

Best Practices for Managing Organizational Downsizing: Portland State University Research Administration



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Introduction

Employee downsizing has become a central theme in reorganization strategies over the past thirty years. Cameron (1994) defines downsizing as “an intentionally instituted set of activities designed to improve organizational efficiency and performance which affect the size of the organization’s workforce, costs, and work processes.” According to the U.S. Bureau of Labor and Statistics, over 1 billion U.S. employees were laid off between 1998 and 2007 due to downsizing efforts (Schmitt, Borzillo & Probst, 2012). Morgan Stanley estimates that 80 percent of recent layoffs in the U.S. involved white collar employees (Cascio, 2002).

Many organizations believe that their downsizing efforts will automatically increase efficiency and performance, strengthen competitive advantages, optimize economies of scale, and yield financial benefits. However, annual surveys from the American Management Association (AMA) show that only 41 percent of organizations have achieved productivity gains and 37 percent have long term gains in shareholder value (Fischer & White, 2000). Another AMA survey reveals that approximately one third of organizations rehired laid off employees as contractors due to needing their unique skills and knowledge (Schmitt, Borzillo & Probst, 2012). Wyatt Associates’ survey of over 1,000 firms found that only 46 percent reduced expenses, 32 percent increased short term profits, 22 percent increased productivity, and 17 percent reduced bureaucracy (Cameron, 1994). Cascio (2002) found no consistent evidence that downsizing resulted in long term improved financial performance, specifically return on assets. These results demonstrate that downsizing has not been effectively managed in many organizations to yield optimal results. This paper will explore best practices for managing the downsizing process and provide recommendations for the research administration downsizing and restructuring processes at Portland State University.

Literature Review

A review of the literature indicates that downsizing is most effective when the appropriate strategy is pursued, leadership is committed to the process, open communication occurs in all directions between stakeholders, the process is measured continuously for effectiveness, knowledge is managed, stakeholders are actively involved in the design and implementation of the process, and employees are supported as they either transition from the organization or remain as survivors.

Appropriate Strategy

The type of downsizing strategy that an organization pursues directly impacts organizational performance and effectiveness. Cameron, Freeman, and Mishra (1991) identify three common types of downsizing strategies: workforce reduction, work redesign, and systemic. Their research indicates that most organizations pursue a workforce reduction strategy, about half employ a work redesign strategy, and few pursue

a systemic strategy. However, the most successful organizations implement all three strategies depending on the situation and an assessment of value impact (Cameron 1994).

Workforce reduction involves reducing the number of employees through attrition, early retirement and buyout incentives, transfers, and layoffs. Usually this strategy is implemented quickly and across the board. The advantages of this approach include an immediate reduction in costs, communicating the organization's immediate challenges, and preparing employees for future transitions. The disadvantages entail not being able to predict who will decide to leave the organization, a potential loss in critical skills and organizational knowledge, increased workloads, and potential employee burnout.

Work redesign aims to reduce work through eliminating functions, groups, organizational layers, and/or products. This strategy takes longer to implement due to the analysis required to redesign organizational structures and processes. The advantages are that critical functions and processes are identified and incorporated in the redesign strategy, the organization's immediate challenges are communicated and discussed by specific stakeholders, employees are prepared for transition and organizational transformation, a potential for greater workflow efficiency, increased workloads are avoided, and potential employee burnout is averted. The disadvantages include a moderate implementation timeline due to redesign complexity and a slower impact on improving financial performance.

Systemic strategies focus on changing the organization's culture by defining downsizing as a continuous improvement process involving all stakeholders. This strategy is implemented over an extended period of time due to an organizational culture shift. The advantages are that short term workforce reductions are avoided, stakeholders are an integral part of continuous organizational transformation by sharing ideas, the organization's ongoing challenges are openly communicated and discussed by all stakeholders, service level expectations are high, and costs are reduced over time. The disadvantages involve a long term implementation timeline due to culture change and a slower impact on improving financial performance.

