When in Doubt, Don't: Alternatives to Downsizing

Anne Osborne Kilpatrick

Medical University of South Carolina
Dpt. of Health Administration and Policy
eMail: kilpatao@musc.edu

This article briefly outlines the problems facing public organizations, particularly hospitals, as they attempt to survive in a turbulent environment. One solution to coping with organizational crises is downsizing. However, there are often negative effects on personnel when an organization reduces the work force or experiences major change. A model describing stages of organizational and individual crisis and coping is presented, along with suggestions for organizational development (OD) interventions to deal with these stages. One organization's experience illustrates the negative consequences of organizational downsizing on members.

INTRODUCTION

The past two decades in the US have resulted in hundreds of thousands of Americans losing their jobs, being forced to accept employment at reduced compensation, and losing access to pension plans in which they had invested for decades. The assumptions on which our industrial society were based have been changed, particularly for those involved in and affected by the changes in our economic base. As the world's economy has become more interdependent, many American corporations moved from the "rust belt" to the southern US and to countries outside the US. Many of the communities in which these factories and companies closed had lost major employers and are still recovering from plant closings.

Corporate restructuring has often stopped short of total closing, but has reduced many redundant workers and created an environment of uncertainty in our society. I believe the gap between labor and management has never been wider and deeper. Assumptions about the relationship between an employer and employee, while perhaps never totally based on fact, have resulted in growing cynicism and bitterness among workers who have watched their coworkers lose employment, who have lost jobs themselves, and who watch corporate executives –particularly in the case of merged and acquired organizations–receive enormous bonuses, stock options and salaries for leading in these decisions. Violence in organizations has never been so high and is an indicator of this malaise. The case discussed below, followed by alternatives to downsizing, describes the negative consequences of this action. If this case suggests how not to do it, perhaps we can learn how

to manage and lead effectively from this and other tragedies of organizational change.

CONSEQUENCES OF DOWNSIZING: A LESSON FROM THE PAST

The hospital's management recognized the need to reduce the work force. The news media had recently announced a 16 million-dollar budget shortfall, resulting from the depletion of usual funding sources prior to payment of the organization's outstanding charges. Each month at the staff meeting, the director announced to department heads that their proportional cost reductions had to be implemented by whatever means necessary, including reductions in personnel.

A large department in the organization had experienced a traumatic reduction in force less than two years previously. In addition, during the last two months the department had merged with another unit primarily engaged in research. A new director with impeccable academic and research credentials but little management experience was appointed. He had little to no regular contact with the staffs of the merged departments either before the merger or afterward. The effort to combine previously separate teaching, research, and clinical services had been painful for department members. This was particularly traumatic because most of the overhead (i.e., supervisory staff) had been retained while reducing the direct labor or bench technicians to achieve the bottom line budget changes accomplished by the merger.

In the present situation, while department members were aware of the financial shortfall, supervisors and managers were assured that their units would not be affected. A false sense of security pervaded the department.

Because this was a public state agency, a reduction in force (RIF) plan was required to meet organizational policy and to win state-level approval. The departmental plan was developed by the two departmental business managers, who were not clinically trained in the services provided by their unit. Their backgrounds were not in administration or management, but they had been in clerical office management positions in the merged departments for a number of years. They were not familiar with the full variety of research and clinical functions performed in the department.

An OD consultant was contacted to meet with supervisors to discuss possible negative effects of downsizing on the members of the department, but her visit was not scheduled until after the layoff was accomplished.

As previously described, the department head left the development of the RIF plan to the business managers. On the day appointed, supervisors were telephoned and asked to bring the designated employees to the main conference room. In that room were the business managers, the head of the newly merged department, a member of organizational management, and the personnel/human resources represen-

tative. Supervisors waited in the hall while the employees were informed of their impending termination in 30 days. RIFs were requested to train their replacements, who had bumped them in the reduction process, and some resigned outright.

Employees were shocked and angry. During the next week, an employee physically threatened one of the RIF team members, cartoons appeared throughout the department depicting tombstones with the initials of some of the team members, and the hospital security employees were requested to be very visible in the hallways.

