1996

# Strategic Planning for Downsizing and the Human Resource Factor

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A Culminating Project Presented to the Faculty of the Graduate School of Lindenwood College in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

1996

## ABSTRACT

This thesis will focus on the study of downsizing, the importance of a strategic plan for downsizing and the effect the on human resource factor.

Businesses experienced unprecedented growth throughout the 1960's and early 1970's; in the 1980's the recession slowed this growth and downsizing became a necessary economic device for businesses to remain competitive. Some of the reasons stated for downsizing are: to safeguard profit margins, stagnant growth, poor earnings, market driven cuts, foreign competition, advancing technology, and a last ditch effort to stay afloat. The ramifications of downsizing are: potential employee related liabilities; the results are less profitable than expected; downsizing has created an unstable work environment; a staff of survivors that are counterproductive; decreased sales and unsatisfied customers. The reasons and ramifications of downsizing are as diverse as the companies and corporations.

The research confirmed the necessity of a strategic plan. The main portions to formulate a plan are: assessing the needs of the organization,

communicating internally, creating focus teams and support teams, redesigning the work structure, utilizing outside consultants, not downsizing with across-the-board cuts, communicating with the employees, enacting financial support and transition assistance, restructure, re-evaluate, and go forward as a newly designed organization. Companies need to realize the cost of downsizing and budget ahead of time for it.

Analyzed throughout the thesis, was the major concerns of/for the human resource factor. The corporations success during and after downsizing is the human resource factor. Examples were given of corporations that followed a plan with concern and positive points for their employees who were laid off or restructured. These corporations were showing increased sales. The literature reviewed listed several factors for corporations to consider regarding the human resource factors' needs and rights. Also, listed were the ramifications if the human resource factor was disregarded.

The results of a downsized and restructured corporation, Brown Group, Inc. was analyzed and reviewed. This study covered the market pressures that created the need to downsize, the difficulties, the redesigning, two companies merging, and the success from planning and considering the human resource factor.

The research and reviews supported the thesis ideas to strategically plan a downsizing and to consider the human resource factor. The purpose was to enlight and study the current trend of downsizing.

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## Chapter I

## INTRODUCTION

Beginning with World War II, American businesses experienced unprecedented growth throughout the 1960's and early 1970's. In the 1980's the recession slowed this growth and many United States and world wide corporations were forced to downsize. This trend was again repeated and perfected in the recession of the early 1990's. Downsizing has now become an economic device even in non-recessionary times. This trend, which was supposed to give companies a competitive edge, is taking it's toll on the corporation, the management, and the employees. Downsizing and merging in some instances has been a positive force and a necessary plan of action. The results, however, are showing that over fifty percent of the corporations that have downsized are not seeing the positive results expected. The majority of the study points out the necessity of a strategic plan before downsizing begins and restructuring plans after the downsizing is done (Moravec 7). The reasons for downsizing and restructuring are numerous and valid.

Reasons for downsizing

Downsizing, restructuring, reengineering, cutting the fat, rightsizing, bringing in the axe man, unbundling, and delayering are terms used when corporations decrease their staff. Banham reasons that,

> For some companies, downsizing is a way to safeguard profit margins; for others the restructuring is an attempt to confront future competitive demands for several, it's a last ditch effort to stay afloat. (18)

Some reasons corporations are downsizing include: stagnant growth, poor earnings, market-driven cuts, business turn downs, foreign competition, plant or office obsolescence, and advancing technology. Analyst, Michael Balhoff reasons that it is preventive medicine and necessary to remain a healthy contender as competition grows more intense (Tierney 76).

Lacky and Schmenner reason that it is a hard decision, and,

> The story is familiar, not only in the United States but increasingly elsewhere in the world. Sales suffer, costs grow, profits are squeezed. Blue-collar workers have been laid off. Senior management, feeling itself backed against the wall takes what its considers to be strategic action, a wake up call for the organization. Amidst often genuine anguish, lay-

> offs in the overhead ranks are announced. The hard decision to "slash and burn" has been taken. (80)

The reasons are as diverse as the corporations. Technology and machines are replacing men. Also, clever production processes are decreasing the number of employees needed during the production process. Increased global competition has forced companies to slash labor costs. Firms that are slimming are not just victims of a fad but are responding to the market pressures (The Anorexic...19).

Surveys, and Downsizing Data

The surveys from the American Management Association indicate that corporate downsizings, layoffs, and reorganizations will continue possibly hitting a record high. The survey also indicates that downsizing is not just a one time event. Overp sixty three percent of the companies that have already cut back plan to do it again. A typical downsizing figure is ten percent of the workforce being let go. The figures indicate that of the forty three percent of the firms that have downsized since 1987 less than half are showing a profit. The majority of the companies that have downsized are losing their profit shares. An article from Tierney explains that even though the figures are not indicating a profitable, success the trend will continue. Tierney's article quotes Oz Fritz, a partner at Price Waterhouse, who contends,

> The fad is failing. You cannot fix things simply by firing a bunch of people. The employees who are left still have to do the work, and the company still has to serve the customer. Before you rightsize you need to reengineer your business process. (76)

Downsizing Statistics

There are 3,200 people laid off every day. Last year 615,000 people lost their job (Moravec 7). America's largest businesses have plans to cut thousands of jobs this year. The surveys from the American Management Association confirms that corporate anorexia is widespread, thriving, and potentially immutable. Banham analyzes facts, figures, and surveys pertaining to the downside of downsizing. He states,

> An unnerving 47.3 percent of the companies participating in the survey--a cross section of large and small companies throughout the U. S.-- reported workforce reductions for the year ended June 1994, up from 35.7 percent in 1990. Workforce reductions of this magnitude have remained constant over the last three

year. What this says is that downsizing is not due to the challenge of recession or related to the company's economic performance (18).

Table 1 reveals termination figures from some of America's largest companies. Notice that IBM, AT&T, and GM alone were responsible for over 240,000 terminations (of the approximate 650,000).

Table 1

America's Largest Twenty Five Companies

| Company Name | # of Jobs to be Cut |
|---|---|
| IBM | 85,000 |
| AT&T | 83,000 |
| GM | 74,000 |
| U S Postal Service | 55,000 |
| Sears | 50,000 |
| Boeing | 30,000 |
| Nynex | 22,000 |
| Hughes Aircraft | 21,000 |
| GTE | 17,000 |
| Martin Marietta | 15,000 |
| Dupont | 14,800 |
| Eastman Kodak | 14,000 |
| Phillip Morris | 14,000 |
| Procter & Gamble | 13,000 |
| Phar Mor | 13,000 |
| Bank of America | 12,000 |
| Aetna | 11,800 |
| GE Aircraft Engineering | 10,250 |
| McDonnell Douglas | 10,200 |
| Bellsouth | 10,000 |
| Ford | 10,000 |
| Xerox | 10,000 |
| Pacific Telexis | 10,000 |
| Honeywell | 9.000 |
| U S West | 9,000 |

SOURCE: Fortune. Exhibit from "The New Deal," by Brian O'Reilly. 13 June (1994).

The majority of the corporations (seventy-seven percent) believed in downsizing. But, less than half are satisfied with the results. Table 2 compares employee reduction to sales revenue. The figures indicate the decline of sales versus number of employees.

Table 2

Employee and Revenue Declines

| Year | 1990 | 1991 | 1992 |
|---|---|---|---|
| Company: | | | |
| Brown Group, Inc. | | | |
| # of Employees | 27,500 | 25,500 | 23,000 |
| Sales ($mil.) | 1,764 | 1,728 | 1.791 |
| INTERCO, Inc. | | | |
| # of Employees | 22,100 | 19,800 | 19,750 |
| Sales ($mil.) | 1,439 | 1,472 | 1,266 |
| I B M | | | |
| # of Employees | 373,816 | 344,553 | 301,542 |
| Sales ($mil.) | 69,018 | 64,792 | 64,523 |
| McDonnell Douglas | | | |
| # of Employees | 121,191 | 109,123 | 87,377 |
| Sales ($mil.) | 16,246 | 18,432 | 17,373 |

Source: Hoover's Handbook of American Businesses 1994. Exhibit from "Brown Group, Inc., INTERCO, Inc., IBM, and McDonnell Douglas, "How Much"," by Gary Hoover. (1994).

The "number crunching" analogy of downsizing creates an unstable work environment and renders the staff counter-productive. Table 2 points out that the employees have decreased but the sales also have decreased. Downsizing does present human resource problems. Companies that focus on the executional process and disregard the humanistic concerns will find a loss of character and strength within the company, too many companies "chop heads" without thinking of the customers' needs and the organizational needs. The firms without a strategic plan probably will not be showing the financial success or competitive edge in their business as they expected (Moravec 46).

Downsizing Strategies

A strategic plan can ensure a steady pace of re-growth for a downsized company. The companies that have downsized correctly incorporate human resource programs and policies. They offer early notification of layoffs, direct communication, support services for surviving employees, extended benefits, educational opportunities, and outplacement assistance. The companies that have "downsized without capsizing" begin with a strategic plan and follow through with the element of the plan (Tierney 76).

Equipment. He elaborates on a number of fundamental restructuring ideas and asks valid questions as,

> What do our customers expect and how will restructuring affect -- either negatively or positively--our ability to meet these expectations?
> Should we strengthen the existing business or transform it?
> Should we downsize in some area and rebuild in others? (7)

He also suggests considering alternatives to lowering costs by improving productivity and changing the skill mix. Instead of layoffs corporations should consider reducing benefits and perks, retraining, freeze hiring and wages, temporary shutdowns, and phasing retirement (7). Moravec goes on to suggest ways to avoid mistakes as,

1. Link downsizing to the future of the business.
2. Consider alternatives to downsizing.
3. Assign the right roles to human resource departments.
4. Handle emotional factors properly.
5. Provide adequate managerial training.
6. Make adequate provisions for displaced workers.
7. Mobilize the strategic workforce.
8. Conduct adequate evaluations.
9. Integrate downsizing into revitalization plans. (7)

These processes have not been easy but they are in the works for Eastman Kodak and Digital Equipment.

An important element is considered by the companies promoting a successful downsizing and restructuring: the human resource factor. The employees that were let go were taken care of by programs that included: extended benefits, outplacement programs, communication and help for the survivors. The survivors need to see the fellow employees that have been let go are being taken care of. The survivors need time to mourn the loss of their friends and co-workers that have been displaced. They need to vent their sorrows or concerns to release the aggression they are feeling towards the company. These are critical emotional factors to be dealt with and handled properly. The survivors are the strategic workforce and need to be mobilized. Organizations could provide: job reassessments, additonal training, counseling, and survivor assistance programs (Milan 7). Lackey and Schmenner have examined the reactive ways the manufacturing entity has downsized with a strategic plan and a focus on the employees. As an example, Plant A, reduced the overhead workforce by cutting back on the direct reports to top management. This restructuring tactic gave the middle managers more responsibility and direct contact with the employees. This manufacturing plant, GMC, increased the spans of control for success. They created worker teams, eliminated tasks, and focused on the employees needs (80).

Table 3 lists companies that downsized with profitable results. The employees and tasks have been reduced and restructured. Companies as GMC, are showing higher profits with less employees and overhead. They also used strategic planning and paid attention to human resource factor.

