



Managing in a Period of Fiscal Stress



Downsizing/Cutting Back.....

building down	compressing	consolidating	contracting
declining	de-hiring	demassing	derecruiting
dismantling	downshifting	functionalizing	leaning-up
ratcheting-down	rationalizing	reallocating	reassigning
redirecting	re-engineering	renewing	reorganizing
reshaping	resizing	restructuring	retrenching
revitalizing	rightsizing	slimming	slivering
streamlining	redeployment	reduction-in-force	

Diagnosing the Situation: Is Cutback Management Worthwhile? (Robert Behn)

If 3 conditions are met it is safe to assume the problem is real and significant and that cutback management is worthwhile:

- Retrenchment is necessary
- The problem is serious
- The manager's responsibility is to make the retrenchment work

**Two Stages of Retrenchment
(Robert Behn)**

1. Before the organization's leaders publicly recognize the cutbacks are necessary
2. After the organization's leaders publicly recognize the cutbacks are necessary

**Downsizing Phases
(Jim Armstrong: Government Downsizing)**

- Planning & Waiting - Getting things ship-shape: the anxiety before heading out
- Wandering - The view from the crow's nest reveals no land in sight
- Charting New Waters - Sailing a ship without maps or navigation tools: "Land Ho" from the crow's nest

Planning & Waiting

Challenges

- Uncertainty
- Turmoil
- Shock & disbelief
- Inertia/momentum
- Crisis management

Wandering

Challenges

- Work increases while resources shrink
- More cuts are envisioned
- Loss of vision
- Disbelief in management and decision makers
- Depletion of skills
- Systemic weaknesses in management processes are magnified

Charting New Waters

Challenges

- Hunger for vision
- Burnout
- Transactional costs of adjustment - turmoil, new system development, training and retraining, early retirement, outplacement - make restructuring much more costly than anticipated
- Some will continue resisting

Fundamentals of Cutback Leadership (Robert Behn)

- Explain the reality
- Take a long-term view
- Develop a new "corporate strategy" (basic purposes, programs, and resources)
- Develop measures of performance
- Create incentives for cooperation with cutback efforts
- Be compassionate and truly sympathize

**Cutback Management:
Six Basic Tasks
(Adapted from Robert Behn)**

- decide what to cut (and how)
- maintain morale (and productivity)
- attract and keep quality people
- rally the support of key stakeholders
- create opportunities for innovation
- avoid disasters

Critical Strategic Questions

- What business(es) are we in? What is our purpose?
- What is our vision of and for the future?
- What are our underlying purposes, directions, and values?
- What do we do best?
- Who are our customers?
- How well are we performing?
- Are we satisfying our key interests?

Critical Strategic Questions

- Where do we want to go in terms of services, target groups and quality?
- How does the changing environment affect us? What changes in our decisions or operations are indicated?
- What opportunities or threats exist that we should exploit or avoid? What weaknesses should be corrected?
- Are we productive and effective in what we do?
- Do we learn from lessons or experiences?

Strategic Planning

“Strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it. To deliver the best results, strategic planning requires broad yet effective information gathering, development and exploration of strategic alternatives, and an emphasis on future implications of present decisions.”

(Bryson, *Strategic Planning for Public and Nonprofit Organizations*, 1995)

Strategic Planning Helps the Organization To....

- think strategically and develop effective strategies
- clarify future directions
- establish priorities and align the organization
- make today's decisions in light of future consequences
- develop a coherent and defensible basis for decision-making
- exercise maximum discretion in areas under organization's control
- deal quickly with rapidly changing circumstances
- build teamwork and expertise

Common Cutback Management Tactics (Charles Levine, 1981/Jon Pierce, 1986)

- Terminating whole programs
- Raising additional revenues from new sources
- Transferring responsibility for certain programs/activities to other agencies
- Deferring certain activities to a later time
- Making efficiency and productivity improvements
- Using lower cost labor
- Using labor saving technologies
- Improving the incentives for resource conservation and performance improvement

Common Cutback Management Tactics
(Charles Levine, 1981/Jon Pierce, 1986)

- Reducing staff
- Assigning increased responsibility to remaining staff
- Reducing the scope of selected programs
- Generally tightening up on selected budget items
- Instituting a freeze on hiring
- Phasing out selected programs

Three Types of Downsizing Strategies
(Cameron)

Workforce Reduction

Focus: Headcount
Eliminate: People
Implementation Time: Quick
Payoff Target: Short-term payoff
Inhibits: Long-term adaptability
Examples: Attrition
Layoffs
Early retirement
Buy-out packages

Three Types of Downsizing Strategies
(Cameron)

