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One Legged Life or Two Legged Death

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"He's my friend."

"I like working with her."

"She's very loyal."

"I've known him for 15 years."

"They have a daughter in college."

"I've never fired anyone before and the whole idea makes my stomach hurt."

These statements and a myriad of variants are heard whenever a company faces the painful situation of having to downsize its staff. Organizations are built with people; individuals are hired with the expectation that, by their work, they will contribute to a hoped-for business. Yet plans do not always work when confronted with the realities, expected or unexpected, of the marketplace. Decisions are made based upon the best available information at the time, but that information may prove to be inadequate. New competitors, new products, new governmental actions occur all the time, affecting organizations and forcing them into unexpected shapes.

The organizational plans made at one time may prove to be useless later. As management learns the cost of the no-longer properly configured staff, the first response is to attempt to reconfigure it by redefining job descriptions and the roles among the on-payroll personnel.

Looming large in this calculus is the sunk cost of training the existing staff members and the efficiency they create because they already know the business, its personnel, and other resources. Those costs can be quantified by observing the fully loaded monthly cost of an employee times the number of months to find a replacement and bring him/her up the learning curve. Usually, this aggregates about a year's total cost of the employee.

Expensive, seemingly. But, if an individual is not providing benefit greater than that cost, he/she must really be viewed as an investment with hoped-for future returns. A discounted cash flow analysis can, of course, determine whether or not the investment in this individual is economically beneficial.

The difficulty occurs in a liquidity crunch—when there is insufficient cash to sustain the totality of these investments in personnel or in equipment, research and development, marketing, and advertising—that may prevent the enterprise from lasting long enough to reap the future cash flows that create positive internal rates of return. Consequently, management must work in new directions, redefining objectives, creating new strategies, reducing costs, finding new ways to grow revenues, and rearranging its capital structure.

For most managers, the more impersonal elements of a needed transformation are the easiest: payables can readily be stretched; purchases can be carefully scrutinized; subscriptions and other perquisites can be cancelled; travel and entertainment costs can be trimmed (usually with attendant grumbling by the traveling staff).

Harder is deferring equipment and capital goods purchases. Living with computer hardware past its useful life or software that has been superseded by better, more flexible, or even nominally less costly alternatives, is inefficient and frustrating; the down time of repairs, patches, and work-arounds can reduce productivity significantly, especially in comparison to deploying replacement equipment.

Hardest of all are actions that affect the compensation, professional self-definition, and careers of the human beings working in and being paid by the organization. Ironically, while these usually have the largest impact and take the longest to execute, they are almost always left for last. The weakening of the organization caused by this delay can be catastrophic.

It is not difficult to understand why managers delay addressing staffing configuration: news of unexpected or unwanted change in job definition, compensation, or even continued employment is usually considered bad, and the bearer is made to feel like a "bad guy." Most managers have enough imagination to envision what it would be like to receive such news and empathize with the employee, thereby adding to the stress. Some employees react badly to such news and often direct their unhappiness at the individuals either making the decisions or delivering the news, thereby creating even more stress. And managers know that for some employees the consequences can create significant personal difficulties—employees with frail dependents or other major, real life obligations, or people living on the margin.

Three alternative strategies can be applied to reconfiguring the staff to meet the new world the organization faces.

REDEFINING JOBS

The first of these is to redefine the job responsibilities of the existing staff. Usually unspoken, one of the objectives of this strategy is to keep everyone on the payroll. Occasionally, particularly in small entities, this strategy can result in significant benefit, especially when the staff is involved in the redefinition of their jobs. In such situations, a greater sense of participation in the process results in more effective problem solving, creativity, and commitment to the evolving objectives of the transforming organization.

Often, though, this strategy has the effect of rearranging the deck chairs on the *Titanic*: tactical actions are taken when strategic decisions are necessary. While it can generate some benefits, often most staff members recognize it for what it may actually be: an ineffectual way to stave off unwanted reality.

