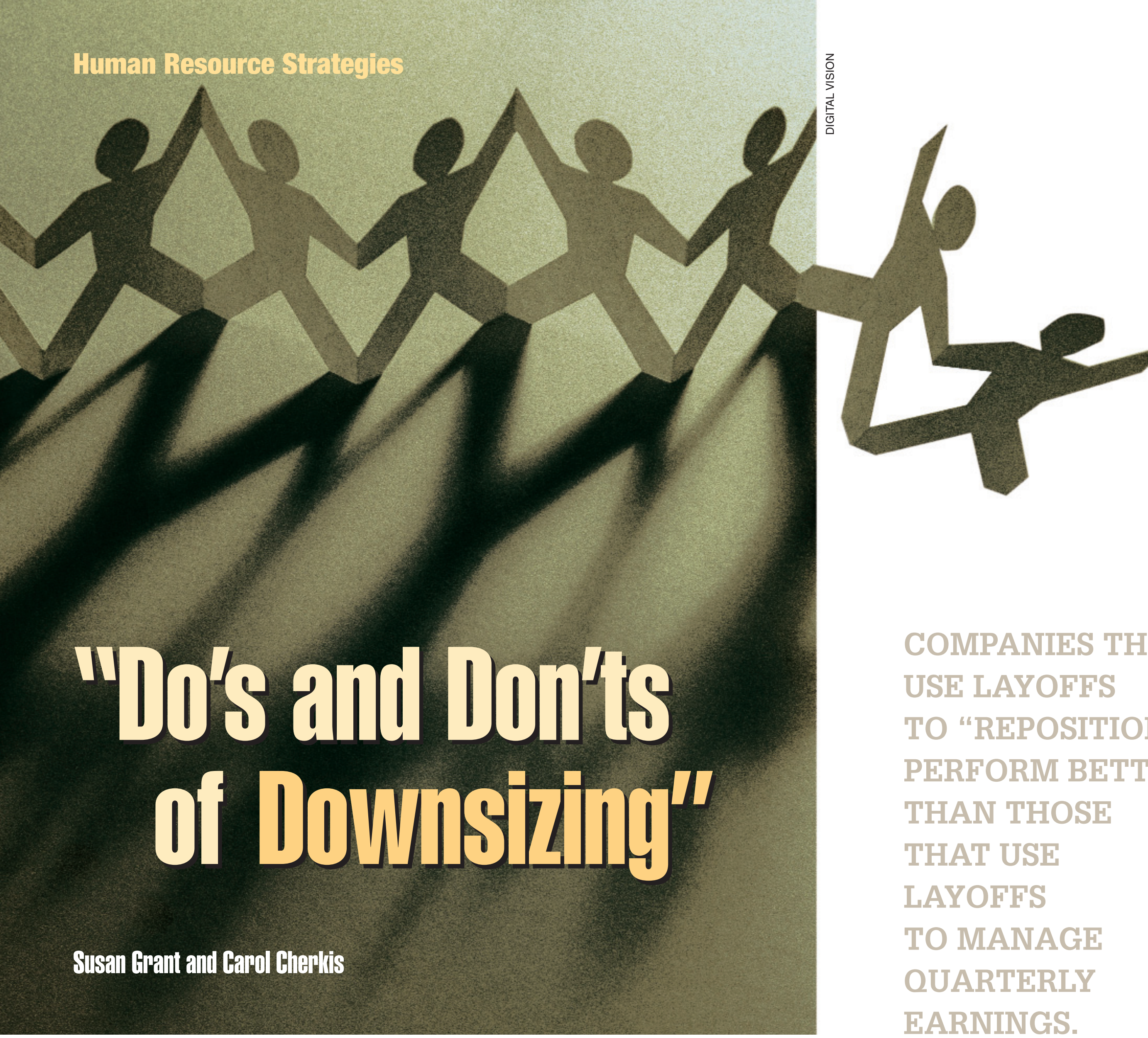

DIGITAL VISION

"Do's and Don'ts of Downsizing"

Susan Grant and Carol Cherkis

COMPANIES THAT USE LAYOFFS TO "REPOSITION" PERFORM BETTER THAN THOSE THAT USE LAYOFFS TO MANAGE QUARTERLY EARNINGS.

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Mergers and acquisitions in the biopharmaceutical industry, along with fierce global competition and a stressed economy, have created one of the most difficult leadership challenges—layoffs.

Unfortunately, most companies do not have a strategy to handle downsizing gracefully. They fail to see that their future can be negatively affected by how they handle workforce reductions. When employees are loyal and work hard, there's an implied agreement that they will have a long future with a company. When layoffs occur, that agreement is broken, as is employee trust—which affects survivors as well as those laid off.

The good news is that management can rebuild that trust if it remains visible and communicates a clear, honest understanding of the changes that the company is undergoing. When a company handles people issues well, it gains a good reputation and finds it easier to attract and retain good people later. This article outlines how, with early planning, leaders can generally downsize in a way that is better for the "laid off," the "survivors," and the stockholders.

No Quick Fixes

Bad economies unnerve employers. The same managers who once showed skill in handling people may now make the mistake of focusing solely on the bottom line. Executives that are usually able to solve problems creatively may zero in too quickly on "quick fixes" such as cutting staff.

Dr. Wayne Cascio, professor of management at the University of Colorado's Business School, Denver and author of *Responsible Restructuring: Creative and Profitable Alternatives to Layoffs*, says that, although companies must sometimes lay people off, they should fully explore alternatives before doing so. For example, when Prozac went off patent, Eli Lilly faced decreased revenue and budget tightening. CEO Sidney Taurel announced at a company-wide meeting that he would reduce his salary to $1 for the next year.