Table 3

Downsizing with Profitability

| Year | 1990 | 1991 | 1992 |
| --- | --- | --- | --- |
| Company: | | | |
| GMC | | | |
| # of Employees | 761,400 | 756,300 | 750,000 |
| Sales ($mil.) | 123,276 | 122,081 | 130,590 |
| Year | 1990 | 1991 | 1992 |
| General Electric | | | |
| # of Employees | 292,000 | 298,000 | 284,000 |
| Sales ($mil.) | 53,884 | 57,662 | 59,379 |
| Year | 1990 | 1991 | 1992 |
| The May Department Stores | | | |
| # of Employees | 116,000 | 115,000 | 111,000 |
| Sales ($mil.) | 10,006 | 10,615 | 11,150 |
| Year | 1990 | 1991 | 1992 |
| Premark International, Inc. | | | |
| # of Employees | 24,500 | 24,000 | 24,000 |
| Sales ($ mil.) | 2,721 | 2,816 | 2,946 |

Source: Hoover's Handbook of American Businesses 1994. Exhibit from "GMC, General Electric, The May Department Stores, and Premark International, Inc. "How Much"," by Gary Hoover. (1994)

## The High Cost of Downsizing

The survey's from the American Management Association confirms that corporate anorexia is widespread, thriving and potentially immutable. Banham analyzes facts, figures, and surveys pertaining to the downside of downsizing. He states,

> An unnerving 47.3 percent of the companies participating in the survey-- a cross section of large and small companies throughout the U.S.-- reported workforce reductions for the year ended June 1994, up from 35.7 percent in 1990. Workforce reductions of this magnitude have remained constant over the last three years. What this says is that downsizing is not due to the challenge of recession or related to the company's economic performance (18).

Banham goes on to explain the ramifications and cost from downsizing that need to be considered. One, costly ramification is lawsuits. Bahnam believes that, "Lawsuits by fired workers alleging age, race or other discriminatory factors ...are becoming common" (18). The cost of this litigation from law firms often eliminates any savings from eliminating the employee. "Lawsuits filed by displeased workers or shareholders are another downsizing peril, "explains Peter Caruso, vice-president at Johnson and Higgins. Caruso advocates reviewing D & O policies to determine whether the insurance is sufficient (18).

Employees that anticipate a firing will be counterproductive and even commit crimes against the corporation. They have been known to sabotage their own jobs by malicious mischief. Employees are taking property that does not belong to them before they leave to insure that no one else gets their things. IBM now has plans intact to guard against the sabotage, counterproductivity, stealing, and malicious mischief because all these black areas of downsizing cost them in the past (18).

Another huge expense to plan for when downsizing is an increase in workmen's compensation. "When a company talks about downsizing, it is inviting a huge run up in workmen's compensation claims," says Edmund Greene, manager of the corporate insurance for General Electric (18). Tower's Perrin documented the rise in workmen's compensation. When workers anticipate job upheavels the average duration of claims increase. As the claims stretch out so does the increase in medical costs (18). Banham observes, "Reductions in the workforce may prompt employees to file claims they might not otherwise raise" (18). Jim Conerty manages the risk insurance program for IBM, and he warns to be aware of trumped up and meritless workers' compensation claims. He suggests, prompt investigation of claims, increased supervision, and documentation of any on-the-job injuries (18). There is a strong correlation between stress related illnesses and downsizing. Banham advocates planning for these extra expenses and employee duress (18).

Corporations need to consider their standing in the community during downsizing. The negative side might be sizable environmental liabilities. When corporations destroy communities with job loss and revenue loss they sometimes fight back with environmental liabilities that previously were not so profound (18). Yet another expense of downsizing.

Other costs that hurt in the run long are the hiring of consultants, and temporary workers. Banham observes,

> In their fervor to eliminate jobs, many companies go too far and have to hire

> back recently fired and/or retired workers. Companies pay for consultants, temporary workers and rehires to fill employees voids that end up costing more than what the company was paying (prior to downsizing). The expected cost savings may not materialize. (18)

An additional cost of downsizing is the older employees holding out for more benefits before retiring. Those employees contemplating an early retirement take advantage of the situation by waiting for a better package (18).

## Risks of Downsizing

When corporations downsize they do take the risk of potential employee-related liabilities (Table 4). The human resource departments need to be prepared and updated on the ramifications of the liabilities. Banham spells out the various discrimination acts and claims to be aware of in his article, "The Down-side of Downsizing".

Table 4

Risks Involved in Downsizing

---

Corporation face several sources of potential employee-related liability:

*Age discrimination. The Federal Age Discrimination in Employment Act (ADEA) prohibits discrimination against employees over the age of 40.

*Race and gender discrimination. Title VII of the Civil Rights Act prohibits discrimination based upon an employee's race, color, religion, sex (including pregnancy) or national origin in hiring and job retention.

*Handicap and disability discrimination with the Americans with Disabilities Act (ADA).

*Breach of Contract. While employers and employees in the absence of a contract generally are free to terminate the employment relationship at any time, over the years courts and legislatures have developed numerous exceptions to this so-called "at will" doctrine.

*The lack of advance termination notice. The Worker Adjustment and Retraining Notification (WARN) Act requires advance notice of large-scale reductions.

*Employee Benefits. The Employment Retirement Income Security Act (ERISA) may support claims that an employee's benefits were improperly terminated or withheld.

*Tort claims, including assertions of intentional infliction of emotional distress, defamation, interference with contract, invasions of privacy and fraud.

---

SOURCE: Risk Management. As cited in "The Downside of Downsizing," by Russ Banham (1995).

According to Banham, employers are frequently overlooking these cost related factors. He sums it up by saying, "Sometimes these charges are eye-popping, in the hundreds of millions of dollars, and the expected cost saving may not materialize"

(18).

<u>Benefits of Downsizing</u>

Not all companies are seeing the negative side of downsizing. The downsizing trend has created new businesses that consult with companies on merging restructuring and downsizing. In fact, the companies that are consulting on the downsizing trend are growing in revenue and number of employees. Major organizations as Price Waterhouse, Arthur Anderson, Ernest & Young, Cooper & Lybrand, and McKinsey & Company, Inc. have added to their lists of services: consulting, strategic planning, restructuring, cost reduction and downsizing. Price Waterhouse, Cooper and Lybrand, Towers Perrin, Arthur Anderson, and McKinsey and Company were and still are major accounting, auditing, and marketing firms with impressive lists of clientele . These giants in the industry spotted the trends for corporations to merge and downsize. These major organizatons had the foresight to address the issues that analyzed "Whate does my customer value," and "What will tie my customer to me," (Drucker 79). Table 5 gives examples of the revenue, employees, locations, clients of the major consultants and the increased percents of consulting/downsizing.

Table 5

Examples of Firms Consulting

| Company/ | Revenues / Million $ | % of Consulting/ | Number of Employees |
|---|---|---|---|
| Arthur Anderson | | | |
| | $5,577 | 46% | 62,134 |
| Location: | Geneva, Switzerland | | |
| Services: | Auditing, Business Advisory, Corporate Speciality: Tax Services and Consulting. | | |
| Clients: | Blockbuster, Cadbury, Schweeps Consolidated Freightways, Electrolux, Fiat, Olivetti, U. S. Shoe | | |
| Ernest & Young | | | |
| | $5,585 | 26% | 20,000 |
| Location: | New York, New York | | |
| Services: | Accounting and Auditing, Tax Planning, Management Consulting, Restructuring and Reorganization Services, Organizational Alignment and Valuation Services. | | |
| Clients: | Apple Computer, BankAmerica, Coca-Cola, Eli Lilly, Hanson, Knight-Ridder, Walmart, McDonalds, Mobil and Time Warner. | | |
| Cooper & Lybrand | | | |
| | $5,350 | 24% | 16,472 |
| Location: | New York, New York | | |
| Services: | Accounting, Auditing, Taxes, Consulting, Mergers, and Acquisitions, Business, Reorganization, Strategic Management. | | |
| Clients: | American Brands, Brithish Telecom, Glaxo, 3M, Johnson & Johnson, Pearson, and Telemex. | | |

| Company/ | Revenues/ Millions | % of Consulting/ | Number of Employees |
|---|---|---|---|
| Price Waterhouse | $3,761. | 28 | 12,489 |
| Location: | London | | |
| Services: | Auditing, Accounting, Management Consulting, Merger & Acquisition Services, Employee Benefits. | | |
| Clients: | Anheuser-Busch, Bordon, Bristol-Myers, Campbell, Caterpillar, CIGNA, Kmart, Disney, Hewlett-Packard, IBM, Kellogg. | | |
| McKinsey & Company | $1,200 | 100% | 5,500 |
| Location: | New York, New York | | |
| Services: | Cost Reduction and Profit Improvement, Strategic Planning, Marketing, Organizational Change, and Operations Management. | | |
| Clients: | Alcoa, American Express, AT&T. | | |
| Towers Perrin | Undisclosed Privately Owned | | |
| Location: | St. Louis, Missouri, Argentina, Australia, Belgium, Brazil, France, Germany, and other global locations. | | |
| Services: | General Management, Human Resource Consulting, Actuarial Consulting, Group Incentive Planning, Expanding Market Shares, Increasing Productivity and Ongoing Research. | | |
| Clients: | Abbott Laboratories, Ace Hardware, American Red Cross, Brown Group, Playboy, Quaker Oats, and Xerox. | | |

Sources: Hoover's Handbook of American Businesses 1994. Exhibit from "Arthur Anderson, Ernest & Young, Cooper & Lybrand, Price Waterhouse, McKinsey & Company, "How Much," by Gary Hoover. (1994).
Building Relationships to Produce Results. by Towers Perrin. (1994).

These downsizing giants have the market covered with their expertise and credentials. There are additional expenses for companies downsizing when they hire these experts. Towers Perrin charges $500.00 per hour to have their top executive team analyze the situation. A McKinsey report is is generally one million dollars (Hoover 279, 429).

## Summary/Statement of Purpose

The downsizing trend will remain a relevant device of businesses to remain competitive.

The reasons for downsizing are numerous. Corporations are downsizing because of stagnant growth, poor earnings, market-driven cuts, business turn downs, foreign competition, advancing technology, and a last ditch effort to stay afloat.

The data collected are not the positive results expected from downsizing. Data are showing a typical downsizing affects ten percent of the workforce. The figures indicate that only half of the forty-three percent that have downsized are happy with the results. The majority of the corporations are losing their market share.

There are 3,200 workers laid off everyday.

creating an unstable work environment. The corporations are incurring additional expenses due to the downsizing and some are sizable amounts that need to be considered in the budget plans. The biggest expense concerns the human resource factor because the downsizing is creating counterproductivity, morale declines, customer service declines, and sales and revenues decline in the process. The workers are creating additional expenses by compensation claims, lawsuits, sabotage, and holding out for more benefits before retiring. The corporations are losing face with the communities due to job loss. The company also incurs more expenses when they have to rehire employees, hire consultants, and temporary workers.

There is a positive side to downsizing; the companies that offer consulting for downsizing are growing in revenue and number of employees. They have directed a large portions of services to downsizing. Downsizing giants as Price Waterhouse, Cooper and Lybrand, McKinsey and Company, and Towers Perrin have covered the market with impressive credentials and clientele.

The downsizing trend will remain a relevant factor of business as the market directs but a key to downsizing is strategic planning. This thesis will focus on the study of downsizing and importance of a strategic plan for the downsizing.

# Chapter II

## LITERATURE REVIEW

Downsizing or rightsizing has been a portion of long range business planning for over twenty-five years. Drucker proposed that organizations change with purpose and rightsize the corporation according to the needs of the corporation. Organizations today use downsizing as a relevant business tool to remain competitive in the global markets. Organizations also use downsizing as a method to achieve favorable responses from Wallstreet.

The collected reviews did stress the need for a strategic plan before and after downsizing. The reviews examined the methods for downsizing, the effects downsizing has on the employees, the statistics linked with downsizing, intervention programs for downsiizng, the current concern for job security, the negative effects and repercussions of downsizing, the concern for survivors and the unemployed, the viewing of employees as unnecessary expenses, the hardships of laying off workers, and the look towards growth instead of reductions. Downsizing is a wide spread phenomenon and all angles were reviewed.

Peter F. Drucker's book "Management: Tasks, Responsibilities, and Practices," explain the need for an organization to change with purpose and to analyze the "rightsize" of the organization. The chapter entitled "The New Challenges", identified seven conceptual foundations to management:

> (1) Scientific management of work as the key to productivity.
>
> (2) Decentralization as a basic principle of the organization.
>
> (3) Personnel management as the orderly way of fitting people into organization structures.
>
> (4) Manager development to provide today for the management needs of tomorrow.
>
> (5) Managerial accounting, that is, the use of analysis and information as the foundation for managerial decision-making.
>
> (6) Marketing.
>
> (7) Long-range planning. (27)

Drucker further explained that these concepts are the roots of management. The current changes redefine and modify these concepts. As arcane as they are, they are still the basics of general business practices (28).