Committed Leadership

As champions of the downsizing process, leaders need to be visible, accessible and frequently interacting with all stakeholders. They must articulate a clear vision for the future of the organization based on core competencies. Leaders need to step aside and allow stakeholders to design the downsizing process because they are most familiar with how job structure and tasks processes are integrated (Cameron, Freeman & Mishra, 1991). By example, leaders should motivate employees to be committed to the strategy and to keep moving forward.

Open Communication

Leaders need to communicate frequently, consistently and honestly with all stakeholders about the downsizing process. Everyone should know the reason for the downsizing, the strategy being pursued, the time frame, and the progress to date. Open communication dispels rumors and encourages a culture of trust. Leaders need to ensure that roles and responsibilities are clearly defined and understood by all stakeholders (Sitlington & Marshall, 2011).

Measuring Effectiveness

On an ongoing basis, leaders should seek feedback from stakeholders to evaluate the effectiveness of the downsizing process and to make modifications, as needed (Cascio, 2002). Schmitt, Borzillo & Probst (2012) propose using non-financial measures such as, employee information seeking habits, the quality of products and services, the number of innovations, voluntary employee turnover rates, and perceptions of the organization's reputation.

Knowledge Management

Leaders must acknowledge that the human capital in the organization is an asset that should be developed rather than a liability to curtail. Through social learning networks, employees collectively share their knowledge and it is retained as organizational memory. Organizational memory allows the sorting and categorizing of existing knowledge in a shared context for problem solving and learning (Schmitt, Borzillo & Probst, 2012).

Downsizing strategies should identify key individuals in social learning networks to avoid layoffs that could create structural holes between individuals and units. Structural holes impede the flow of knowledge and adversely impact the sharing and retention of organizational memory. Fischer & White (2000) suggest that leaders use connectivity mapping tools to identify critical network relationships to preserve and repair during the downsizing process. Leaders should facilitate continuous knowledge sharing activities (i.e. team work, cross-training) to encourage the exchange of explicit and tacit knowledge.

Gong & Greenwood (2012) recommend that information systems can improve organizational memory by making knowledgeable individuals more accessible (i.e. email, e-conferencing), knowledge easier to retrieve (i.e. database of information, search engines), a continuously growing knowledge base (i.e. more users collectively sharing), and knowledge is dispersed (i.e. less reliance on the loss of experts). Leaders should allow adequate time during the downsizing process for employees to convert their tacit knowledge to explicit knowledge in information systems (i.e. documenting policies and procedures).

Stakeholder Participation

Stakeholders (i.e. employees, customers, and suppliers) need to be involved in designing and implementing the downsizing. They bring unique insights to the table, such as customer's needs, process strengths and weaknesses, suggestions for improvement, and ideas about structures based on formal and informal network relationships (Recardo & Heather, 2013). Team members also can become advocates for the change process and promote adoption throughout the organization.

Team members should take ownership of the process and be accountable for achieving goals. They should have access to performance and financial information so they can monitor and improve their results. All processes should be reviewed for inefficiencies and redundancies. Cameron (1994) recommends pursuing organizational fat such as, excess information, excessive meetings, slow response times, and newer programs.

Employee Support

Leaders should provide adequate support and equal attention for employees regardless of whether they are leaving or remaining. All employees should be treated with dignity and respect. A smooth transition for employees that leave entails adequate lead time, financial benefits, personal and family counseling, retraining and outplacement services. A common occurrence among remaining employees is "survivor's syndrome." Employees experience physical discomfort, reduced creativity, increased fatigue and anger, and are more risk adverse. As a result, they often have poorer personal relationships, are absent from work more frequently, and are less motivated to learn and grow with the evolving organization. Tsai, Yen, Huang, & Huang's (2007) emphasize the importance of sustaining an organizational culture that values collaboration and interpersonal relationship support. Leaders should openly share information on a frequent basis about the process and the progress made toward the future vision, reinforce the value of employees by acknowledging their contributions, encourage feedback loops, and provide incentives that motivate employees to collaboratively learn new skills and support each other's success.