Because the persons designing the reduction plan were not knowledgeable about the operations of the department and supervisory personnel were not involved in the selection process or RIF planning, some employees were reduced who were critical to the ongoing operation of the organization. For example, one employee had recently been hired after a year's search and an expenditure of over $5,000 in subsequent training. The position was in a support unit critical to open heart surgery and heart transplants, a primary new source of revenue generation in the organization's strategic plan. The employee who bumped the newly hired person had organizational seniority and had previously performed some of the functions of this job, but was in the process of completing a graduate degree and subsequently left the facility within two months. Because of the critical nature of this position and lack of input to the process, the supervisor was furious, the heart surgeon was outraged, and the new employee lost interest in remaining in the organization even when recalled.

Many employees felt that the layoff was unfair. The sense among members of the department was that the persons selected for reduction were not friends of the RIF team and that in some cases the team was vindictive in their choices.

There was such uproar from the employees, supervisors and managers that the department head met with supervisors and essentially rescinded the plan. Meanwhile, only six supervisors attended the training meeting with the consultant. Those attending requested that the meeting be repeated with more publicity and their endorsements. The second training session never occurred although it was scheduled to be repeated in a week.

Finally, the department head called an emergency meeting of the full department, and he assured everyone present that the reorganization would not happen after all. He said that all would be amended and "fixed" and that he felt better about the decision. Five days later the director went home and committed suicide. The organization's response was that he had "personal problems."

Within two years, almost every reduced position was back in place, with most of the same people working again. Questions never asked or answered included the following: Was the effort at cost saving worth the turmoil, lost time, productivity, and particularly the stress? How do we learn from this experience so that we never do again do it this way? The negative effects on morale and productivity include increased apathy, anger, depression, lowered productivity, "learned helplessness,"

1. Some of the thoughts included here were presented at the National Conference of American Society for Public Administration, April 7-12, 1990, Los Angeles, California, but were not published to date.

and employee cynicism (Wanous, Reichers, and Austin, 1994). Other reports of downsizing and closure have described heart attacks, violence, and severe somatic symptoms, including sleep disorders, and hair falling out–twice![1]

Unfortunately, as in our case, many downsizings are temporary and don't last. Any environmental organizational scanner is likely to be mistaken about economic upturns as well as downturns. In the case of hospitals and health care organizations, the period has been mercurial. Many hospitals could not have predicted that they would have full occupancy a decade into managed care in our nation. Such is the situation. Organizations undergoing major restructuring experience the stages described by Kilpatrick, Johnson, and Jones (1991), and work productivity declines.

Many solutions do not require major expenditures of funding, but do need the support of the work force to own the decisions. They involve what is now called process reengineering, continuous quality improvement, and what was originally called organization development.

While downsizing is perceived as a positive and often necessary strategy for organizational survival, the feelings of employees and human resources considerations are often secondary to financial concerns (see for example, Van Sumeren, 1986; Hardy, 1987; Rowney, Cahoon and Kilpatrick, 1990; Kilpatrick et al., 1991). When organizations experience a crisis such as reduction in force or downsizing, they often move from a regenerative to degenerative system in interaction (Golembiewski, 1989). In this process, organization development values of openness, ownership, trust, and risk taking are expressed in negative ways.

In a degenerative organization, the following can be expected to occur: People will tend not to surface the real problems, ideas, or feelings; hence even hard work is not likely to result in solving problems that stay solved; alternatively, solving the wrong problem is likely to induce other and even less tractable problems; consequently, in early encounters, people will feel a diminished sense of psychological success in degenerative systems; once a degenerative system exists, people will tend to variously withdraw from them–either physically or psychologically–and to disparage them; degenerative systems may be filled with conflict, as a result, but they more likely will be characterized by low levels of energy; norms will develop which reinforce withdrawal and low energy, and such forces patently are self-reinforcing; they discourage surfacing real problems, solving them, etc. (Golembiewski, 1989).

EMPLOYEES AFFECTED BY DOWNSIZING

Kilpatrick (1988) identified three groups in the organization affected by an organizational downsizing:
– RIFs: those employees are terminated;
– The SURVIVORS: Those left in the organization after the reorganization;

– The TERMINATORS: those SURVIVORS who implement the down-sizing plan.