The book contained information on organizations being the right size. According to Drucker,

> "There are right sizes and wrong sizes for different businesses. The law implies that there is a finite limit to size beyond which an organization declines in productivity and ultimately ceases to be manageable." (638)

Drucker gave the analogy of the finite limit to size as the law of nature and geometry. As an example he used the size of an elephant, as the finite limits to size, "If an elephant were to grow much larger, legs sturdy enough to support the animal's weight would be too massive to lifted" (639). He further explained, that business organizations that have grown too large will also have problems with their support structure. As businesses grow so does the complexity. "Again, mere quantity soon becomes a change in quality" (639). He cautioned on the repercussions if the laws of geometry and nature are not considered in the planning phases (639). Drucker saw the size and strategy of an organization as having mutual impact on the organization. The organization must plan it's size according to it's market. An example would be Rolls -Royce, which has a global marketing strategy but remained small and specialized (640). Drucker saw the relationship of the corporation's goals and size to be managed with long range planning.

When a company rightsizes instead of downsizes with layoffs there are basic guidelines to follow. These guidelines are explained by Buhler in her article, "Downsizing. (Managing in the 90s)". Downsizing has been connotated as a negative--loss of jobs, loss of opportunity, loss of self-esteem,etc. Organizations can "rightsize" in which there is a re-engineering of technology and simple restructuring. Buhler cited the following guidelines to implement a successful downsizing:

> 1) Downsizing needs to begin with careful planning and vision.
>
> 2) Communicate effectively to the department, the division, or the organization is the critical foundation step that lays the groundwork for the entire process.
>
> 3) The major error made in downsizing concerns across the board reductions. Whether it is a department, a division or an entire organization, across-the-board cuts are not appropriate. This does not result in the most effective downsizing effort.
>
> 4) It should be remembered that there are people outside the organization that are watching and formulating opinions. All the organization's stakeholders must be recognized. Customer, suppliers and the local community can change their impression very quickly whan a company handles downsizing poorly. (24,25)

Buhler does effectively spell out rightsizing efforts.

Larry Reynolds' article, "Downsizing Management", included information from the American Management Associations. He states, "Downsizing is not just the child of recession nor is it a one time exercise" (2). He reported statistics that an average of sixty-three percent of the companies that made cuts will repeat the exercise the following year (3).

He believed that there is a need for strategic and structural changes. Companies that reorganized by cutting employees/payroll give an immediate boost to the bottom line but are not happy with the long-term effects (2). Statistics from the American Management Assoication imply the after effects of downsizing are very problematic at best and raise the question as to whether the cure is worse than the disease (3). Since 1987 only forty-three percent reported improved operating earnings after major staff cuts were made (3). Twenty-four percent said that profits actually fell; in addition twenty-eight percent reported declining worker productivity (3).

Reynolds' article forecasted an upswing in downsizing and an increased set of problems for the corporations. No positive notes on downsizing were given.

The American Management Association has a seven step plan for an intervention program during downsizing. Silverstein and Sullivan began their article by anlyzing the surviving workforce; downsizing has created a workforce that is confused, disillusioned, distrustful and unproductive" (23).-

The goal of the intervention program is to communicate. The organization and workforce bring things out in the open. The intervention motivates trust by addressing issues of organizational vulnerability, mutual dependency, teamwork and respect for the individual. The process begins and ends with consultations with the department heads. "The process is accomplished in seven phases: introduction, fact, thought, reaction, symptom, teaching and plan of action. The introduction phase is the explanation about the intervention program and the confidentially of information given. The fact phase is obtaining the views of the workforce about the downsizing. The thought phase is the workforce expressing their thoughts on how their jobs have changed. Reaction is the employee expressing their reaction, or feelings as, depression, anger, anxiety, and desperation. During the symptom phase employees are asked to think about the signs of distress that have emerged, such as physical, emotional, and functional changes. The teaching phase is to explain the reactive nature of the downsizing, as evidenced by their lack of concentration, loss of friends, and lack of interest in their job (23).

The intervention program was set up to rebuild the organization after downsizing. It gives the workforce a chance to express themselves and the organization an opportunity to gain valuable information. Both the workforce and the organization will be able to communicate more effectively.

The program's confidentiality is very important. The managers are able to report on the number of workers let go and how they have restructured the responsibilities. They can explain without repercussions from upper management when the situation is just not working. This empowers the middle managers who received the task of layoffs from upper management to express their thoughts and reactions (23).

The key to the consultant's intervention is the communication and information obtained from the intervention.

"Restructuring: Hit or Miss", is an article by Peter Currie suggested viewing restructuring as "accelerated evolution" instead of "creative destruction". The downsized organization should be seen as a promise of new opportunity. The short terms of downsizing are: profit margins have increased as expenses decreased. Currie asks, "Are these improvements systemic and substainable?" (6). The answer to the systemic improvement has been "outsourcing". As for substainable, Currie focuses on the "survivors" who are doing more work and are left in a weak bargaining state. As the economies recover, so do the demands, and the support systems have to be expanded also (6).

Currie discusses the benefits of downsizing, which are a possibility if the restructuring is done in a positive and creative manner. He explained,

> "It can lead to simplification of work flows and of organization, improved customer and stakeholder visibility, product portfolio rationalization and --yes--significant cost savings." (6)

There are benefits from restructuring and Currie pointed them out in this article. He also accented the positive and reminded managers to use good business ethics.

Downsizing has created a concern for job-security. Companies are striving to make it in the global markets to remain competitive; and the American worker is facing an uncertain future. These issues are discussed in Bob Steinbach's article, "Continuous Human Improvement". The issue of job security has become a prime concern for most American workers. Employers are unwilling to make firm commitments to the employees regarding job security and spell the terms out. This is resulting in an unstable relationship between the employee and the organization. To improve on this relationship, Steinbach suggested that both parties come to the negotiating table with a "new" understanding that ensures the sustenance of both parties. The concept of "continuous human improvement", requires the employee to be committed to achieving the organization's goals of cost control through the efficient application of new technology and teamwork. The organization agrees to include training and education to enhance the employee's skills, education and add to their personal sense of self-worth and security within themselves (112). These are valid points for the concerns of job security.

"The Business of America is Jobs", expressed the concerns of "rampart downsizing". Davids and and Touhy explained their concerns,

> "Rampant downsizing since the late 1980's has left million of people out of work. Unfortunately, these restructurings have generally been ill-conceived and therefore, damaging to everyone, including the laidoff individuals, the remaining employees, the company itself and the economy." (22)

The authors strongly suggest that it is imperative for organizations to put a stop to these "irrational across-the-board layoffs", because they ultimately benefit no one (24). Organizations should view layoffs as it's last option instead of it's first option. The alternatives to first consider are: "work-share programs, shorter work weeks, unpaid vacations, and hiring freezes" (24). Companies should also prior- tize the reorganization of the work. They should also consider upgrading the workers' skills. These options would help put the company on the right track and put them back on their feet. Davids and Touhy conclude with points to focus on if layoffs must occur including, giving employees the proper notification and adequately preparing the employees for the inevitable (28). The article positioned itself against "across-the-board layoffs".

"Strategic Downsizing: A Human Resource Perspective," written by Steven Appelbaum and Nadia Labib, is an article which examined this prevalent dilema of downsizing. Their findings indicate that it is not the downsizing that causes negative effects, but how it is handled. Upon their intial investigation into the literature on downsizing they found a very limited amount of qualified research which addressed the effects of dowsizing from the strategic organizational perspective. They are attempting to bridge a gap with the existing literature by addressing the strategic organizational perspective and issues. Those issues range from psyco-social perspectives of surviving and terminated employees to strategic planning which hopefully will draw a balance between the human resource factor and the corporation.

Appelbaum and Labib explain the purpose of their article:

> The purpose of the article was to investigate the effects of current downsizing practices on all human resources and on the organization, and to propose methods by where organizations can mitigate these effects and successfully achieve their restructuring goals (72).

Their paper addressed downsizing as a "problem" because it is a painful ordeal for all stakeholders. The success or failure has major implications for all concerned. The responsibility falls on the corporation because it must try to maintain a positive and successful progression to its employees, customers, and their global marketplace. The study found that it is necessary to implement all aspects of downsizing correctly as the the terminations, the survivor's syndromes, the advance notification, post-termination assistance, and the strategic goals after the downsizing. All aspects are relevant and should be part of the strategic plan (69). A process model for the development and implementation of dowsizing is a necessary portion of their article. This model should outline practices of the organization, the interest of the stakeholders is taken into account, adjustments in the work processes should be included, downsizing time elements, proposed restructuring plans, human resource elements and the expenses of the downsizing should be analyzed (75). The authors have two conclusions that should be derived:

> The first is that downsizing, if it is necessary, must be undertaken in a way

> that would cause the least amount of pain to those affected which is the ethical responsibility of good corporate citizenship. The second conclusion is that downsizing, in itself, is not enough to ensure increased profitability and goal attainment, but rather, it is how the organization operates after downsizing that will ultimately determine the success or failure of the downsizing experience (77).

The authors state the reasoning behind the downsizing dilema, which is the current adverse economic conditions are persistent and long-lasting. They reason that the result is many corporations have been forced out of business, or streamlined to achieve operating cost savings that would ensure their continued competitiveness both on the local and global markets (81). Downsizing that is conducted in multiple phases often results in a drop in employee morale and productivity which prevents the organization from realizing their strategic objectives (82).

The authors have examined the effects on the North American economy. They have found that these cost cutting measures have created a significant number of job losses. The percentages have risen from 10.9% to 14.9% in five years. Statistics are showing large percentages of the unemployed have given up looking for jobs and have been transferred to the Welfare system or have given up looking for a job and have pursued further education to gain employment at a later date, or they are married and have decided to lower their standard of living and exist on one salary. The involuntary job loss does have a number of economic, psychological, social, and financial effects (87). The organization is held responsible for these effects and must bear the consequences. That is why the process model or strategic plan must be incorporated.

Appelbaum and Labib collected their data and formulated a process model. They then tested the proposed model through confidential case studies. The firms they selected were included in the study by the following characteristics:

1) They had all experienced downsizing in some form in recent years and have gone through a learning process. This allowed for a wealth of information.

2) They are all recognized as leaders in their industry, operate across Canada and have their head offices in Toronto and Montreal. This was important because, being market leaders, their practices are usually modeled by other organizations in the industries they represent.

3) Together these firms represent a mix of different sizes of organizations ranging from 2,700 to 19,000 employees.

4) Together, these firms represent two types of business sectors: manufacturing and service.

The five organizations studied are:

1) Dorasco Inc.
2) Ford of Canada
3) A. W. Associates
4) R & E Canada
5) Air Canada

The authors conducted interviews, formulated a questionnaire, and developed a free-form format. They sent out an interview guide to the Vice Presidents or Directors of Human Resource Departments to prepare them for the interviews. The data collected strongly pointed to the perceptions of the employee in regards to the organization's justice and fairness before, during and after downsizing. This perception of justice became linked to the success of downsizing. Also the data pointed to the necessity of a Human Resource management plan. Major components of the plan were:

> The processes used to determine which and how many employees will be terminated; namely, how much advance notification will be given; how they will be advised and by whom and when; what type and amount of financial support and transition assistance they will receive; what information will be given, when and by whom (84).

All of these elements added up to the employees' perception of justice. The survivors do have the unique position of judging fairness of the

the organization's fairness. It was found important that all Human Resource management in the downsizing process be perceived as fair, just, and committed to the organization's criteria (86).