The literature review illustrates that the downsizing process should be managed in a manner that is fair, instills trust, stimulates open communication and information sharing, focuses on achieving the vision, actively involves stakeholders, promotes team work, provides training opportunities, maintains performance standards for all, and rewards employees for their contributions.

Research Question

The Research & Strategic Partnerships (RSP) unit at Portland State University has gone through a restructuring and staff downsizing process over the past year with the assistance of Huron Consulting, higher education organizational development

consultants. A relatively new part of that unit is the Sponsored Projects Administration (SPA) office which also includes the new Department of Research Support Services (DRSS). SPA is responsible for assisting faculty and staff university-wide with activities related to the lifecycle of sponsored project administration. DRSS provides research administration expertise to principal investigators for the College of Liberal Arts & Sciences, College of the Arts, Graduate School of Education, and School of Business. Both SPA and DRSS are continuing with their downsizing and restructuring processes.

This study examines which downsizing and restructuring best practices RSP has employed and what recommendations could be made to improve processes for greater organizational effectiveness. Based on the literature review of best practices, the following hypotheses were made:

1. Committed Leadership. Leadership championed the process by articulating a clear vision and frequently interacting with stakeholders.
2. Open Communication. Leaders communicated frequently and transparently about the decision to downsize, the process, the timeline, and roles and responsibilities.
3. Measuring Effectiveness. Leaders solicited feedback from stakeholders and ensured quality service levels.
4. Knowledge Management. Leaders encouraged knowledge sharing by providing adequate time and information resources. Employees collaboratively shared their knowledge.
5. Stakeholder Participation. Leadership encouraged stakeholder participation in the decision-making and the implementation of the process.
6. Employee Support. Leaders encouraged a culture of mutual collaboration and respect by treating all employees with dignity, recognizing their contributions, and providing time for employees to collaboratively share expertise in their new roles.

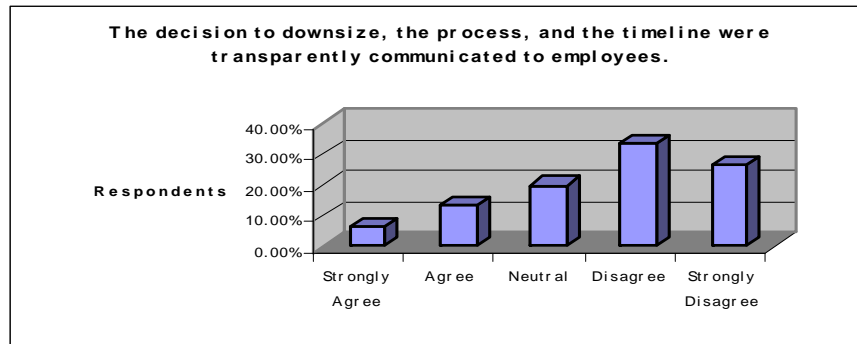
A survey questionnaire (Appendix A) was developed to test if the six hypotheses were met during RSP's recent restructuring activities. Question 1 measures leadership commitment (hypothesis 1). Questions 1 and 3 measure open communication (hypothesis 2). Question 10 measures the effectiveness measurement (hypothesis 3). Questions 4, 5, 6, and 7 measure different aspects of knowledge management (hypothesis 4). Question 2 measures stakeholder participation (hypothesis 5). Questions 4, 5, 6, and 7 measure different aspects of employee support (hypothesis 6).

The survey was distributed to a broad cross section of 20 research administration staff in RSP, SPA, DRSS, School of Social Work, College of Urban and Public Affairs, and Maseeh College of Engineering and Computer Science. The survey response rate was 75 percent.

Analyses and Results

Survey responses for each question were analyzed based on the percentage of responses to the Likert scale ratings (strongly agree to strongly disagree). An overall trend was identified based on strongly agree and agree responses versus the strongly disagree and disagree responses. The survey questions measure the hypotheses that are based on best practices in the literature.