Employees in this latter group are usually middle mangers and super-visors who have little to no involvement in selecting the employees to be reduced, but have the task of informing the RIFs of the news as well as implementing the reorganization. Often the targets for anger and frustration, they are viewed as scapegoats by RIFs and survivors (Kilpatrick, 1988). This article primarily focuses on the terminators and survivors, although certainly the model will affect the RIFs as well.

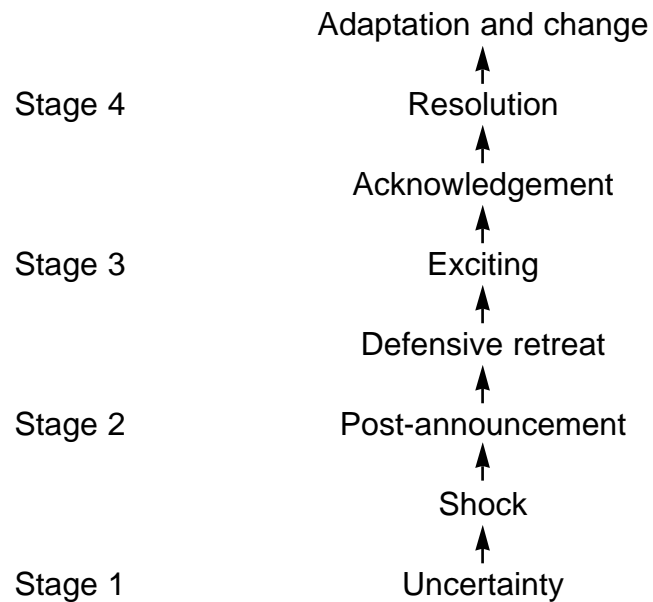## WHY IT IS IMPORTANT TO DO IT RIGHT

The consequences of traumatic organizational change and a move-ment from a regenerative to degenerative environment are many. These include loss of productivity, downtimes of employees learning to do more with less while simultaneously learning new jobs, increased turnover among those who were not downsized, decline in quality, and general demoralization. Grievances and litigation may result if the reduction does not follow company procedures or union policies or if it is perceived to discriminate against a protected group. Survivors, par-ticularly those who are the best workers and marketable elsewhere, may decide to leave the organization if they feel RIFs are not well trea-ted, that the policy is unfair, or that the organization appears to treat people as objects. Additionally, these employees will leave if they feel that this reduction is reactive instead of proactive. In an era of increa-sing technology and diminishing numbers of skilled professionals, the emphasis on recruitment and retention is tantamount. Hence, execu-tives can not afford to take lightly the decision to let valuable employees leave. Strategic planning and implementation are as critical in the human resources area as any other part of the organization.

THE DOWNSIZING PROCESS:
STAGES IN A CRISIS

Kilpatrick et al. (1991) presented a model of the stages of psychologi-cal responses experienced by individuals experiencing a downsizing or reduction in force[2]. Based on models developed by Fink, Beak, and Taddeo (1971) as well as Dreiss (1983), four stages of organizational crisis have been identified. While the model is described in detail elsewhere (Kilpatrick, 1988; Kilpatrick et al., 1991), a brief description follows. Stage 1, Uncertainty, describes the period when organizatio-nal members recognize that there are problems, but no specific infor-mation is forthcoming from the leadership. When the downsizing announcement is made, organizational members experience shock, denial and anxiety. Defensive retreat and much ingroup/outgroup behavior characterizes Stage 2, Post-Announ-cement Phase. Very litt-le work is accomplished because employees are angry, frustrated and

[2]. The development of the model incorpo-rated Fink et al.'s (1971) adaptation for organizational crisis of the Kubler-Ross (1969) theory of coping with death and dying. The Fink et al.'s model was combi-ned with that of Dreiss (1983) in Kilpatrick, to address coping during orga-nizational downsizing.

grieving with their friends. Stage 3, Exiting, describes the period when the terminated and transferred employees prepare to leave the organization and look forward to new experiences. The survivors acknowledge the new organizational situation, and in Stage 4, Resolution, they are prepared to adapt and change. The trauma has passed, and work can resume.

Adaptation and change

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Stage 4   Resolution

↑

Acknowledgement

↑

Stage 3   Exiting

↑

Defensive retreat

↑

Stage 2   Post-announcement

↑

Shock

↑

Stage 1   Uncertainty

Source: Kilpatrick et al. (1991, p. 46). Reprinted with permission of publisher.