The authors also collected data on the effects of downsizing on the terminated employees. They found that if an employee was terminated involuntarily through no fault of their own, they experienced a very high degree of stress on many levels: financial, sociological, psychological, and ultimately physiological (87). This "diminished psychological well-being," led to increased hostility, depression, and anxiety, and decreased self-esteem. If the terminated employee did not find employment immediately after job loss, they suffered for an extended period from depression, apathy, and emotional instability all of which led to the deterioration in the family (87). In their finding it was a small percentage that viewed their job loss as a "blessing in disguise". This small segment analyzed the job loss as a chance to re-evaluate their career goals, pursue further education, and re-channel their aspirations (87). The authors gathered facts about downsizing from authors Applebaum, Simpson, and Shapiro and analyzed, "The widespread practice of downsizing has major repercussions...(87). The authors found many cases of individual depression and hardships, both economic and psychological. "Employees lose confidence when they lose their old jobs and are unable to get new ones"(88). The terminated employees are finding themselves unmarketable due to the higher degrees of technology. These employees need to be retrained with updated skills. The authors found that how well they did futuristically was determined to a degree by the previous position they held, by their personality, by their capability to cope, their self-esteem, and their economic conditions (89).

The authors studied the effects of job loss on the family. They discovered syndromes, as "the societal error of omission" which is the wife's suffering from the husband's job loss. The wife is ignored as a victim, when she too suffers from the shock, anger, shame, anxiety, embarrassment, fear, stress, betrayal and guilt for her feelings. Applebaum and Labib saw the need for family counseling for the unemployed and their families. The couples experienced increased marital friction and stress. There is also the unwelcome role reversals, the wife becomes the main bread winner. There is increased family conflict. When the husband loses his job there is a sense of failure, shame, a loss of control over the environment and this leads to depression. The authors found an increase of family violence as spousal abuse and a rise in child abuse. Job loss also increased the use of alcohol and drugs. These problems affect the community and caused a risc in the crime rate. The reports also cited the increase in the suicide rates. All these factors of downsizing negatively affect the people, the community, the city and federal government (74).

Applebaum and Labib studied the effects of downsizing on the surviving employees. They have found:

> "A major factor that contributes to the failure of most organizations to achieve their corporate objectives after downsizing is that they do not adequately and effectively address the "people factor" throughout the process as it relates to surviving employees Research strongly suggests that survivors in the organization also suffer adverse effects after downsizing has occurred (89).

The authors indicate that the survivors are usually not properly informed or are misinformed about many issues, they have extra demands, they perceive that downsizing means a lack of opportunity for advancement. All of these negative perceptions are compounded by thoughts of job and financial insecurities. The authors suggest that part of downsizing process model should include a segment entitled, "Employee Needs After Downsizing". This segment is "crucial to the organizational resurgence". The segment should address survivor needs as relevant to: performance-related advancement, growth and security, re-defining rewarding success, work demands, encouraging career self-management, and the revised commitment to the organization. The negative side, if the needs are not met, are "individuals resorting to bizarre, dysfunctional, or maladaptive behavior" (90). The authors stress the importance of the organization to pre-plan the downsizing with fairness to the terminated employees and the surviving employees as this does ultimately effect the levels of productivity and quality of job performance (91).

The authors reviewed literature, conducted case studies and identified factors that moderate the effects of downsizing. They proposed a "Process Model" for developing and implementing downsizing. The factors of the process model have been reviewed throughout this segment on Applebaum and Labib. The factors they concluded that should be in their process model are:

1. It is proposed that an analysis of all current job functions be conducted to determine which functions and positions should be eliminated, which should be added, and which should be retrained and / or modified to support the strategic goal of the new organization.

2. At the same time, work on the preliminary activities leading to the downsizing plan should commence by determining the objective for the organization, by allocating a budget, and setting a time schedule for the implementation and completion.

3. The alternative methods for employee reduction must be researched and evaluated in terms of their impact on the stakeholders and the downsizing plans. It is important that the employee reduction does not lose necessary skills, expertise and abilities that the organization is dependent on.

4. Concurrent with the downsizing activities, the needs of the surviving employees must be assessed and determined.

5. In this model, the terms "Downsizing Plan" and "Termination Plan" are not synonymous. The termination plan is a component of the downsizing plan. It involves determining how the termination will be implemented; namely who will attend and conduct the termination interviews, when the employees will be required to leave the premises, what security checks are needed, how much advance notice, and what post-termination assistance will be given, and the structure of the severance package.

6. It is recommended that six months after the terminations that there should be a re-evaluation of the downsizing and surviving employees.

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SOURCE: Human Resource Planning Journal. Exhibit from "Strategic Downsizing: A Human Resources Perspective," by Steven H. Appelbaum and Nadia Labib (1993).

"Upsizing the Individual in the Downsized Organization," written by Robert Johnansen and Rob Swigart is a guide to aid downsized corporations to restore continuity, rethink motivation, and maximize team performance. The authors explain "The old stable pyramid shape, with a broad base of line workers, a medium range of middle managers, and a few top executives, is gone" (15). The corporate structure is being flattened. They explain that heirachies have been replaced with teams after the downsizing. There is now a network organization of teams. The teams are a steadfast portion of the chaotic mix of downsizing, global economy, mingling cultures, consumer desires, resources, and the technological information links. Throughout the organizational environment changes, the organization needs to let people find their connections and self-worth.

Downsizing has created a disorientation and threat to American workers. The authors analyzed the human resource factors of downsizing and explain that downsizing has created a workforce that is threaten and insecure,

> "Millions of well-educated, talented, ambitious men and women are finding themselves dumped out in the cold,

> with little salvage of their lost income and health benefits, prospects and hopes. Some are struggling to find their way back to the warmth of a safe employment environment, only to discover that such places are growing scarcer every day. (38)

This to due to the corporate strategy, the need to get more done with less and to redraw their boundaries (39).

Corporations have reanalyzed their employee benefits and rewards and have replaced regular employees with temporary workers as an economical device of downsizing. This saves the company on benefit packages and rewards. The temporary worker is a reality of the downsizing factor. The authors emphasize the need for teams and team leaders to aid in the company's effectively incorporating the temporary workers. They are also advocating a team reward system to counter the negative effects of the temporary worker increase and permanent employee decrease. The team concept is fulfilling to the employee because it creates a sense of belonging and blending together. The temporary worker also develops a loyalty to the company. The authors quote Mike Sollers, an independent electronic contractor,

> "It's strange." he says. "It's actually

> easier for me to be loyal to the company than it is for people who have worked here for ten year. It's the old-timers who are on the chopping block. They-or actually, their salaries and long-term benefits-look bad on the books; I don't." (48)

Mike has been contracted by this utility company for five years. He does not receive insurance but does get a higher salary than the most of the computer nomads (49). Mike is on a team and he says, "We're building something good. My team is terrific" (49). The contracted employee is a worker whose loyalties have to constantly change. This segment explains the necessity of incorporating contracted employees on a team, and the values of the team for the corporation.

The authors discuss the elimination of the middle managers which contributes to the employees' lack of understanding in regards to the authority as it used to be. Since the middle managers are gone, the employees are overwhelmed with direct orders and the increased workloads. An example of the confusion is an employee, named George Radcliffe, who works for a major clothing manufacturer. He had a middle manager that set goals, reported to upper management, and gave direction to the staff under him. The revised authority shifts and changes and so does the workload.

George feels a state of confusion and the added workload is leaving him exhausted. He has been left without the close and personal contact and direction of the middle manager (60). The authors portray that corporations as losing their "boundaries" and sufficient direction as they explain,

> "In the new business environment if you can't tell the difference among boundaries, borders, and frontiers, you're in trouble, both in terms of the problems you will face and the opportunities you will miss. And at this time, most organizations cannot tell the difference". (62)

The authors also analyzed the overload employees have due to downsizing and new technology. More and more workers with advanced technology are taking their work home with them. The internets, phonemail, and faxes can create around the clock connections with the office. This can be damaging to the individual and his family life. There is constant work connection without the necessary reprieves to relax and enjoy the family. The overwork at home has it advantages for the corporation as extra work but no extra pay. It is detrimental to the individual in terms of constant overload, deleterious health, and eventually burn-out or a lower work performance (65). The authors indicate that the confusion between work and family life is just one of the dangers. Studies of the effects on familiy life are being conducted by the Families and Work Institute. These findings are not equating overwork with productivity. The productivity is just not there (68). Once secure workers, now overworked survivors, are finding it difficult to balance "the demands of work and love" (71).

The authors concluding chapter denoted that the worker of today must face the changes due to downsizing as there is no longer security in a large corporation. The secure job with the corporation taking care of the employee is a limiting myth. Employees can no longer use the corporation as their identity; changes in technology, and global markets are realistic factors (165).

Johansen and Swigart approached the disorientation and the turbulance from downsizing. They emphasized not to overlook the needs of the employees. They explained the contracted worker situation and how to incorporate teamwork. Even in a high tech society, the human beigns are still the key to business success or failure.

An editorial entitled, "Downsizing Salaried Jobs", from the American Management Association, presents facts regarding the biggest target of downsizing: salaried employees. The largest percentages (69%) of jobs being eliminated by samll firms are salaried employees. These employees are supervisors, managers, professionals and technicians. The factors that make these professionals vulnerable are monetary and technology. The professionals generally have the highest salaries. If their jobs are reopened they are often replaced by employees with a lower salaries (63). The second factor is technology. "The cost of this technology continues to drop, while payroll costs continue to mount due to increases in health benefits (63).

It was noted that the salaried employees received generous severance packages and job-search assistance. The salaried employees often receive extended medical benefits and severance pay beyond the normal amount of time (63).

The article did bring out the "share the pain" policies of small companies. Fifty-three percent of the small firms invoke salary freezes, intracompany transfers, job-sharing, short work weeks, and hiring freezes to avoid layoffs.

"Organizations Must Adapt To Employees' Changing Needs," is an article written by Virginia Gibson. The article pointed out that employees used to be viewed as critical assets and now they are viewed as unnecessary expenses. The downsizing has taken it's toll on employees, causing them to experience unprecedented instability in the workplace. The survivors and newly hired members of organizations experience symptoms of fatigue, depression, feelings of loss of control, and anger (7). Downsizing has a tremendous impact psychologically. All these facts add up to changed future requirements. The new requirements are flexibility in the workplace, recognition programs, skill assessments and retraining, and outplacement services. These new requirements will help rebuild the employees stability. Most employees identify their self image with their employer. The revised requirements will not heal all the downsizing wounds but will be a step to stability (7).

Gibson's article is a look at new strategies to consider after downsizing. The article is relevant in pointing out the changes and the future requirements.

"Coming Undone", an article written by Vicki Westling, a human resource manager, discusses the agony associated with layoffs. Westling was a personnel manager of a small extrusion plant. There were problems and layoffs were expected. The Human Resource Department had implemented a process plan for the layoffs but it did not make the layoffs any easier. The author details the employee's feeling,

> "The worst came with the peeling away of people's sense of security, their self-confidence shaken, some destroyed by the anxiety that comes with uncertainty." (78)

She goes on to discuss her thoughts when she had to layoff the employees,

> "With each departure there is a screaming of my inner being. The tears never really go away but rest on the rims of my eyelids where they just seem to evaporate rather than run down my cheeks. Some farewells are more difficult than others. I want to beg to be taken along so I won't have to say anymore farewells." (78)

She analyzes that the closing of the plant was like a slow death. There is now bitterness and anger where there was once happiness and enthusiasm. She concludes that this was her most difficult task.

"The Pain of Downsizing", is an article reviewing the downsizing strategies of Nynex's "Ax Man", Robert Thrasher. He has also been termed "the Corporate Assassin". He is responsible for restructuring and eliminating 16,800 jobs. Nynex used one of their own to downsize unlike IBM or Westinghouse Electric (65).