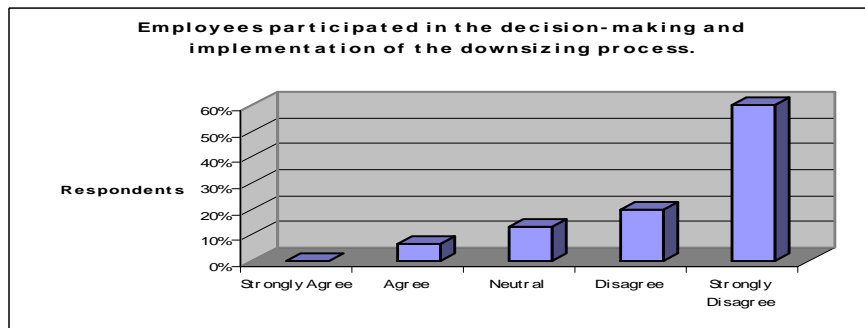
1. The decision to downsize, the process, and timeline were transparently communicated to employees.



Sixty percent of the respondents indicated that the decision to downsize, the process, and timeline were not transparently communicated to employees. Comments included: "All employees were notified of the downsizing at the same time, but were shocked just the same." "Not really. It just sort of happened." "...the process was not transparent..."

Hypotheses 1 (Committed Leadership) and 2 (Open Communication) appear to have not been achieved.

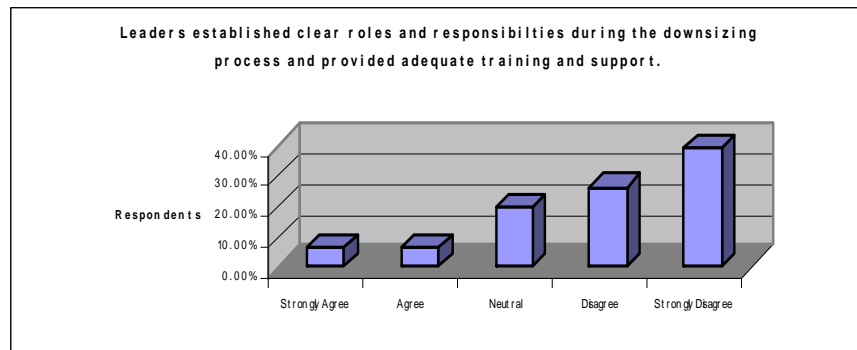
2. Employees participated in the decision-making and implementation of the downsizing process.



Eighty percent of respondents, with sixty percent in the strongly disagree category, noted that employees did not participate in the decision-making nor the implementation of the downsizing process. Comments included: "We were not told until the decisions were made." "Employees were not asked to comment on the implementation of the downsizing process."

Hypothesis 5 (Stakeholder participation) appears to not have been achieved.

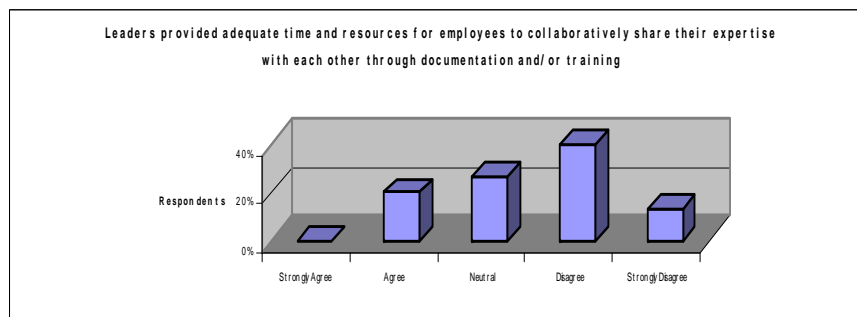
3. Leadership established clear roles and responsibilities during the downsizing process and provided adequate training and support.