Figure 1. Stages of Organizational Crisis

ORGANIZATION DEVELOPMENT AND DOWNSIZING

Organization development (OD) has been suggested as a series of applications or processes as well as a value-based philosophy (Golembiewski, 1990). It has been applied to the management of change and growth, both positive and negative (see, for example, Golembiewski, 1979). Hence, when applied to the downsizing process, how does one justify and foster the values of openness, ownership, risk taking and trust? Additional values of confrontation, collaboration, and communication should also be considered during this period.

PLANNING THE DOWNSIZING PROCESS

Employees should be provided all information that it is possible to share without jeopardizing the organization's survival. Secrecy abounds during the first stage, yet rumors also abound. Most of those

rumors are inaccurate, exaggerated, and provide either a false sense of complacency or of impending disaster. Formal and regular channels of communication should be open and busy during the planning. If the organization is unionized, an additional item might be to involve labor leaders at the earliest possible planning stage.

Planning should be started early, conducted continuously, and should involve all supervisory levels and units to be affected by the downsizing process. As noted in the case described in this paper, negative consequences resulted from the lack of involvement of the supervisors in the downsizing planning. Essential personnel were bumped out of their positions because of the ignorance of the supervisors. Again, supervisors should be treated as part of management, and thus trusted to use their discretion and judgment in keeping confidence about strategic decisions.

One of the key themes to emphasize throughout the stages of organizational crisis is that the organization values all its employees. Thus, the way in which employees are kept informed and involved is critical. When determining the positions to be eliminated, it is important to examine all positions for possible reduction. The temptation is to select only line personnel, and entry level at that. The problem is that several salaries at that level equal the salary of one top-level manager. In addition, if there are significant reductions in the labor force, the organization probably doesn't need many managers! In one case a small, rural hospital reduced half the accounting department, but kept three supervisory levels above the clerical staff, causing a reduction in actual workers while keeping a surplus of management.

One way to develop a RIF plan is to use a RIF committee. Mullaney (1990) recommends the creation of a personnel management committee that would be highly visible, comprised of senior management, and representative of all major areas within the organization or system. She notes that this committee would identify productivity measures to determine appropriate staffing levels based on industry norms. (Note: This is probably not yet available for many organizations without outside assistance). Mullaney (1990) emphasizes that it is absolutely crucial for the committee finalizing the number of employee reductions to make cuts deeply enough so that this traumatic process must be endured only once. The months and years after downsizing must be devoted to rebuilding. If the specter of additional layoffs hovers over the heads of the work force, such rebuilding cannot take place. Some believe it is better to make cuts that are too deep and rehire personnel later than to experience a second layoff (Mullaney, 1990) . However, longer range planning should avoid both problems.

IMPLEMENTING THE DOWNSIZING PROCESS

Communication–frequent, consistent, and open–is one of the most important variables in the implementation of a downsizing plan. One of the major myths of organizations is that surrounding organizational

secrets. For example, in many organizations emphasis is placed on keeping salary information confidential. However, the first thing employees find out after a salary adjustment is what everyone made. Additionally, organizational communication declines during crisis periods at the very time when communication is most important (Fink et al., 1971). Rumors and gossip replace accurate information, and organizational productivity declines. As the environment deteriorates in regenerative culture, organizational work comes to a halt. Hence, frequent communication meetings and regular information exchanges should be held during organizational planning and downsizing implementation. While this might appear difficult, it is much easier in the long run to tell employees what they can talk about than to tell them nothing and to let them surmise. In one case study of organizational downsizing, the selection was done in secret, and supervisors only found out after the plan was written (Mullaney, 1990) . Further, in the case related elsewhere in paper, this secrecy and isolation from supervisors was disastrous to the organization. Numbers of dollars were not assessed, but delays in procedures and treatment certainly resulted from the layoff and from selecting the wrong personnel to reduce.

Mullaney (1990) noted that department managers were coached on interpersonal techniques and the need to respect the emotions and dignity of the dismissed employees. They were required to notify personally all those affected by the reduction within 48 hours of the department managers' meeting (Mullaney, 1990).

