - 27 stores, Zales - 82 stores and another 105 after January, Disney - 98 stores, Talbots - 85 stores, Footlocker - 140, stores, Sprint Nextel - 133 stores, KB toys - 356 stores. Macys, JC Penney, Loews Dillard’s and Home Depot are closing an undisclosed number of stores. Sharper Image, Wickes Furniture, Bombay, Levitz, Wilson Leather, Movie Gallery, Linens and Things and Cache are closing all their stores and the list goes on.

How Safe Is Your Job?

TAKE THE QUIZ

American industry has responded to the failing economy through massive numbers of layoffs and disappearing jobs. Ask yourself the following questions:

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|---|------------|-----------|
| 1. Is your job crucial to the organization's purpose and mission? | YES | NO |
| 2. Is your job close to the customer? | YES | NO |
| 3. Is your job directly related to income and the bottom-line, and not seen as overhead? | YES | NO |
| 4. Do changes in technology make your job more important for the success of the organization? | YES | NO |
| 5. Do key people in the organization know the contribution your job makes to the bottom line? | YES | NO |
| 6. Would it be difficult to outsource your work? | YES | NO |
| 7. Have you achieved mastery in your profession? Are you seen as irreplaceable? | YES | NO |
| 8. Have you acquired the skills necessary to keep pace with changes in your industry? | YES | NO |

*If your answers were **YES** to most of the questions, chances are very good that your job is relatively secure. If your answers were **NO** to many or most, your job may be at risk.*

Is Downsizing An Effective Organizational Strategy?

I believe that treating workers as a cost rather than as an asset is a mistake. Whatever the term used, “layoffs,” “outsourcing,” or “downsizing,” they all break the bonds of trust linking employers to employees. When employees feel the company no longer values them, morale, engagement and innovation is replaced by fear, - and fear is counter-productive and debilitating.

In her book, “One Foot out the Door,” Judith Bardwick, insightfully writes, “After years of downsizing... most of today’s workers have concluded that [companies] no longer value them. So they, in turn, no longer feel engaged in their work or committed to the company. The reality of mutual co-dependence between employees and organizations, and the advantages gained from long-term mutual commitment and engagement has been lost.” She writes that three quarters of all employees are either looking for another job or are just going through the motions when they show up for work.¹

Dr. Bardwick believes that employees are afflicted with a condition she calls, “Psychological Recession.” She defines Psychological Recession as “an emotional state in which people feel extremely vulnerable and afraid for their futures. It is especially relevant in the business world because chronically fearful people are too exhausted to be creative and innovative. They expect the worst to happen, so they see no reason to give their all... The prolonged, sustained fear that is characteristic of a Psychological Recession assures that good news will be discounted while bad news is accepted as the stuff of reality... In this way, Psychological Recession is self-fulfilling.”

When employees are committed to their work and are highly engaged, companies benefit from high levels of employee retention, higher levels of customer satisfaction, higher levels of customer retention, and increased levels of profits and share prices. But when employees are fearful of losing their jobs and mutual trust and engagement are lost, companies are plagued with high turnover rates, customer dissatisfaction, customer losses, and plummeting sales, profits and share values.²

What Can You Do to Safeguard Your Job?

Take a job and work for a day. Master a profession or a trade and work for a lifetime. This sums up why knowing the profession or trade you are in and mastery of that profession or trade is critical to stability in unstable times.

Of course, other factors weigh in as well. In the last few decades, “filling jobs” has taken precedence over mentoring and developing mastery in a field. Many workers have lost incentive or hope of becoming great at their work or making innovative contributions to their organizations. They do whatever is expedient to hold onto their jobs. In a volatile, changing workplace, people’s natural desire to become good at something has taken a second seat to keeping their job. Individuals are frequently assessed on a set of disembodied competencies sometimes purchased from outside vendors. Frequently, they have little to do with the core competencies required to succeed in the core professions. People become “jobbers” and use only a few of the essential skills required. These are the workers who will become obsolete and outsourced.

First and foremost, individuals must recognize their profession or sub-discipline. Workers must understand and assess where their professional fits into an organization as well as the level of mastery they have achieved in their profession. You can best safeguard your job if you choose a profession or sub-discipline that is crucial to the organization’s mission, directly related to the bottom-line and not held hostage to technical innovation and a job that is difficult to outsource. If management recognizes the contribution you make to the company and you have achieved some degree of mastery in your profession, you will probably be seen as irreplaceable. A high degree of mastery in professions encourages institutions and organizations to view long-term mastery enhancement as valuable as

quarterly profits. Both individual workers and institutions need to make these enduring values a priority once again.

How Can Your Company Keep Great People and Leverage Talent?

Leaders/managers have the responsibility to train and develop individuals to become masters of their professions or trades. A highly successful CEO and author, Albert Weatherhead, recently wrote, "I can gauge the health of any business in the faces of the employees, for beyond all the mechanics of the place, there is one truth – a factory is a collective human endeavor. Indeed, much of what is wrong in a good deal of current business theory and practice is its failure to recognize that the heart of any factory beats to the rhythms of its employees. The bottom line must not be profit, because profit can only come as a fruit of the health and dreams of the human endeavor the factory represents. Management's training and development responsibility, then, is to cultivate within the workplace an environment that lends itself to creativity, dreams, and collective spirit larger than the sum of its paychecks and mechanical parts."³

There is little doubt that the current massive layoffs are producing massive fear. The fear that investors feel on Wall Street is the same fear that workers feel in Detroit. With workers debilitated by the currently abject economy, it's going to be management that holds the keys to successfully engaging its human capital. To resolve failing processes in the workplace, start with examining the reasons that management, the programs or the systems have failed. Ask the employees about what's ailing the organization. If you receive a consensus of opinions, you know you're on the right track to make the necessary changes. While you may think it may be easier to reorganize a new business than making changes, it is always easier to rebuild the existing structure to supplement it with new processes that are challenging and are more thoughtful.