His method of planning for downsizing was to analyze the corporation by functions: customer operations, customer support, customer contact, and customer provisions. He created four teams and worked with the consultants at Boston Consulting Group. He put together his team and the consultants to demand a reduction of thirty five to forty percent in operating expenses. Thrasher and his teams discovered inefficiencies that shocked them. There were eighty-three different brands of personal computers purchased and trucks being painted a different shade of white at the cost of five hundred dollars per truck. These items tabulated $4,500,000, Nynex could only bill $900,000. There were at least three hundred specific changes that could cost cut and simplify procedures (65). He presented a plan to upper management and the directors that would cost

$11,000,000 dollars to enact but would save the corporation one and a half billion dollars (65). The plan was presented to the employees by a company news video. The video explained that Nynex needed to cut expenses by forty percent to remain competitive. There would be downsizing that would eliminate fifteen to twenty-five thousand positions. That was one job out of every five. This article gives insight into one companies downsizing efforts. The company is trying to remake itself, reduce costs, and improve customer service. The players of the downsizing are Robert Thrasher, an outside consultant firm (billing Nynex one million a month for their services), the survivors and the resentful victims. The Nynex managers are bitter and angry. "Two months ago I would have said morale was low and it couldn't go any lower. But I'll have to say it's lower today." says one executive (66). Even though Nynex is economically recovering there is rarely a week without the announcement of more cutbacks (66).

Critics of downsizing are saying it's a fad with a bone to throw at Wallstreet. Other large corporations as Procter and Gamble and Xerox, are saying it's a necessity (66). The pain of downsizing is the cost of emotional trauma to the individuals.

Robert Haseltine begins his article, "Downsizing: The Bottom Line", with the question, "Xerox, GM, AT&T, IBM, Kodak, Fleet Financial Group, Apple. What do these names have in common? The answer is downsizing" (45). He considers downsizing to be the "Economics of Greed". Companies are making statements that they are laying off employees to downsize and increase their profits. Unions are trying to save jobs but are running into brick walls (45).

He explained when companies downsize to increase profits this conclusion can turn on them because as they downsize and people are unemployed, the demand for goods decrease. There is no capital for existing products, let alone additional products (45).

He explained that companies increase by expansion and the demand for goods. The stock market distorts the business by operating on emotion rather than the bottom line approach: profits come from increased sales rather than cutting employees. "In the short run, profits are up and the stockholders are happy. In the longer run where are the jobs for workers who have been released?" He goes on to describe the ploy of the worker who is unable to find work due to downsizing, goes on unemployment compensation, and then on welfare. These programs are government funded and the taxpayers will be paying more and the government expenditures will increase. The downsizng that looks good for the company and stockholders will cause long run problems for everyone (45).

The manner which the Department of Labor measures unemployment is deceptive. The unemployed are those receiving unemployment compensation and those who have reached the limits and are rolled over to the welfare system. Those workers who have accepted part-time jobs are also no longer counted. "The actual unemployment figures in the United States probably are about three times higher than published" (23).

Haseltine analyzed the over all effects of downsizing as the decrease in the economic climate, the laid off workers on welfare, the increased taxes, and increased government expenditures. There are no positive aspects of downsizing listed. He quotes John Maynard Keynes, an economist, about the ill effects of downsizing, "In the long run we are all dead" (45).

According to Feldman and Leana, authors of "Better Practices in Managing Layoffs", there are methods to layoff employees during downsizing in an effective manner. The authors investigated layoff policies in eight organizations and concluded that certain factors should be included (240). These factors are:

> *Include early warning systems indicating layoff conditions.
>
> *It is suggested for the human resource planning department to focus on alternatives to layoffs.
>
> *Use candid and direct communication with employees.
>
> *Simplify the assistance program sign up.
>
> *Be aware of possible problems with layoffs in different facilities and design intervention policies.
>
> *Co-design and co-execute assistance programs. (249)

Other elements necessary are financial assistance programs, outplacement programs, training programs, survivor assistance programs, and financial support to enact the restructuring (245).

The authors suggestions for conducting layoffs are relevant to the current downsizng circumstances. They brought out the point that there should be planning systems and guidelines to manage layoffs.

Floyd and Woolridge co-author an article, "Dinosaurs or Dynamos?", which looks at middle managers in the downsizing arena. The authors explain that middle managers once dominated the corporate landscape with perks and high salaries. Now during the downsizing they are removed as the "delayering" process advances. More than twenty percent of the job loss since 1988 has been middle managers (48). According to a survey from Tower Perrin, the releasing of middle managers during the delayering process loses valuable skills, and the company's innovation and creativity declines. The company will often fall behind in the crucial race for new products. Therefore, the delayering does not always work (50).

Instead of letting the middle managers go; the authors suggest changing their job description to make their roles more strategic and less operational. In their redefined positions they should: develop budgets, monitor performances, take corrective actions when necessary and define tactics of the corporation. Their role should be implementation, and they should be able to cross-function, and develop teams to take over responsibilities (54). The dilemma of middle manager is a relevant problem to review.

The Academy of Management collected a variety of facts from authors with regards to restructuring, re-engineering, and rightsizing. The facts collected affirms David Whetten's early predictions that decline would be a "widespread phenomenon" (2). Professor Whetten prefers that management use "sensemaking" instead of downsizing to re-engineer the workforce (3).

Professor Reger and colleagues (John Mullane, Loren Gustafson and Samuel D. DeMarie), explain the necessity of executives to rethink the process of change. They suggest to use "tectonic change". Tectonic change is better than revolutionary change because a series of tectonic shifts relieves pressure and lessens the chance of a revolutionary quake (20). The Reger team asked executives to:

> Rethink change so that the change programs recognize a shared sense of organizational identity, build an organization ideal based on that identity, and preserve the core elements of that identity. (22)

Their process would hopefully build a gradual acceptance to the change.

Nahavandi and Aranda's piece shows that concepts developed for one organization may not be applicable to another organization. They do explain the benefits of teams and why teams fit so well in the Japanese firms. They suggest that teamwork is a necessary component of restructuring. They strongly suggest the effectiveness of teams in the American context (24).

Halal described the most recent rash of restructurings as a form or corporate "perestroika" (27). He compared the organizations in the 90's to those of past hierarchies. He noted that hierarchies of all forms are crumbling down. "Chaotic markets will replace the formalization. Decentralization will replace centralization" (28). The new foundations of business will demand different behavior from the managers and the managed. He concluded with the analogy, "The governor often finds the change more difficult than the governed" (28).

The articles adapt a cautious tone toward the current enthusiasm for workforce reduction. The facts collected do not deny the need to change but they question the long-term success of efforts to restructure. The papers concluded the net result to be the need for more information and planning before re-engineering the workforce.

Ochs and Parkinson's article, "Climbing the Downsized Ladder," has information to aid survivors of downsizing. They begin with rules for survivors:

> *Build a business network and stay in touch with people forever.
>
> *Keep your knowledge up-to-date and continually add to your repoire of job skills.
>
> *Be prepared to face change with little or no warning. (88)

The article has merit as the survivors of downsizing need information to aid in their security and stability. The article gives valid advice to not only network but also an active search should include all avenues as newspapers, and recruiters. She also suggests to keep your resume updated (89). The survivor should also gain as many skills as possible, and consider lateral moves to enhance experience. Also keep your finances prepared and ready for the possible layoff. Use the outplacement center to gain new skills and insight into the current job market. Continue education to be ready for the right job at the right time (90).

Ochs was very informative regarding "what to do after" the corporation is downsized. The suggestions are valid ideas to aid the survivors.

French's article, "Downsizing: People Issues", stressed that big businesses frequently omit the impact on the people and the effects. Businesses often only worry about the bottom line. They forget the amount of work to be done remains constant and even increases while the number of people are decreasing. Also, there needs to be some thought on the psychological impact on those who remain- "the survivor syndrome". If the people are ignored, life is sapped out of the organization. The employees start to worry; they gossip; they fret; they mourn the lost employees and friends, and they start looking over their shoulder. All these items take time away from the organization. Often the employees are brushing up on their resumes and going for interviews. Both take away valuable time from the organization. Unfortunately, good resources leave the organization (27).

French does have suggestions for a more palatable process of downsizing. He suggests that if an organization must downsize, do it quickly; do not prolong the process or drag it out. The prolonged process distracts the employees and disables the organization more than necessary. It is very important to communicate with the survivors; reassure them that the cuts have stopped. They need to see a degree of security for the future.

"Be as open as possible with people"(23). They do not need the gory details, but it is necessary to listen to their concerns.

"Be prepared for sabotage" (23). Human nature will take over and react to the downsizing. Often the computer systems are the first attempt at damage.

"Timing is everything" (23). Managers that are given a downsizing deadline should keep on top of their employee's financial commitments. An example would be an employee contemplating buying a house. If the manager knows that employee is going to get laid off, the manager could forewarn the employee.

All companies have different methods for downsizing. The one consistent factor should be the impact on the people. Often corporations get to the bottom line and find that the work load has increased and so has the stress on the worker. When companies rightsize they need to restructure the work loads also.

Downsizing has created many new issues for companies to deal with. Organizations should prioritize the issues of the people.

"Corporate Executions", written by Alan Downs expresses, "the ugly truth about layoffs". He explains that times have changed and layoffs permeate all ranks of American business. "The American Management Association found that in 1994, two-thirds of all workers who were laid off were college-educated" (3). Downs does not agree with the rash of layoffs; he explains that layoffs have become popular even when things are going well. He quotes a recent headline from the Pittsburgh Post Gazette to confirm the popular ploy of layoffs, "Westinghouse Reports First Profit since 1990, Lays Off 1200" (20). He sees layoffs as, "mercilessly bleeding critical personnel" (25). He denotes the negative aspects as, loss of talent, knowledge, and morale (30).

Downs analyzes the reasons behind downsizing to be: "the lean and mean story: which is the business climate being competitive, the global markets, and the lower cost making it all essential that businesses trim down. There is also technology and restructuring as reasons for corporations to downsize (11). The author uses evidence from the Wyatt and Company's survey to explain the negative findings after downsizing:

> *Only one-third said that profits increased as much as they had expected after the layoff.
>
> *Fewer than half had said their cuts had reduced expenses as much as expected over time--an understandable result, considering that four out of five of these same managers reported rehiring for the positions that were laid off.
>
> *Only a small minority reported a satisfactory increase in shareholders' return on investment as a result of the layoff. (12)

Additional statistics were released which also gave downsizing a negative review by the author: of the eighty-five percent of the large corporations that used downsizing to increase profits only forty-six percent saw any increase, fifty-eight percent sought higher productivity but only thirty-four percent had a slight increase in productivity, and sixty-one percent wanted to improve customer service but only thirty-one percent achieved it (15).

The author stated that the layoffs only are ineffective, and that long range planning is not the exception but the rule. He has insight into the people and how downsizing has effected their careers. He states, "There is one more aspect of the layoff I haven't touched on: the millions of lives and careers that have virtually destroyed by its ravages"

(16). One of the "ravages" of layoffs is the inability of the laid off employee to find work. The unemployment figures in 1992 were over fifteen percent which is the highest level since World War II. Of those who have lost their full-time work, more than half remained unemployed a year later or were employed in jobs that pay less than eighty percent of their previous wages (19).

The author discusses the enablers of downsizing as the media, consultants, and financial analysts. The terms "trimming down" and "preventative medicine are phrases used by the media to give downsizing a positive sound (35). He sees the input by consultants as the information and experience they have obtained from other clients that have downsized. This information can be valuable and very expensive. The consulting firms' sales have risen as much as forty percent due to downsizing (38). The financial analystst are powerful enablers from the authors viewpoint. Thay are listened to and their recommendations are sought to aid in the shareholders' stake. "Companies that do what an analyst thinks is best will get a "buy" recommendation, and investors will buy stock (40). Downs sees these "enablers" as contributors to naricissism; which is a culture that has little respect for human dignity or welfare (40).

Downs goes on to discuss other negative aspects of downsizing as: sabotage, corporate throat cutting, low morale, overwork, customer service vulnerability, burned out bosses, and survivor sickness. He views these negative aspects as situations and circumstances resulting from downsizing (51,52,53). He also analyzes that "we all lose" from downsizing as taxpayers and members of communities. There are increased taxes to support unemployment and welfare, security and pensions are scarce, spousal and child abuse rises, and the community loses valuable members due to relocations (58).