Scheduled workshops with survivors are a must. Their grieving, guilt, and fears about their own futures tend to interfere with their effectiveness. Unless they are able to verbalize these concerns and share them with coworkers and management in a less threatening environment, they may harbor these feelings indefinitely and, as a result, become less valuable employees. Additionally, team building is excellent for creating new work teams among the survivors.

Equity, and the perception of equity, is also critical in implementing the downsizing process. If employees perceive that those conducting the reductions select those individuals or positions out of favor with the management or protect other employees for personal reasons, the downsizing process may demoralize the survivors and RIFs. The organization may be placed at risk of litigation if reasons other than measurable performance or seniority form the basis for selection or if the basis appears to be favoritism.

Following the announcement, employees may participate in defensive retreat, which needs to be addressed. The in-group/out-group feeling may need to be addressed head on by having employees participate in open communication forums and small group sessions with management. However, the participation of all levels of supervision in the planning process should contribute to easier acceptance of the downsizing decisions by survivors. Management's positive, supportive and sympathetic treatment of RIFs during this period will help survivors move beyond defensive retreat as well.

The development and provision of outplacement services for RIFs will serve a number of positive functions: 1/ career and employment assistance, as well as psychological support, to those being terminated; 2/ a concrete indication by the organization to survivors of the positive regard with which they hold their employees; 3/ assistance for survivors in moving beyond defensive retreat to acknowledgment and the next stage because they know the organization is trying to help the RIFs. Once the RIFs have moved to their new positions or new careers, the survivors are able to look forward to the newly created organization.

Team building is an intervention that can assist the organization in adapting and changing into the new structure. It serves as an excellent method to rebuild and recommit the work force to face a challenging and exciting future.

EFFECT ON SURVIVORS AND RIFs

A 1997 book by Pulley describes the stories of survivors of job loss and also presents a model of learning which organizations may not always apply. The actions and learnings from the external experience need introspection and assimilation in order to form theories and generalizations. Therefore, the lessons-learned aspect of the organization must afford focus and time to discern the impact of the trauma.

CONCLUSION

The application of organizational development values to organizational downsizing can help the organization to avoid changing from a regenerative to a degenerative environment. As organizations compete to position themselves in an increasingly competitive environment, which constantly threatens their survival, they must plan strategically to recruit and retain the best, most productive employees while working at top efficiency. Productivity measures to improve individual and group effectiveness should be accompanied by a management who recognizes the importance of rewarding loyalty and treating employees humanely. The application of OD values–especially trust, openness, communication, collaboration, equity, confrontation, and risk taking–in the development and implementation of strategic programs should enhance organizational effectiveness and survival.

A 1991 article by Kilpatrick et al. outlines a number of management recommendations when one considers organizational downsizing. The first consideration is "when in doubt, don't." The costs outweigh the benefits for short-term solutions. Beyond that caveat, the most important prescription is to plan, plan, plan, particularly with those involved and affected. Planning should include long-range strategic planning, ongoing tactical planning and implementation of a lessons-learned strategy for continuous self-assessment. Part of this process also

implies training for all the work force in communication, process improvement, and team building. As noted in the beginning of this article, the imperative regarding downsizing is to be sure that this alternative is the only one available to the organization.

Anne Osborne Kilpatrick, DPA, is Professor in the Department of Health Administration and Policy, College of Health Professions, at the Medical University of South Carolina, in Charleston, SC and Liaison to the university's Human Resources Management Department, working as an internal consultant to implement a quality initiative in the Division of Finance and Administration and the university. Anne is a finalist for the Medical University's 1999 Teaching Excellence Award in the Educator-Mentor category. She was awarded the 1998 College of Health Professions Award for Excellence in Service, the Medical University's 1997 Earl B. Higgins Diversity Award, and was the first recipient of the college's Scholar of the Year Award. Her research and training has included over 16 years studying and teaching about management of healthy workplaces, identifying and reducing stress and burnout, as well as eliminating other "toxins" in the workplace. Her most recent publication, coedited with Dr. James Johnson, is *The Handbook of Health Administration and Policy,* published in 1999 by Marcel Dekker. An active member of the American Society for Public Administration, she will serve as the national chair of the Section for Health and Human Services Administration in 1999-2000, for the second time. Her undergraduate, masters and doctoral degrees were granted from the University of Georgia, over a couple of decades.

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