Sixty-seven percent of respondents, forty percent in the strongly disagree, noted that leadership did not establish clear roles and responsibilities during the downsizing nor provide adequate training and support. Comments included: “...There wasn’t any discussion that I can recall regarding roles and responsibilities.” “The roles and responsibilities as provided via job descriptions were very general and were not held to as the reorganization was put in place. A well-planned training program was put in place in the first month of the reorganization, but then training was interrupted for 3.5 months...”

Hypothesis 2 (Open Communication) appears not to be achieved. However, leadership attempted to initially provide training for roles and responsibilities.

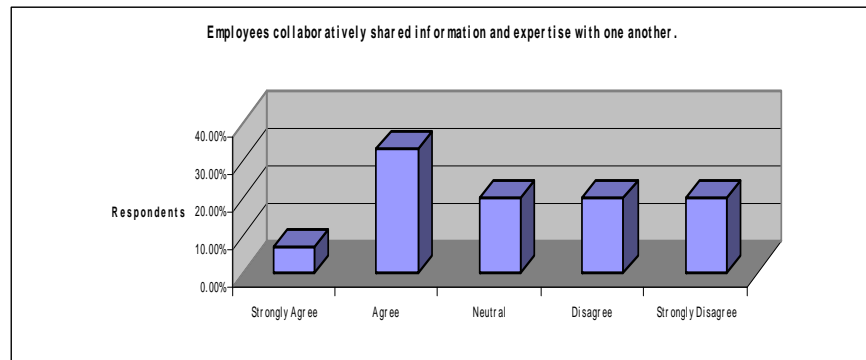
4. Leadership provided time and resources for employees to collaboratively share their expertise with each other through documentation and/or training.



Fifty-three percent of respondents, a slim majority, felt that leadership did not provide time and resources for employees to collaboratively share their expertise with each other through documentation and/or training. Comments included: “...the burden lies with existing employees to carry an extra heavy workload and assist with training new employees.” “Training is gradually taking place now.”

Hypotheses 4 (Knowledge Management) and 6 (Employee Support) appear not to be achieved during the initial restructuring, but may be shifting now as workload is shifting to newer employees.

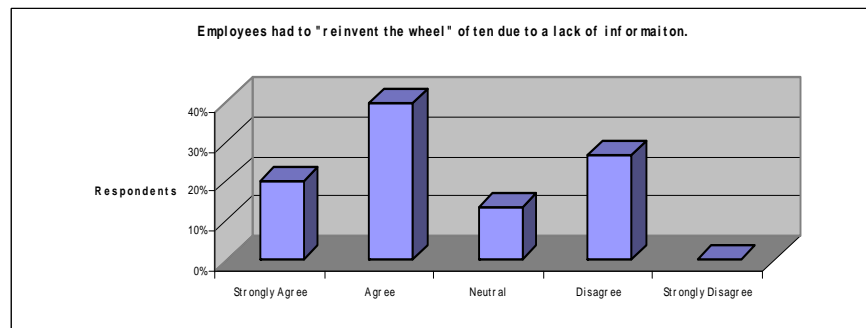
5. Employees collaboratively shared information and expertise with one another.



A forty percent versus forty percent split between respondents made it inconclusive to determine if employees collaboratively shared information and expertise with one another. Comments included: "There was too much hurt and anger for any effective communication to take place."

The results are inconclusive for determining Hypotheses 4 (Knowledge Management) and 6 (Employee Support). However, the comment indicates that collaboration did not occur among potentially a significant percentage (i.e. forty percent) of employees.