The author presented the revised employment picture as very obscure. He sees the American worker as losing ground. They are either a survivor hanging on for the steady paycheck or a laid off victim jumping from job to job but, the workplace for all has deteriorated (199).

Alan Downs is a former "corporate executioner" and is now a management consultant specializing in strategic human resources planning (212). He exposes downsizing as the destructive practice that it is.

"Grow to be Great: Breaking the Downsizing Cycle," by Joao P. A. Baptista and Dwight L. Gertz is a collaboration to enlighten businesses to the positive factors of growing and the negative factors of downsizing. "No company ever shrank to greatness," is a statement that summarizes their thoughts on downsizing. They explain that the pressure of the bottom line is keeping CEO's awake at night. They feel they must follow the short-term solution of downsizing-getting rid of people and assets. They are pressured to produce the profits the shareholders want. The authors feel companies should plan a restructuring. They would benefit more by a well planned strategy that would simplify, improve the business, and help the company grow. Their analogy is that a no growth company is stagnant and no fun (10). They feel the strategy of shrinkage is running out of steam and that it just is not working (11). They quote Wayne Calloway, PepsiCo CEO: "You can't save your way to prosperity" (18). The authors interviewed CEO's from one-hundred-eighty companies and ninety-four percent wanted growth and not downsizing (20). The authors say, "Downsizing is misused, it is an analytical excuse for wholesale unemployment (22).

The leaner and meaner theory of downsizing has left companies leaner, not richer (11).

Historically the first problems companies were experiencing were those hit by foreign competition in the late 1970's. America's steel, automobile, and electronic manufacturers were hit by competitors that could undercut the prices by cheaper labor sources. Sales were down and so was the need to employ numerous employees. Companies thought that surface downsizing would be an answer. Instead they are finding out that corporate anorexia is not a sensible way to get healthy. The evidence is also growing that downsizing is an uncertain strategy. Downsizing may not address the fundamental problems. "Costs, after all, are not the only business problem to consider (12). Sometimes the problem is not "how" the companies do things but "what" they do. The authors use as an example a phonograph record company. Since the demand for vinyl records has diminished, downsizing to save cost would be ineffective. Companies in this situation need to "reinvent" their product. They need to reengineer and restructure. They need to offer entirely new products or services. "Given these limitations, there is every reason to theorize that downsizing may be a strategy whose time has passed (12).

The authors theorize that there is diminishing value in downsizing and their theory is backed by the American Management Association's survey. According to the survey released in 1993, fewer than half of the downsized organizations reported increased profits. Also, the same percentage of firms experienced no market decline in operating expenses (12). The organizations were not seeing the profits they expected; at least two-thirds of the organizations downsized an additional two or more times. The studies also found evidence that the principles of re-engineering are not being applied (12). The improvement plans just do not materialize as planned. A study by the CSC Index indicated that fewer than one-third of the companies that had downsized met their goals of reengineering (13).

The authors analyzed that there is a lower morale and a lower productivity of the employee that have survived systematic reductions. The AMA study indicated that eighty percent of downsized companies experienced downturns in morale (19). "The surest after-effect of downsizing is declining workforce morale, which affect productivity and, in turn, profits" (19). The authors use the example of Scott

Paper as decling in morale:

> "Many Scott employees are in a state of shock, dread and anger as they wait for their managers to decide who will go and who will stay. Many of those who remain end up picking up part of the work left behind by furloughed colleagues- often with no added pay (19).

The authors explain the "survivor sickness" syndrome as a combination of guilt and depression. There are always the rumors, gossip and lifeboat theory to add to their dilemmas. These companies need to give help to the managers, as they often have to deliver the pink slips and manage a reduced workforce (20).

Companies that are downsizing have another dilemma, which is to protect the "eldest" or those employees with the greatest length of services. By keeping the older employees and freezing hiring they are left with an aging work staff set in their ways. The "new blood" of younger, more energetic workers does not materialize due to the hire freeze. Ironically, these policies hurt the companies in the long run (20).

The authors explained that American companies have taken their "medicine". They have improved quality, and narrowed cost differences with foreign competition. The domestic competitors have the product quality on the rise and the costs lowered. Even though American manufacturers have taken their medicine and increased to global markets they are still downsizing. They study by Wyatt Company of more than 4,000 American workers in downsizing companies found that only fifty-seven percent were satisfied with their work, as opposed to seventy-two percent in growing companies (19). Although companies have gained efficiency, the bureaucracy and layers of management does not allow for growth. The authors believe that managers can break out of the cycle of downsizing and move towards growth (21).

The authors conclude that the myths of growth, which are, "economy is lousy," and "we're a dead industry," are not relevant facts (4). The companies which are growing purse the following strategies:

> *They focus selectively on better-chosen customers, know everything they can know about those customers and their needs, and serve those needs with intense dedication. We call this customer franchise management.
>
> *They become exceptionally effective at rapidly developing large numbers of new products that offer superior value to customers. This is new products/services development strategy.
>
> *They find and develop the most effective ways to connect customer segments with their products and services. This is the strategy of channel management.

There are many aspects of downsizing that were reviewed by the collected authors. Common aspects through the reviews is the fact that downsizing has repercussions and requires planning. An arcane, review from Peter Drucker stated the need for long-range planning and rightsizing. Downsizing and rightsizing have corporations changing their sizes to meet the requirements of their businesses.

An article by Reynolds forecasted the upswing of downsizing and an increase in problems. Some of those problems are a concern for job security, a demand for alternatives to downsizing, the negative effects of downsizing as the increase of spousal and child abuse due to the psychological effects of downsizing, the salaried employees and the middled managers being the first targets, the difficulties of downsizing for the human resource department, the extra expenses from downsizing as outsourcing and consulting fees, the chance of employee sabotage, the cost to the taxpayers, and the devastating effects on the people laid off. The statistics did not show positive gains from downsizing. Corporations have been accused of using downsizing to gain favorable reviews from Wallstreet. The majority of the authors pointed out the negatives of downsizing and suggested plans for the downsizing. There were few reviews that discussed the positive aspects of downsizing. There were reviews that suggested if a restructuring plan were enacted the organization could benefit with: a simplification of the work flows, an improved stockholders portfolio, and cost savings. The majority of the reviews expressed concerns for the human resource aspects (the people involved) and the tolls that downsizing was taking. The overall conclusion was that downsizing was not a one time procedure, the results are in and organizations are not seeing the benefits as expected, the people involved in downsizing the (laid off workers, the survivors, the human resource departments, managers) are suffering from it's effects, most corporations downsized for cost savings and to remain competitive in the global markets, and there should be a plan before and after downsizing.

## Statement of Hypothesis

Organizations that are downsizing need to consider the human resource factors and plan for downsizing.

# Chapter III

## SELECTIVE REVIEW AND EVALUATION OF RESEARCH

The literature and research regarding downsizing recommended a strategic plan for downsizing. The following review will analyze the strategic plans for downsizing from several authors, Towers Perrins' plan for downsizing and the methods from Development Dimensions International. All methods and information stress the need to give major concern for the human resource factor; after all they are the organization.

The reviews for strategic planning will begin with Towers Perrin. The Towers Perrin presentation will review their method of downsizing. Also included are reviews from authors that have constructed strategic plans for downsizing. Authors Steven Appelbaum and Nadia Labib, developed a "process model" for downsizing from a strategic organizational perspective. There will also be information from Development Dimensions International pertaining to restructuring. Their method is based on restructuring from a technological aspect. The articles strive to balance the needs of the human resource factor and the organization. The information sets the criteria for downsizing methods.

Analysis of Towers Perrin's Downsizing Plan

Towers Perrin is a privately owned and globally located organization that specializes in, "Human Resource Consulting". Towers Perrin is a respected organization with an impressive list of clients (CIGNA, Apple Computers, Xerox Corporation, Anheuser-Busch, CIBA GEIGY, Alcoa, Amoco, The New York Times, General Motors, Brown Group, Air France, etc.). Towers Perrin offers services in: general management, human resource consulting, actuarial consulting, group incentive planning, expanding market share, and increasing productivity.

Human resource consulting is the focal point of constructing a plan for downsizing. To gain insight and information for downsizing plans Tower Perrin surveyed two-hundred and nineteen organizations. The industries represented were:

| | |
|---|---|
| 52% | General Manufacturing |
| 20% | Health Care |
| 18% | Financial and Insurance |
| 6% | Retail/Wholesale |
| 6% | Service |
| 6% | Transportation and Utilities |
| 12% | Other |

SOURCE: Towers Perrin Report. Exhibit from, "Tapping into the Human Resource". (1992).

The response from the survey gave credibility to the theory that employees are the key to surviving after downsizing and organizations need a planned downsizing with focus on the human resource factor. The first portion of the downsizing plan is the realization that downsizing is necessary after self-assessment. The needs and specifications of the downsizing are discussed with representatives from Towers Perrin and the organization's CEO, the head of the human resource division, and upper management. The Towers Perrin representatives compile the needs and specifications for downsizing from this initial meeting. They then come up with a "bid" for the downsizing job. The "bid" has been compiled by analyzing the organizations' needs, specifications, the team members required for the job and the time required to do the job, and the cost. The "bid" is presented to the organization, if acceptable, Towers Perrin proceeds with setting up "teams" with expertise in analyzing the needs of the human resource factor, the business itself, with surveys, and with compiling the data for the plan (Thomas, Interview).

The Towers Perrin experts work closely with the human resource department. They also analyze the pertinent business data as the product, price, revenue, expenses, and number of employees. The experts assess the competition, the long range plans of the organization, the concerns of the organization, and then get down to the business of streamlining The employees are given surveys to fill out about their position, their education, the years with the organization and the pay rate. The survey information is compiled into statistics. These statistics are presented with the recommended plan for downsizing. The department managers are contacted and given the statistical data for downsizing their division or for restructuring their division. The layoffs begin sometimes with advance warning in the format of a general meeting or a memo of the corporation's plans. The employees are sometimes given layoff notice up to six weeks in advance; generally the employees are given notice and it is in effect that day. The severance plans were discussed and planned for in advance of the layoffs. The package is determined by many factors but generally by the efforts of the human resource department and the Towers Perrin consultants (Towers 9). The key objectives for downsizing are outlined by Tower Perrin in their report, "Harnessing the Power of Human Resource":

Achieve/maintain competitive prices

Improve quality of service

Strengthen customer relations

Reduce health care costs

Increase customer base

Link executive compensation to business results

Reorganize for greater effectiveness

Reduce fixed payroll costs

Link employee pay to productivity

Build marketing skills

Prefund retiree benefits

Reduce head count (9)

The CEO generally prioritizes the objectives, the organization's immediate needs. The CEO initially meets with the upper management of Towers Perrin to outline the organization's goals and the budget for downsizing. There are teams formed within the organization to being the restructuring.
The Human Resource programs are focused on: the organization's structure, the customer, performance management, training, reward systems, communications, benefit cost management, and workers compensation. There are generally re-focus meetings and memos with explanations and goals.

Downsizing plans include out-placement programs for the displaced workers. The plans also decide the severance pay and realign the 401K, and pension plans of the displaced worker. Towers Perrin concludes the downsizing plan with the suggested high performance programs to be in place for the successful downsizing:

Self-managed teams

Cross-functional reporting

Work redesign

Yearly employee goal-setting

Leadership training

Diversity training

Broad-based incentives

Skill based pay

Employee surveys

Communication of employee survey results

Acting on survey results

Support for managers' listening

Flexible benefits

Retirement planning assistance

Benefit administration outsourcing (19)

The last phase of the Towers Perrin plan is to reinforce all issues with communication.