Work Redesign

Focus: Jobs, levels, units
Eliminate: Work
Implementation Time: Moderate
Payoff Target: Moderate-term payoff
Inhibits: Quick payback
Examples: Combine functions
Merge units
Redesign jobs
Eliminate layers

Three Types of Downsizing Strategies (Cameron)

Systemic

Focus:	Culture
Eliminate:	Status quo
Implementation Time:	Extended
Payoff Target:	Long-term payoff
Inhibits:	Short-term cost savings
Examples:	Involve everyone Simplify everything Bottom-up change Target hidden costs

Cutback Management: Two Basic Strategies (Angelica and Hyman)

- Financial
 - Cut or control costs
 - Increase revenues
- Structural
 - Change mission
 - Modify the structure
 - Modify the culture

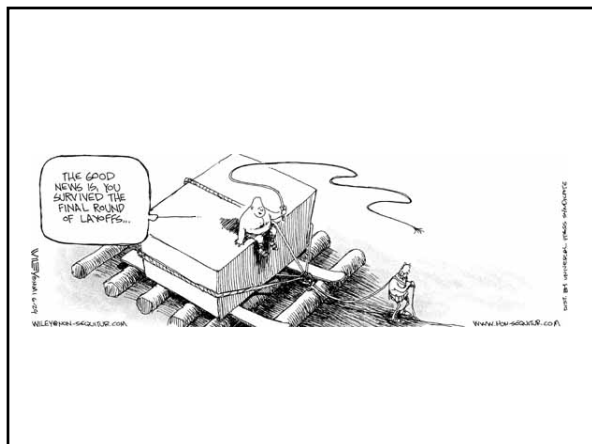
Financial Strategies

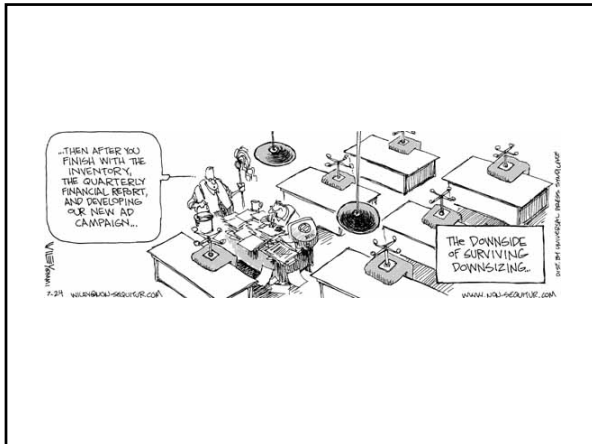
- Analyze purchasing practices
- Adjust payables
- Evaluate facilities and infrastructure
- Modify staffing and related costs
- Add or increase fees

Structural Strategies

- Add or reduce service areas
- Form partnerships
- Contract out
- Merge departments
- Mobilize all employees

Maintaining Morale and Productivity





The Survivors

Studies show that in most cases, downsizing does not result in more profitability or productivity. But downsizing may not be the true culprit. The real problem is that many organizations don't plan for downsizing. They just reduce their head count, neglecting to figure out how they're going to move forward in their new "leaner and meaner" environment.

In such cases, the most important element of downsizing is ignored - the survivors.

Bob Nelson
"The Care of the Un-Downsized"
Public Management
April, 1998

Never talk about job cuts solely in economic terms. That is like going to a funeral and reading a statement to the widow that her husband's death, while regrettable, was actuarially necessary to make room on the planet for other people.

David Noer
Healing the Wounds

**Employee Response to Cutback
Management Efforts
(Layoff Survivor Sickness)**

- Grieving
- Lack of Organizational Commitment
- Fear
- Burnout

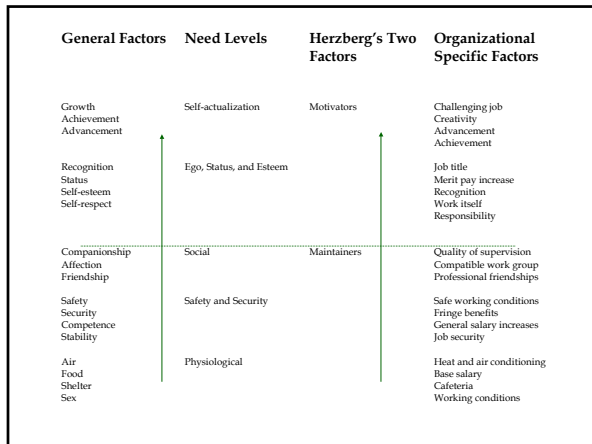
Stages of Grieving

- Denial and shock
- Anger
- Bargaining
- Guilt
- Depression
- Loneliness
- Acceptance
- Hope

Grieving in Reaction Layoffs

- Shock at the news - no matter how prepared a person is
- Anger - directed at management
- Guilt - "Why did I survive?"
- Acceptance - employees, in their own time, will work through this

It is not management's job to tell employees they are lucky or to motivate them, but to help them move through these stages.