If you're looking to keep your great people and leverage talent, many of the same keys that open up the path to mastery will unlock the doors leading to engagement. George Leonard wrote that there are a number of keys to mastery, innovation, and passion:

- Passion and innovation are contagious. Find the right teachers, leaders, and mentors to guide employees to develop a passion for their work.
- Find the right job and career fit for each employee to allow each worker to surrender to his or her passion.
- Employees respond to a strategic vision of the organization with a sense of participation and achievement. Trust your workers by granting them the independence and time to innovate.
- There is a human striving for self-transcendence. Even with all of our human follies, there's a *need* to go a little bit further than we've gone before and maybe even further than anyone else has gone.⁴

MasteryWorks provides a checklist of engagement factors in our Retention and Development toolkits, along with Manager workshops for Retention Risk, Focus Group Consulting, and Seminars for Engagement Strategies. These tools and services can provide you with an accurate independent assessment of the levels of retention and engagement in your workforce as well as strategies to meet or surpass your company's expectations. See: <http://www.masteryworks.com>

Do Massive Reductions in Workforce Truly Benefit Shareholders and the Organization?

There is some evidence that layoffs do not always result in an immediate improvement in profits. Surveys of companies conducting layoffs suggest that a reduction-in-workforce is not a sure tool to increase

profitability. In the studies of companies that had reduced their workforce that The American Management Association conducted, only 45 percent had profited from the layoffs within the first year and one third of those companies reported a decline in employee morale.⁵

Employees' psychological well-being and emotions are tied to customers' behavior, decisions and most importantly – to revenues. In 1988, Sears Roebuck engaged consultants to determine if there was a causal connection between employees' attitudes, customer satisfaction, and profitability. The seminal study revealed that every 5 percent increase in employee commitment produced a (1) 1.3 percent rise in the level of customer satisfaction and a (2) 0.5 percent increase in the store's revenues.⁶

Since 1988, hundreds of studies have causally connected employee emotions with quantitative results including explicit financial outcomes. When employees feel secure in their jobs and treated well, they tend to be more engaged. When workers are treated as an asset rather than a cost, they will respond. Respecting and valuing employees produces significantly higher levels of engagement, customer service, and competitive advantage.

What Is The Real Cost of Downsizing in Tough Economic Times?

When organizations engage in strategies of massive layoffs in hard times, many employees cease being involved in the organization's work and they are no longer committed to the organization's success. They simply stop caring. Judith Bardwick cites one recent Gallup survey, where 17 percent of the employees interviewed were trying to subvert the company's mission or were completely disengaged, 54 percent were passively disengaged, and at least half of the employees were looking for a job or career change. She writes that laying off employees produces fear. "People who are afraid tend to work [only] as hard as necessary to keep their jobs... The cost of lost knowledge, leadership, and creativity will always be too high."⁷

It is certain that lay-offs foster fear and employee alienation. Studies reveal that a third of those alienated employees, who remain after layoffs, actively seek other jobs within two years. Half the workers alienated by cutbacks will find new employers within five years. The cost of replacement to the organization can range from twice the annual salaries for executives to 50 percent more for hourly wage earners.

The importance of human capital cannot be overstated. Workers are the key stakeholders when organizations try to recover from hard times. Organizations listed on "Best Companies to Work For" consistently generate higher levels of revenues, profit growth, and greater share values than industry competitors. For example, publicly traded corporations on Fortune's 2007 "100 Best Companies To Work For" consistently outpaced the market over the prior ten years.⁸ Mutual trust between employees and management is connected to the bottom line.

Summary

Industrial growth has come to a resounding halt. Knowing the profession or trade you are in and mastery of that profession or trade is critical to feeling stable in unstable times. While American industry has responded to the failing economy through massive numbers of layoffs, there are guides to help judge the safety of your job. Treating workers as a cost rather than as an asset is a mistake. Layoffs break the trust linking employers to employees. When an employee feels the company no longer values workers, morale, engagement and innovation is replaced by fear, - and fear is counter-productive and debilitating. Surveys of companies conducting layoffs suggest that a reduction-in-workforce is not a sure tool to increase profitability. Employees' psychological well-being and emotions are tied to both employee and customers' behavior, decisions and most importantly – to revenues. When employees feel secure in their

jobs and treated well, they tend to be more engaged. Respecting and valuing employees produces significantly higher levels of engagement, customer satisfaction and profits. The importance of human capital cannot be overstated. Workers are the key stakeholders when organizations try to recover from hard times.

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Caela is known internationally for her expertise in developing talent management products and services. Her solutions are user-friendly systems that serve the needs of both organizations and individuals. She is frequently quoted in the media regarding her thoughts and advice on changing careers and work patterns in the nation. Hundreds of organizations have implemented talent management solutions from MasteryWorks, Inc. — consulting, workshops, assessment instruments and web-based talent management portals.

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