## Evaluation of Literature

The literature reviewed regarding downsizing and restructuring had the common theories to priortize the needs of the human resource factor and plan for downsizing and restructuring. The articles offered information regarding the mistakes of downsizing, the ramifications of downsizing, and plans for downsizing. Downsizing by cutting the number of employees only without a plan is a big mistake, was a common statement in the articles reviewed. There were positive points of downsizing if the restructuring was done in a planned manner. The articles also analyzed methods for intervention and alternative methods for employee reductions. Of the several negative aspects of downsizing pointed out, the most predominant was that employees are being viewed as unnecessary expenses instead of critical assets. This review will concentrate on the combination of information to formulate a strategic plan which emphasizes the needs of the human resource factor.

Buhler pointed out that downsizing needs to begin with planning and vision. There also needs to be communication. He states, "The major error made in downsizing is across-the-board reductions"(24).

Buhler also cautioned that the communities are analyzing business practices. When downsizing plans are being formulated think about the organizations stakeholders as impressions are being made.

The American Management Association has a seven step plan for an intervention program geared toward downsizing. The program is based on communication. The phases help analyze the needs and feelings of the employees and managers. It is a rebuilding tool. The article was presented by O'Neill and explained the role of the consultants' intervention.

Currie did present positive information if restructuring were done correctly as: simplification of the work flow, improved customer and stakeholder visibility, and significant cost savings.

Some of the negative points brought out about downsizing were: the lack of job security, depression, an individual's financial demise, loss of personal identification and physical abuse.

Applebaum and Labib's article emphasized a strategic plan and after analyzing the articles on downsizing they presented their plan for downsizing successfully. The major components of the plan are as follows:

*Determine which and how many employees would be terminated.

*Who would advise them, when and how much notice would be given.

*What type of financial support and transition assitance they would receive.

*Analyze all of the current job functions.

*Determine the objective of the corporation.

*Examine alternate methods for employee reductions.

*Concurrent with downsizing the needs of the surviving employees must be assessed.

*Six months after the terminations there there should be a re-evaluation. (95)

Many articles pointed out the necessity of developing teams. The team system could help unite the organization. This system is important to aid in "teaming" up the temporary workers with the survivors. Authors Johansen and Swigart did approach the problem of the temporary worker and the surviving employee by teaming them up in their article.

Byrne gave another view on planned downsizing by using the example from Nynex. They used one of their own and consultants to downsize. The benefit from this downsizing plan was that waste was uncovered and part of the plan was to restructure divisions.

All the articles were insights for a plan.

Haseltine analyzed the negative effects of downsizing and his article has relevant information. He pointed out that immediate increases in revenue for an organization has created a decrease in the in the ecomonic climate, laid off workers on welfare, increased taxes, and increased government expenditures and insecurity for the American workers. All are legitimate negatives to considered.

Feldman and Leana gave ideas for managing a layoff better. They concluded that certain factors should be in the plan as: early warning systems, direct lines of communication, simplify the assistance program, and be aware of possible problems with the laid off employee (249). This article does give insight into a major portion of downsizing- layoffs.

O'Neill presented a collection of authors from The Academy of Management. The articles reviewed collaborated to reinforce the necessity of making downsizing "make sense" for the organization. The articles pointed out the need for gathering information and planning (27,28).

Ochs and Parkinson's article had pertinent facts for the survivors of downsizing. This article is necessary to help educate the survivor in surviving and relevant to the situation of downsizing.

French stresses that organizations need to prioritize the issues of people when downsizing. His suggestion to communicate, be open, and do the downsizing in a direct and painless manner was in compliance with goals of downsizing. The article made sense of people issues.

Downs book "Corporate Executions", presented the hard hitting, ugly truth about downsizing. He did well backing up his statements. His background as a "corporate executioner" and now a management consultant legitimized the book.

Baptista and Gertz try to enlighten businesses to "grow to be great". They do not think shrinkage will expand the business. The authors did a good job with information, charts and graphs to support their hypothesis.

Drucker's book was dated but he still had the foresight to suggest the necessity of long range planning. He also knew that organizations had to be the "right size" to function properly. Drucker book supports his wisdom.

The articles were a collected variety of the many aspects of downsizing. All aided with ideas for a plan that focused on the human resource factor.

Analysis of Development Dimensions International

Development Dimensions International's downsizing plans revolve around technolgy and the human resource factors. Unique systems integrate the downsized human resource factor with a multi-dimensional program. The world headquarters is in Pittsburgh with offices located all over the world. Their systems work together to accomplish the organizational goals. They realize the difficulty in translating corporate goals after downsizing. Development Dimensions International incorporates the technology of state of the art software for the downsized and restructured workforce. As the number of employees goes down so often does the quality of service from the organization. Their approach is to systemize in a customized manner. "As companies move toward cross-functional teams, empowerment, and involvement many responsibilities are being shared" (1). The workers need to be trained to diversify and use technology. Their comprehensive tools synchronize the organization.

Their "synergease" software is a package that has built-in human resource expertise. The package aids in accomplishing the downsized organization goals by:

*Identifying the critical competencies for any position, function, or organizational level.

*Gather on-the-job perceptual feedback for individual training needs, career development, and succession planning.

*Produce job related interview guides for selection systems.

*Produce behaviorally based developmental support materials.

*Generate detailed job analysis audit trails for legal defensibility.

*Create individual plans in support of your performance management system.

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Source: Development Dimensions International Report. Exhibit from: "Synergease: Bringing Together Human Resource Solutions". 1995.

The consultants of Development Dimensions International go into an organization as a team. They analyze the needs of the organization in a hands on matter. They spend time with the employees of the organization, understanding their positions and analyzing their needs. They critique the various functions of the organization. The consultants take the information back to be analyzed. Then a plan is presented from the information gathered. DDI answers downsizing plans with technology.

Strategic Plan for Downsizing

The literature and research regarding downsizing reviewed strategic plans and ideas for downsizing. The following is a combination of information from the literature reviews, Towers Perrin, and Development Dimensions International to formulate a plan.

Downsizing Plan

I. Self Assess the needs of the Organization

A. Analyze the product, price, expenses, and number of employees.

B. Formulate statistics

C. Survey the employees

II. Communicate internally

A. Conduct meetings with CEO, President, Vice President, Human Resource Department, and Division Managers to analyze the direction of the downsizing.

B. Analyze Customer Base, their current and future needs.

III. Form Teams to work on the downsizing project

IV. Discuss alternatives to downsizing

V. Redesign work structure

VI. Bring in the Consultants

A. The Consultants to downsize (as Towers Perrin)

B. The Consultants to restructure (as Development Dimensions International)

VII. Do not downsize with across-the-board cuts.

VIII. Determine which and how many employees will be terminated

IX. Determine who will advise the employees of termination or layoffs.

X. Communicate with employees with memos and meetings

XI. Inact the financial support and transition assistance

XII. Begin layoffs and restructure plans

XIII. Re-evaluate the surviving employees needs

XIV. Bring in the Consultants to restructure and redesign the work with assistance from technology

XV. Form working teams

XVI. Communicate and re-evaluate

XVII. Go forward as a newly designed organization

---

The plan incorporates the ideas from articles reviewed, the downsizing methods of Towers Perrin and the restructuring ideas from Development Dimensions International. The most important idea is to keep focus on the human resource factor and their needs.

## Chapter IV

## RESULTS

### Summarization of the Downsizing Efforts

The information studied regarding downsizing results in the common factors that all major organizations are downsizing; downsizing is here to stay; there are factors to consider before and after downsizing; the human resource factor is to be the major concern and organizations that are downsizing should have a plan.

The downsizing statistics are staggering figures: 3,200 people being laid off every day and 615,000 per year losing their jobs ( Moravec 7). America's largest twenty-five companies were responsible for terminating 650,000 people in one year (O'Reilly 78). The reasons for downsizing differ according to the organization's goals, market focus, and stock holders' interest. Some of the reasons given were: technology and machines are replacing people, clever production processes are decreasing number of employees needed, increased global competition has forced companies to slash labor cost and companies are responding to market pressures.

The Results of a Downsized Corporation

Brown Group, Inc. is an example of downsizing efforts that began with the difficult task of restructuring due to market pressures. The corporation was losing market share due to the heavy expenses of domestic manufacturing and global competition. The downsizing efforts began ten years ago. The last five years the overall staff was reduced from 28,000 to 11,000 and the corporate staff was reduced from 321 positions to 91 positions (Third Quarter Report). In July of 1995 the last five domestic factories were closed. This ended the one hundred years of Brown Group, Inc. being a domestic manufacturer. The corporate overview states, "Brown Group, Inc. is a leading footwear company with worldwide operations. The company recently completed a series of restructuring moves to focus on the retailing and wholesaling of footwear for women, men, and children (1995 Annual Report 1). Their operations include footwear retail chain, Famous Footwear, with 800 stores. The wholesale operation includes the acquisition of Pagoda Trading Company, a global footwear importer. Brown Group Inc. has also opened up the European market by acuqiring and expanding the

Pagoda International Division. The revised company has a large branded business that includes: Naturalizer, Life Stride, Le Coq Spirit, Buster Brown, Disney, Barbie, and Dr. Scholls.

Brown Group, Inc. has set goals to comply with restructuring. The guiding priorities to their downsizing and restructuring goals are:

> *To develop and invest in our successful growth businesses, recognizing that this is the best proven way to build long-term value for shareholders.
>
> *To manage changing operations with intensity, either to "turn them around" or to withdraw investment from them.
>
> *To protect the balance sheet and the company's ability to finance our businesses, maintaining debt at prudent levels.
>
> *To retain capital to the shareholders through dividends, recognizing that this supports shareholders total return importantly.

---

Source: Brown Group, Inc. 1995 Annual Report to Shareholders.

The downsizing and restructuring process was decided and acclimatized by the operating committee. The operating committee consisted of the following Brown Group, Inc., Pagoda Trading and Famous Footwear executives:

B. A. Bridgewater, Jr.
Chairman of the Board, President
and Chief Executive Officer

Brian Cook
Vice President-Footwear Retailing
and President, Famous Footwear

Ronald N. Durchfort
President, Pagoda International

Ronald A. Fromm
Executive Vice President
Famous Footwear

Gary M. Rich
President, Pagoda U.S.A.

Harry E. Rich
Executive Vice President
and Chief Financial Officer

James M. Roe
Senior Vice President-Sales
and Operations, Famous Footwear

Andrew M. Rosen
Vice President and Treasurer

David H. Schwartz
President, Pagoda Trading

Thomas A. Williams
Vice President-Footwear
Wholesaling, President,
Brown Shoe Company and
Chairman, Pagoda

E. Lee Wyatt, Jr.
Senior Vice President-Finance
and Administration, Brown
Shoe Company and Pagoda

George J. Zelinsky
Senior Vice President and
General Merchandise Manager
Famous Footwear

The operating committee formulated teams. The teams consisted of upper level managers, divisional managers, human resource personnel, and key employees. Information was gathered and formulated into statistics. The information was analyzed and structured into a mission statement. The mission statement was presented to the board of directors and was confirmed.

Downsizing was a necessary portion of the plan. The corporation was closing down all domestic factories to reduce expenses. The factory employees were union and there were special union consultants and negotiators brought in to aid in the closing. The closings were completed by 1995.

The major downsizing of approximately 17,230 employees was a process that took five years. This downsizing process was done in phases with consultants and software from McKinsey and Company. This first phase was to formulate teams. The teams consisted various divisional heads, department managers, and employees. The employees were then set up as team leaders, project managers and group leaders. They were directed by McKinsey and Company and given the task of analyzing all job functions and frequency of the job performance. The information was gathered, computerized and analyzed by the software from McKinsey and Company. The information helped flag the job functions or positions that were irrelevant. A "steering committee" which consisted of divisional executives and human resource managers discussed the data and were able to eliminate positions and unnecessary job functions. The positive aspect of this downsizing was the planning and communication. The communication and human resource involvement created on atmosphere where the employees were able to volunteer information about their jobs and few even pointed out that their jobs could be eliminated.