Job Factors

Item Being Rated	Supervisor Rating	Employee Rating
Interesting work	5	1
Full appreciation of work done	8	2
Feeling of being in on things	10	3
Job security	2	4
Good wages	1	5
Promotion and growth	3	6
Good working conditions	4	7
Personal loyalty to employees	7	8
Sympathetic help with problems	9	9
Tactful discipline	6	10

- ### Maintaining a Motivated Workforce (Bob Nelson)
- Interesting and important work
 - Information, communication, and feedback on performance
 - Involvement in decisions and a sense of ownership
 - Independence, autonomy, and flexibility
 - Increased opportunity for learning, growth, and responsibility

Guidelines for Maintaining Morale

Involve people early on

- Managing is what you do with people, not to them
- Let employees take part in the decisions that affect their workloads and work environments
- Inform employees about downsizing plans, criteria, timelines, priorities and options
- The way employees are treated during stressful times says a lot about how they are regarded by management

Guidelines...

Lead by vision and values, not commands

- Help employees focus on the larger vision of what is needed, emphasizing the strategies and values that will help make the vision attainable.
- Encourage workers to take initiative
- Meet regularly with employees to map goals and seek ideas
- Management and staff must agree on goals

Guidelines...

Communicate more, not less

- Surviving workers need to talk to managers and coworkers about their guilt, anger, and concerns
- They need information about what is going on in the organization
- Reasons for the downsizing must be explained
- Changes must be outlined and their impact on survivors discussed
- Discuss what's expected and needed from remaining employees

Guidelines...

Communicate more, not less

- Employees must know what is expected of them to avoid more layoffs
- Management must update employees regularly - employees should never read it first in the newspaper
- It is not possible to “over-communicate” during turbulent times
- New communications strategies and channels must be identified

Guidelines...

Recognize and reward performance

- Vital employees need to feel that their hard work and devotion are appreciated or they will jump ship
- Identify rewards and recognition that motivate employees

From Employment to Employability

It is the organization’s responsibility to provide employee’s with the tools, the open environment, and the opportunities for assessing and developing their skills. It is the responsibility of managers to show that they care about their employees whether or not they stay with the organization. We need self-reliant workers and a career-resilient workforce.

R.H. Waterman, J. A. Waterman, B. Collard
Harvard Business Review, July/August, 1994

The Boeing Case

“The fact is... we have to downsize.”

- Alan Mulally, 777 General Manager

Characteristics of Organizations That Successfully Manage Under Conditions Of Fiscal Stress (Pierce)

- Future oriented planning
- Continuity in top management
- Diverse revenue sources
- Decentralization of the decision-making processes
- Risk taking
- Strong client or customer orientation

Significant Predictors of Organizational Improvement During Downsizing (Cameron)

Factors predicting improvement

- Systematic analysis in advance of downsizing
- Gradual, incremental implementation of downsizing
- Increased communication and participation
- Increased employee effort regarding downsizing

Factors predicting deterioration

- Downsizing by attrition
- More work required of employees
- Reward and appraisal system changed (negatively)
- No improvement in quality

Best Practices in Cutback Management

- View downsizing as an opportunity for innovation and improvement...set a positive tone
- Use the strategic plan as a guide to plan and prepare before downsizing is mandated
- View human resources as an asset and an investment
- Involve employees in identification of and implementation of changes...use downsizing as an opportunity for employee growth and development

Best Practices in Cutback Management

- Involve key stakeholders
- Over communicate
- Be compassionate and understanding
- Use various cost-cutting approaches, not just short-term reductions in headcount...be innovative
- Tailor the reward system to the new organizational priorities
- Keep momentum going by planning small wins and celebrations

Commonly Held Assumptions (Cameron)

- Bigger organizations are better organizations.
- Unending growth is a natural and desirable process in organizational development.
- Organizational adaptability and flexibility are associated with slack resources, loose coupling, and redundancy.
- Consistency and congruence are hallmarks of effective organizations.

**New Assumptions
(Cameron)**

- Smaller, as well as bigger, also means better.
- Downsizing and decline, as well as growth, are also natural and even desirable phases of an organization's development.
- Tight coupling and non-redundancy, as well as slack resources, are also associated with adaptability and flexibility.
- Conflict and inconsistency, as well as congruence and consistency, are also indicative of organizational effectiveness.