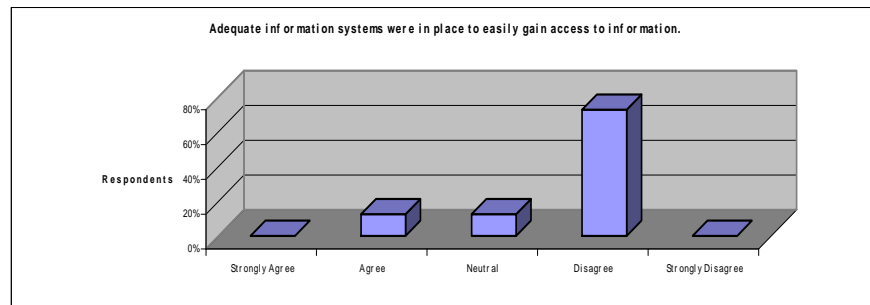
6. Employees had to "reinvent the wheel" often due to a lack of information.



Sixty percent of the respondents indicated that employees had to "reinvent the wheel" often due to a lack of information. Comments included: "Inadequate training and procedures were in place." "There has been a lack of information which has caused confusion, uncertainty, duplicative and wasted effort."

Hypothesis 4 (Knowledge Management) appears not to be achieved.

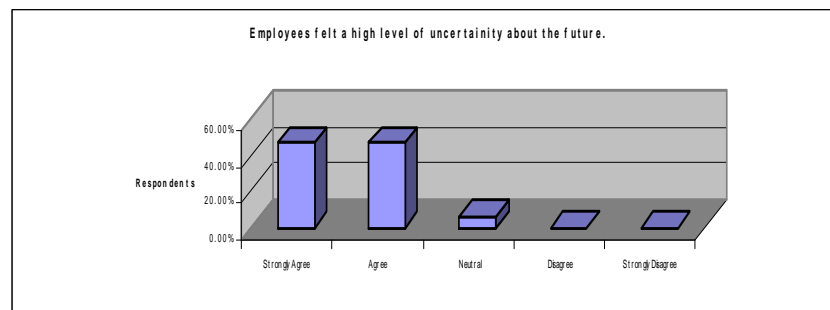
7. Adequate information systems were in place to gain access to information.



Seventy-three percent of respondents noted that adequate information systems were not in place to gain access to information. No comments were provided.

Hypothesis 4 (Knowledge Management) appears not to be achieved.

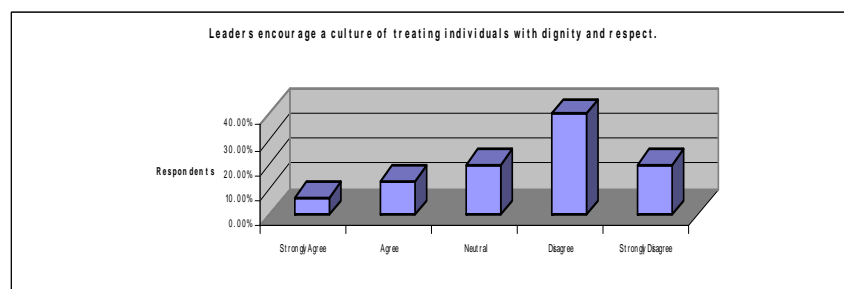
8. Employees felt a high level of uncertainty about the future.



Ninety-three percent of respondents indicated that employees felt a high level of uncertainty about the future. Comments included: "40% of existing employees left employment during the restructuring, including two entire teams with specialized skills/responsibilities." "Roughly 35-40% turnover." "25% during and 10% after."

Hypothesis 6 (Employee Support) appears to have not been achieved due to the high turnover rate.

9. Leadership encouraged a culture of treating individuals with dignity and respect.

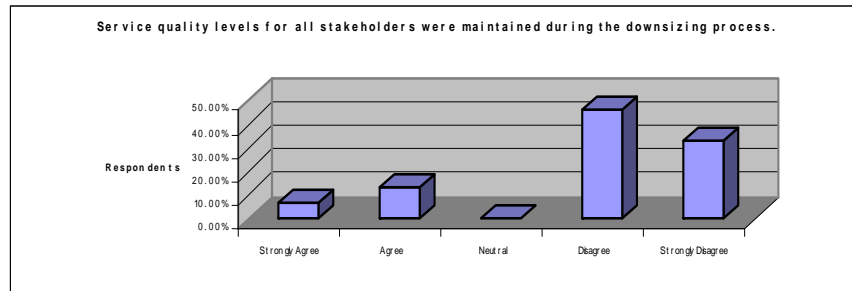


Sixty percent of respondents felt that leadership did not encourage a culture of treating individuals with dignity and respect. Comments included: "It was widely believed that the reorganization was an effort to get rid of certain employees."