The second phase for Brown Group, Inc. was to restructure. This was also the phase that Brown Shoe Company and Pagoda Trading Company were merged. The restructuring and merging was again done by inter-company teams headed by Tom Williams. The teams analyzed what the business should consist of. They broke down the "functions" of making, selling and marketing footwear.
The teams evaluated, recommended, and argued their ideas of the footwear functions. Another helpful tool was to gather information that studied the processes to design, produce, ship, sell, and

market footwear. The questions, "What is our business? Where is our business going?"; was answered by studying the functions and structures of the two companies. Tom Williams and the teams evaluated, debated and came up with a strategy. There was guidance from Paul Warphol, a business consultant who aids with the psychological aspects of goal achievement.

The merging of the two companies was an all encompassing task. The two companies had two very different personalities and core values. There was years of planning before the two could be merged. Also, there was further downsizing. There was a period of "survivor sickness" which created a lull in productivity and temporarily stifled the creativity of the employees. This is common when a company downsizes and/or merges.

Pagoda Trading was brought into the Brown Group, Inc., building. The merging and move were strategically planned. This was not an easy task because both companies had two very different "personalities", business plans, and hierarchy. Tom Williams brought the groups together by planning and taking into consideration the needs of the human resource factor.

The offices had been prepared, the move planned, and a welcoming party to break the ice. Tom Williams continually communicated with the two groups. There were also charitable events with planned teams to to unite the groups and parties to honor the employees.

The Brown Group figures reflected the turmoil and instability of the initial downsizing and merging. The following news release explains the fluctuations:

> "1995 was difficult and disappointing year for Brown Group. Retail traffic was well below the prior years' levels. In the second quarter, cost associated with the closing of the final group of five factories led to further losses.
>
> Adversely affected by Brown Group's losses in the first two quarters, the price of Brown Group's shares declined from $31.62 to $13.25 in 1995.
>
> Pagoda's sales and operating earnings declined in the quarter, largely reflecting a shift in the timing of orders and wholesale shipments.
>
> At Famous Footwear, first quarter sales increased 10.6 percent to $183.7 million, but declined 1.9 percent on a same-store basis.

Source: Brown Group News Release. May 23, 1996.

The downsizing plans had built in financial safeguards for these losses and changes needed to redirect the business. The following information discusses the positive aspects and future plans:

"Brown Group's first quarter results were slightly better than planned and significantly improved over last year's first quarter loss. They reflect a return to solid profitability at Brown Shoe Company, tightly controlled operations and improved performance."

"The performance of Brown Shoe Company in the quarter was particularly encouraging. Operating earnings improved from a loss of $4.4 million last year, to earnings of $3.4 million. Good acceptance of the Naturalizer, Naturalsport and Life Stride brands, and higher margins related to the shift of all remaining production to offshore factories."

"The company's Naturalizer Retail Stores also showed substantial improvement during the quarter with sales up 6.5 percent to $28.9 million and a 6.4 percent increase in same store sales at the mall-brand stores."

"Overall, operating earnings from our Wholesale business increased by $5.5 million in the quarter."

"In summary, first quarter results are encouraging. They reflect a goal to consumer responses to our product improvement and marketing programs, better acceptance of our brands and the positive impact of the step we took last year to reduce costs and improve all aspects of our operations."

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Source: Brown Group, Inc., News Release. May 23, 1996.

Brown Group, Inc.'s figures have shown that they are leveling off to the adjustments. The stock prices are climbing, and bookings are going up.

Brown Group, Inc. did plan their downsizing. They are still re-designing and improving to reach their goals. The major downsizing is over. It did fit the criteria for downsizing due to the strategy of pre-planning, deciding where the business was going, and emphasizing the human resource factor. The planned restructuring and adjustments are working. Brown Group, Inc. has united footwear importing, selling and marketing are slowly climbing out of the downside of downsizing.

## Chapter V

## DISCUSSION

### Summary

The facts and information on downsizing are relevant and there is an abundance of corporations using the downsizing trend as a device to remain competitive. They are finding themselves in situations with the old dynasties of numerous employees that had previously been focusing on one task and corporations with levels of hierachy. This is no longer acceptable in today's global economy. The change has been to "lean and mean". Corporations find themselves in a world of global competition with a variety of markets to be distinguished from. To stay competitive they must satisfy the various markets, answer to the customer's need, answer to the consumer, the government regulations, and to the stockholders. They must hold that bottom line. Corporations must refocus on what they want their business to be, consider the customer's needs, and decide to strengthen the existing business, or transfer their directions. Downsizing, merging, and restructuring can be a positive force and a necessary plan of action. All information reviewed on the subject of downsizing suggested planning for the downsizing with a concentrated efforts for the human resource factor.

The reviewed information, interviews and personal perceptions included the following downsizing facts:

> Downsizing is an economic device even in non-recessionary times.
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> Downsizing is not a one time event.
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> The number crunching only analogy of downsizing creates an unstable work environment and renders the staff counter-productive.
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> The strategic plan for downsizing must give consideration to the human resource factor. This is a necessity to be successful.
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> The plan should include effective communication.
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> Before downsizing the business need to self access, analyze where they are going in terms of product, customer, revenues, expenses and number of employees.
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> The strategic plan should include: consideration for the customer's needs, the decision to strengthen the existing business or transform it, to downsize in some areas and rebuild others, to link downsizing to the future, integrate downsizing into revitalization plans and to plan on a steady pace of regrowth.
>
> Integrate technology into the plan.

This thesis was based on the idea of downsizing with a strategic plan, and giving ample consideration to the human resource factor. The literature examined pertinent facts of downsizing and aided in background planning strategies. The literature examined the downsizing figures, the reasons for downsizing, the ramifications of downsizing, the results of downsizing, the human resource factor during and after the process, the consultant's role, the technological aspects and the need for a plan.

The statement of hypothesis : "Organizations that are downsizing need to consider the human resource factors and plan for downsizing.", was supported throughout the paper. The introduction laid the ground work by examining the reasons for downsizing, data and statistics, the high cost of downsizing, the risks of downsizing, and the benefits. The literature review gave testimony after testimony to plan downsizing, and consider what was happening to the employees; such as, the laid off employees, the survivors, the planners, the management personnel, the human resource department, and the community. The authors stressed long-range planning and the need to effectively communicate with the employees. They gave guidelines, plans, and the promise of "new organization. Most authors felt this was achievable if: the laid off employees were taken care of by severance packages and outsourcing; the surviving employees were effectively communicated to and revamped with changes, technology, and retraining; and the revised organizational plans were implemented. Some of the authors reacted to downsizing as a negative entity. They saw the layoffs as peeling away people's sense of security and creating an unstable work environment. There were also the negative effects on the economy, the welfare system, and the increased government expenditures. Most authors agreed that the psychological impact on the people involved can be one of the biggest negatives - zapping the life out of the organization. There were many plans sited for the downsizing process. Some of the suggested planning ideas included: keeping the employees informed, not to prolong the process, to simplify the lay-off packages, to offer out-sourcing centers, to review the surviving employees for work reassessment, to formulate teams, and to give the workers back a sense of security.

The organization itself needs to reassess. It needs to continually check its progress towards its planned goals. Too many organizations are finding disappoinment with their downsizing plans. The bottom line was held for a period but to continue to answer to market and customer's needs expenses grow with the demands. Other contributing factors are the lower productivity of the employees, the lack of planning and foresight during downsizing, and not putting into practice reorganizational plans.

The selective review and evaluation of research chapter contributed information from a firm that specializes in downsizing, information from a firm that specializes in the restructuring procedure with technology and a combination of information from the thesis to formulate a strategic plan for downsizing. The information from Towers Perrin sited through surveys the keys to surviving after downsizing is for the organization to plan and to focus on the human resource factor. Also, Towers Perrin recommended formulating teams. The analysis of Development Dimensions International gave relevance to technology. They explained the need to retrain and diversify by using technology. By utilizing technology, the organization could synchronize the organization. The main ideas of the downsizing plan were to:

I. Self assess the organization

II. Communicate internally

III. Form teams

IV. Discuss alternatives to downsizing

V. Redesign work structure

VI. Bring in consultants

VII. Do not downsize with across the board cuts.

VIII. Determine which and how many employees will be terminated, and who will advise the employees.

IX. Communicate with the survivors

X. Inact the severance and transition assistance programs.

XI. Begin layoffs

XII. Re-evaluate and retrain surviving employees

XIII. Integrate restructuring plans

XIV. Continually communicate and re-evaluate

XV. Go forward as a newly designed organization

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The summarization of the downsizing effort was studied by focusing on Brown Group, Inc. This corporation was a good example of an organization that had refocused on current market pressures, downsized and restructured. Brown Group, Inc. went from a domestic footwear manufacturer to a restructured organization with focus on footwear marketing, retailing, and wholesaling. The corporation branched out into a larger branded business and focused on what the customers wanted. Brown Group Inc., is an applicable example of the material reviewed in the thesis. The corporation did pre-plan the downsizing, gathered information for refocusing, worked with consultants with specialization in downsizing, restructured, and utilized technology. It focused on the human resource factor by communication, severance packages, outplacement centers, retraining, forming teams, and restructuring. Brown Group Inc., did not go unscathed from downsizing, the stocks did drop to an all time low. The survivors did go through the "survivors syndromes" by becoming unsecure, unfocused, and unproductive. Brown Group did have a plan and the focus on the human resource factor and they are coming out of the lull they were in.

The research presented gave an indepth, multi-faceted view of downsizing. There was the background on downsizing presented with statistics. Also presented were numerous articles from authors that had researched the subject. Looking at the consul-tants and technology was another view of downsizing.

The in-depth research of a corporation going through downsizing and restructuring gave a legitimacy to the project by confirming the information presented in the thesis. The research contributed in-depth analyzation of the subject and confirmed the hypothesis, "Organizations that are downsizing need to consider the human resource factors and plan for downsizing".

## Limitations

The limitation encountered was the lack of the results of downsizing. The literature reviewed had numerous ideas on how to downsize, plan, and restructure, also many views on the negatives and ramifications of downsizing; but there was little material stating the actual results of downsizing. The literature gave insight into the statistics on the number of employees being laid off and even named the major corporations doing the downsizing but it was difficult to find out the success or failure rate from the downsizing. Statistics were available to compare the number of employees, compared to sales and expenses but little note was made of the fact that the very employees that had been laid off were rehired as outside consultants. Also, there was not very much information available from the "downsized" employees. The articles denoted the facts regarding what could happen if the human resource factor was not properly considered, but it was difficlut to assess information. The downsizing trend is not a new entity. It was going on for more than a decade, but there is not concrete evidence to support the success or failure rate. It did make it necessary to study Brown Group Inc., a local company, to analyze the downsizing trend in action as this added relevance to the downsizing theory in the thesis.

The articles did not include "positive" results or calculations of downsizing. The articles analyzed the problems, statistics, and ramifications but not the positive results. In fact, most of the articles were presented with warnings and negative aspects. The question remains, "Does downsizing work?"

## Suggestions for Future Research

Downsizing could be researched futuristically by gathering the results of downsizing and analyzing the human resource factor after downsizing and after layoffs. The futuristic hypothesis could be based on whether or not downsizing works. Another aspect to analyze is the many small businesses and careers that have been formulated due to downsizing and lay offs. The laid off employees seem to have become consultants in many instances for the very companies that laid them off. It would be interesting to see how they fared financially and emotionally. "Who is getting rich off of downsizing?" would be a good question to answer. "Is it the corporations, the stockholders, the consultants, the CEO's ? " This question should have some interesting research information also. There are still many aspects of downsizing to examine.

## Conclusion

The human resource factor is still the most important consideration in the downsizing theory. It has taken it's toll with the downsizing entity. It has left a group of employees feeling insecure and like a burden instead of an asset. They have become counter productive and neurotic in some cases, others have become stronger and started thinking in terms of "self" instead of part of a company. Some how the security and appreciation must be given back to the people if downsizing is to be an applicable process with success.

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