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### Ways to reduce your downsizing risk

1. Tightly link your downsizing plans with plans for the company going forward. It is clichéd but, more than ever, this is a time when you'll need a clearly articulated purpose and priorities and solid plans.
2. Make sure your process is fair. People will do better if they feel it was! Link every role to the value chain, through an Impact Map, to give clarity around who stays and who goes.
3. Minimise survivor guilt and increase buy-in by involving people from all levels in the decision-making process.
4. You can never over-communicate in this type of scenario. Talk honestly to people. Listen sincerely to them too.
5. Recognise that people departing will be deeply affected. They'll feel betrayed, isolated, and humiliated. You may not be able to prevent that reaction but you can help minimise it through appropriate support and respectful handling of the situation.
6. The 'survivors' who stay will also need special support. Provide that individually, as needed.
7. Recognise and celebrate the achievement of smaller group milestones, more frequently.

## Downsizing: How to Avoid The Lose-Lose Risk

### *Downsizing into over-drive*

The Global Financial Crisis (GFC) has plunged the world into economic chaos and crisis. Businesses, whose primary purpose is to deliver a profit, are particularly at risk. Firstly, the business must remain solvent. Secondly, the profit formula requires simply that revenues exceed expenses. There is a lot of uncertainty around revenues, but a lot more confidence that costs can be controlled. Payroll accounts for 40% to 60% of expenses, and slashing 'payroll' presents an apparently easy supply-side target.

Viewed, in crisis, through a purely economic lens, downsizing seems a simple and instantaneous solution to the company's financial woes. Just turn off the taps, like the entertainment budget, right? Well, no. Many decision makers fail to grasp the complexities (and risks) embedded in downsizing. It doesn't only affect financial capital. In fact, the impact on human capital, which vitally puts financial capital to work and delivers competitive advantage and profits, is often far greater and longer-lasting. The 'people' element makes downsizing decisions a whole lot more complex and risky.

### *Can we downsize with dignity?*

Unilever has reduced its top three layers of management by 45% since 2005. In 2008, the global giant continued its restructuring, shedding 5000 jobs in total.

Unilever reports that, in the interests of acting in a socially responsible manner, it prefers to sell rather than close businesses. Wherever people are laid off, Unilever provides substantial support to help those people gain alternative employment. For example, when they closed a plant in South Africa, with sizeable job losses, many were redeployed within Unilever. Those who actually lost their jobs were placed in small businesses that supplied Unilever.

Sadly, although the current economic turmoil has seen a marked rise in resizing and layoffs, Unilever's approach to resizing is an exception rather than the rule. Many won't have the time or resources.

### *Downsizing is highly risky – most fail to deliver value!*

Although it's part of our everyday vocabulary, the term downsizing appeared less than two decades ago. It's more recently coined close cousin, resizing, captures the strategic nature of what has become common practice. Many executives initiate downsizing and resizing intending to lift performance. However, multiple studies and three decades of research paint a very different picture.

Almost every one of the numerous downsizing studies conducted over the past 30 years show that downsizing fails to realise benefits expected.

Researchers tracked 200 of the largest US (global) companies for over a decade. They concluded that, in the overwhelming majority of companies, downsizing did not deliver. In fact, on average, downsizers fared worse in the announcement year, on 4 out of 5 key financial indicators, and also for a period of two years following the downsizing. Downsizers recorded worse profit margins, Return On Assets (ROA), Return on Equity (ROE) and market-to-book ratios than similarly large companies that had not announced layoffs during the 11-year study.

Magnitude of downsizing also determined fortunes. Where downsizing involved less than 10% of the staff, following the initial two years of poorer performance there was no statistical difference in performance. However, non-downsizers consistently outperformed the 10%+ downsizers for the duration of the study. Interestingly, although many downsizers 'recovered', they didn't subsequently outperform the non-downsizers.

### *We have to downsize! How can we mitigate the risk?*

At UGM we've seen key risks arising from executives rushing. Your downsizing requires thorough planning and careful scrutiny of costs. Plans and subsequent communications should be tightly linked to a clearly articulated purpose, well defined priorities, and detailed plans for your business going forward. How does every role in the business fit into the value chain? E-mail us if you'd like a copy of an Impact Map that helps achieve this.

There is a risk of you cutting the wrong people without realising it until too late. Another risk, commonly overlooked, is increase in your voluntary turnover rate and over-shooting your reduction target. Additionally, you could lose key people.

We've also worked with constrained middle-managers at risk. Your middle managers will need to manage both cutting and reorganising. They'll need to be capable and equipped to handle the tough job of letting people go. And, even more challenging, they'll have the task of reorienting and re-energising the 'survivors' to do more with less.

Finally, there is a risk of the downsizing 'paralysing' individuals. We've heard tragic first-hand accounts. You will need to take care of individuals, at a personal level. Those going will be shocked, feel humiliated and rejected. They won't get over it in a few days. They'll need support. Their well being and your brand reputation are at stake.

Those staying on will likely feel guilty about surviving and threatened they might be next. Unless you take action, expect a decline in morale, lower productivity, increased absenteeism and voluntary turnover. Farewell discretionary effort!