“Unfortunately everyone of color and/or over the age of 60 left the organization, leaving us with very little diversity.” “Employees were constantly reminded they were easily replaceable.” “Threatening work environment, bullying supervisors, kept employees in their place.”

Hypothesis 6 (Employee Support) appears to have not been achieved.

10. Service quality levels for all stakeholders (i.e. customers, peers, and other departments) were maintained during the downsizing process.



Eighty percent of respondents indicated that service quality levels for all stakeholders were not maintained during the downsizing process. Comments include: “Service delivery remains poor on the teams where all employees were dismissed.” “Upper management didn’t adequately prepare for the changes.”

Hypothesis 3 (Measuring Effectiveness) appears to not have been achieved.

The table below summarizes the survey results by hypothesis. None of the hypotheses were met which indicates that RSP has not been successful in implementing best practices for downsizing and restructuring.

| Hypotheses | Yes | Neutral | No |
|---------------------------|-----|---------|----|
| Committed Leadership | | | X |
| Open Communication | | | 2x |
| Measuring Effectiveness | | | X |
| Knowledge Management | | x | 3x |
| Stakeholder Participation | | | X |
| Employee Support | | x | 3x |

Recommendations

The majority of stakeholder responses indicate that RSP’s downsizing and restructuring processes have not effectively involved best practices. Over seventy percent of respondents communicated concerns about issues in the areas of employee support, stakeholder participation, measuring effectiveness, and knowledge management. Upper management should consider the following recommendations to improve the effectiveness and success of their ongoing restructuring and downsizing processes.

Employee Support

Issues: Ninety-three percent of respondents indicated that they felt a high level of uncertainty about the future. The turnover rate was estimated to be approximately 35-40%. Many employees did not feel respected nor valued. A potential lack of trust prevented effective communication and collaboration among staff.

Recommendation: Leadership needs to establish a culture of mutual respect and trust where all employees are valued and recognized for their contributions. Feedback loops between leadership and employees will ensure timely and clear communication. Experienced employees workload should be reduced to allow time for collaboration and training with other employees.

Stakeholder Participation

Issues: Eighty percent of respondents noted that employees did not participate in the decision-making nor the implementation of the downsizing process. Decisions were announced by leadership.

Recommendation: Leadership needs to recognize that stakeholders have unique insights and actively involve them in the design and implementation of the processes. Stakeholder buy-in of processes will be strengthened through their participation.

Measuring Effectiveness

Issues: Eighty percent of respondents indicated that service quality levels for all stakeholders were not maintained during the downsizing process. Specifically, service is poor on teams where high turnover occurred.

Recommendation: Leadership should develop feedback loops with stakeholders. Service level quality could be assessed through measures, such as response times and stakeholder satisfaction surveys.

Knowledge Management

Issues: Seventy-three percent of respondents noted that adequate information systems were not in place to gain access to information. As a result, a majority of employees indicated that they had to “reinvent the wheel” often due to a lack of organized and easily accessible information. A significant number of employees also did not collaboratively share their expertise either due to heavy workloads and/or feelings of mistrust.

Recommendation: Leadership needs to invest in an adequate information system that meets stakeholders’ needs. As a result, employee productivity should increase which translates into better customer service for stakeholders. Leadership also should facilitate knowledge sharing activities, such as team work and cross training, between employees.

Open Communication

Issues: Sixty-seven percent of respondents indicated that leadership did not establish clear roles and responsibilities during the downsizing nor provided adequate training and support. The decision to downsize, the process, and the timeline were not transparently communicated to employees.