ACROSS THE BOARD COMPENSATION CUTS

A second strategy, which also has an objective of keeping the staff intact, is to cut compensation across the board. Analysis may conclude that the current staff is essential to the evolving strategy, that the costs of replacement are too high because change is imminent, but that near term savings are necessary. Sharing the pain can be an effective way to build commitment to the organization and the new strategies but it requires certain conditions to succeed:

- Everyone, including the CEO, participates.
- Everyone participates proportionately.
- Everyone can see that all are participating.
- The cut is intended to be temporary.
- Everyone perceives a "corner is being turned" by their give-up and that the future is likely to be better than ever.
- The pre-existing compensation plan was not already at the bottom margin of acceptability.

This strategy is grounded upon the emotional commitment employees have to their employer. Whether committed to the purpose of the organization—its products, services, or client group—or to the rest of the staff, their status in the community, or they are simply stuck, in my experience in several settings, when they perceive themselves as part of the solution and not part of the problem, they become a "band of brothers" fighting to win.

CUTTING STAFF (REDUCTIONS IN FORCE, JOB DISCONTINUANCES AND OTHER EUPHEMISMS)

The third strategic alternative is to selectively shrink the staff through termination of employment. This is the most difficult to execute as it has legal, structural, and emotional components.

Both federal and state laws govern the termination of employees. Laws regarding entitlements to health insurance continuation (the federal COBRA legislation), unused vacation and other benefits, confidentiality of information, and other specifics must be addressed correctly and timely. Under certain circumstances, such as larger scale terminations, particularly when the employees are concentrated in a few locations, other regulations such as the WARN Act, (the Worker Adjustment and Retraining Notification Act of 1988) require structured early notification to affected personnel. Significant rules regarding equal opportunity and discrimination govern actions as well. Failure to observe and act within these rules subjects the organization to potential heavy financial penalties and enormous adverse publicity.

Choosing who goes and who stays is a complex process of balancing current performance, changing roles, and expected future performance in the new, uncertain environment. Individual skills and capabilities have to be weighed against organizational requirements and legal constraints. The remaining jobs have to be redefined.

Implementing staff reduction is a stressful process. Emotions run high, not only among those whose jobs are cut, but also among the rest of the staff, as the word of terminations spreads like wildfire across the organizational landscape. Any pre-existing level of employment certainty—whether justified or not—vanishes for everyone in the organization.

Experience and care are necessary to minimize the damage and the healing process. Executing the terminations is like a surgeon faced with a patient with a gangrenous leg. While the patient—everyone within the organization—would prefer to keep both legs, the surgeon must convince the patient that it will die if the gangrenous leg is not amputated. Life after the amputation may be more difficult, but the patient survives to lead a new, different life. (The metaphor can extend to the other two strategies which can be seen as analogous to dietary or pharmaceutical changes, palliatives rather than surgery. Either is less stressful on the patient than surgery).

Rarely do patients, even doctors, operate on themselves. Instead, they place themselves in the hands of surgeons skilled in the preparation of the patient for surgery, the actual surgery itself, and the post-surgical healing process. Transition consultants and interim executives are like surgeons:

providing experienced insight or taking temporary leadership of an organization, they prepare it for the trauma of downsizing, implement the terminations with as much care as possible, and reorganize the remaining business for future success. Upon completion of the needed organizational surgery and recovery, the transition advisor or interim executive can leave leadership to the (usually new) management team that will grow the business.

COMMUNICATION: FREQUENT AND TRANSPARENT

Candor regarding the organizational gangrene—the economic reality of excess human resource cost in the current condition—is essential to executing a staff reduction. Couched in terms of economic survival and communicated to everyone within the organization, the staff will come to grips with the problem. If the staff understands the problem and its severity, they will embrace the new goal, which, from an employment perspective, is, simply, that it is better to keep some people working in the organization than no one at all. They will come to see that, like amputation, the removal of part of the organization is necessary for its very survival: that it is better to live with one leg than to be buried with two.

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