Recommendation: Leadership needs to create a culture of trust and open communication where issues are discussed in a transparent manner. They should frequently communicate specifics about the downsizing process, such as the reason, the time frame, and the progress made to date. Leadership should have established clear roles and responsibilities at the outset of the process and communicated any changes with stakeholders as the process evolved.

Committed Leadership

Issues: Sixty percent of the respondents noted that the decision to downsize, the process, and timeline were not transparently communicated to employees. Employees were surprised by the downsizing announcement and were not actively involved in the process.

Recommendation: Leadership needs to champion the downsizing process by being visible, accessible and interacting frequently with all stakeholders. They are responsible for articulating a clear vision, involving stakeholders in the design and implementation of the process, and effectively motivating employees.

Future Research

The best practices for downsizing and restructuring recommendations for RSP could be strengthened by surveying a larger sample size and including more questions in the survey instrument. The validity of the feedback could improve specifically for the areas of committed leadership, measuring effectiveness, and stakeholder participation if more than one question was used for assessment purposes. Questions should also be developed to assess if appropriate strategies were pursued based on situational challenges.

It would be interesting to assess if stakeholder perceptions about the effectiveness of the process shift over time. Surveys could be completed 6 months before, at 3 month intervals during, and 6 months after the process has concluded. Stakeholder perceptions could also differ about the process based on their unique organizational cultures in RSP, SPA, DRSS, and other research administration units.

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Appendix A – Survey Questionnaire

The purpose of this survey is to explore employee perceptions about organizational downsizing and reorganization processes. Aggregate results for all respondents will be reported. Thank you for taking 10-15 minutes to complete this brief survey.

Instructions: On a scale from 1 (strongly agree) to 5 (strongly disagree), please describe your own experiences. Additional comments for each question are optional.

1. The decision to downsize, the process, and the timeline were transparently communicated to employees.

| | | | | |
|----------|-------|---------|----------|----------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly | Agree | Neutral | Disagree | Strongly |
| Agree | | | | Disagree |

2. Employees participated in the decision-making and implementation of the downsizing process.

| | | | | |
|----------|-------|---------|----------|----------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly | Agree | Neutral | Disagree | Strongly |
| Agree | | | | Disagree |

3. Leadership established clear roles and responsibilities during the downsizing process and provided adequate training and support.

| | | | | |
|----------|-------|---------|----------|----------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly | Agree | Neutral | Disagree | Strongly |
| Agree | | | | Disagree |

4. Leadership provided time and resources for employees to collaboratively share their expertise with each other through documentation and/or training.

| | | | | |
|----------|-------|---------|----------|----------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly | Agree | Neutral | Disagree | Strongly |
| Agree | | | | Disagree |

5. Employees collaboratively shared information and expertise with one another.

| | | | | |
|----------|-------|---------|----------|----------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly | Agree | Neutral | Disagree | Strongly |
| Agree | | | | Disagree |

6. Employees had to “reinvent the wheel” often due to a lack of information.

| | | | | |
|-------------------|-------|---------|----------|----------------------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |

7. Adequate information systems were in place to gain access to information.

| | | | | |
|-------------------|-------|---------|----------|----------------------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |

8. Employees felt a high level of uncertainty about the future. Please quantify the total percentage of employee turnover during and after the restructuring process.

| | | | | |
|-------------------|-------|---------|----------|----------------------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |

9. Leadership encouraged a culture of treating individuals with dignity and respect.

| | | | | |
|-------------------|-------|---------|----------|----------------------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |

10. Service quality levels for all stakeholders (i.e. customers, peers, and other departments) were maintained during the downsizing process.

| | | | | |
|-------------------|-------|---------|----------|----------------------|
| 1 | 2 | 3 | 4 | 5 |
| Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |

11. Additional comments:

Thank you for completing the survey! If you would like to receive a copy of the aggregate results for this survey please include your email: _____