"Get employees involved in the planning," adds Cascio. "People get amazingly creative when their jobs are at stake," he says. "Companies that simply cut staff and don't change anything else really do not improve as expected."

Russ Hagey, managing director of Bain's Los Angeles office and a leader in its healthcare practice area, says study data from early in the current downturn (August 2000–August 2001) shows that "companies that implemented layoffs performed 'less well,' as measured by share price appreciation, than those that had no layoffs—hence, there was a high price paid for layoffs."

Companies that stay focused and manage costs well have fewer and smaller layoffs. Hagey says, "From an organizational standpoint, large pharmaceutical companies that are focused around fewer therapeutic areas are more successful than those that are spread broadly over more areas. Companies organized as integrated independent business units based on therapeutic areas have been more successful than those with traditional structures based on functions—R&D, marketing, and sales."

When a company's leaders must dismember the organization they worked so hard to build by firing valuable people, the unpleasantness may make them rush to get it over quickly and to forget about the employees as soon as possible. That can result in resentment among the survivors, which, in turn, results in a drop in productivity and attrition as they leave for greener pastures. Dr. Stephen Payne, president of Leadership Strategies, a New Jersey–based executive coaching firm, says that, at a tactical level, "Companies who are successful are those who remember to take care of employees who stay."

Moreover, the industry is inbred; everyone knows, or knows of, everyone else. When a company handles people well, it gains a good reputation and will find it easier to attract and retain good people later. Leaders must prepare to deal with the layoff challenge—both strategically and psychologically—at each stage of the process: preparation, implementation, and renewal.

Step by Step

Companies must take five steps to prepare for layoffs:

- Determine the types of work they can eliminate and which functions/people to lay off and agree on how remaining work will be done and by whom.
- Decide how much money they can spend on the layoffs, including severance packages.
- Establish communication strategies for those who have been laid off, the survivors, the stockholders, the local community, and the industry. Give scripts to all who must communicate bad news. Consider having the CEO either make the announcement or be physically present when it is made.
- Ensure that layoff procedures make sense and are not out of line relative to industry practices and types and levels of people being affected.
- Gain agreement among senior managers that the company will not allow expenditures for unnecessary projects such as office renovations or huge bonuses for senior managers.

Be Prepared

Sharon Gadberry, managing director of Power Transitions, an outplacement firm in San Francisco, says, "We tell our client companies, 'Your employees are probably going to get a job in the same industry and you may need to interact with them later. How you behave with them now can affect the reputation of the company.'"

Successful companies remember to take care of the employees who stay.

Once a company decides it has to cut jobs, it must assess the critical work, according to each job description, to determine the functions or jobs that will be eliminated. (See "Step by Step.") It must then base its "who goes/who stays" decisions on an analysis of the company's needs for the next 24 months. Gadberry says, "Rank-and-yank is not a good process for deciding who goes."

Tom Serleth, CEO and managing director of Power Transitions, offers an alternative from one of his clients. The company had to reassess its expenses because its venture capital firm had cut off the cash flow. Senior management determined the dollar amount of cutbacks needed and asked all managers to determine their own departmental cuts. At an off-site meeting, they discussed department plans for how work would get done after the reductions in force to ensure that critical positions were not removed. The outplacement firm was present at the meeting, giving them a clear understanding of the company, its management, and the reasons for the cuts.

Commenting on Pfizer's ongoing integration of Pharmacia, Hagey says, "It will be a smart integration similar to that which followed Pfizer's acquisition of Warner-Lambert. Pfizer's management did not cut across the board then, but instead made major reductions in costs and personnel in less promising areas to significantly increase investments in areas [such as Lipitor]with the most potential to generate revenue."

Do It Right

Of course, good planning is wasted if layoffs are implemented carelessly. Brian McMahon, vice-president of human resources for ProBusiness, a Pleasanton, California firm, had to lay himself off after downsizing others in the company. "Once you've decided on the 'reduction in force (RIF),' it's imperative to have first-class communications," he says. "Keep the one-on-one communications brief and consistent. The downsized people will not hear or remember most of what you say, so have material for them to take away and describe the next steps in the process. Their roles have just changed drastically, and they need to understand what their next steps should be and who can help them." (See "Breaking the News.")

All senior managers should implement the part of the layoff process that is best suited to their function. It is important to recognize that the executives who designed the preparation phase may not be the best people to implement the plan. Ideally, training line managers to conduct layoffs includes counseling on how to use their personalities constructively and how to be sensitive to the personalities of those laid off.

Serleth of Power Transitions further describes his "best case" client: "On the day of the downsizing, the team stuck to a schedule that was planned down to 15-minute segments." The CEO ad-

dressed assembled employees with brief remarks describing the company's challenges and articulating its awareness of the difficulties for both the downsized and the survivors. The company's human resource professionals met with all the employees—including those who

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were staying—one-on-one. They sent the laid off employees to outplacement consultants, who had been present during the meeting. Outgoing people were given the option of clearing out their desks then or returning to do so at a more convenient time. They reported directly to the outplacement office the next day.

A second company meeting in the afternoon laid out the plans for the survivors. The CEO wrapped up the toughest day in the company's history with an upbeat message about the survivors' future and the important role they would play. On that note, the company closed for the day and started with a sanguine tone the next morning.

Jeanine Niacaris, vice-president of human resources for Geron Corporation, also had to lay herself off in a second round of cuts. "I looked at our corporate goals and values when faced with the need for the first cuts," she recalls. "Respect and dignity for all employees was on the list." So she focused on that when designing the layoffs. The process was unusual because it took a full week for the company to implement the restructuring. "Just because there's been a change doesn't mean we don't trust them anymore," she says. "The layoff isn't their fault. We did take precautions, we did all the security backups, but we essentially said to the employees, 'You're still valuable and we'll go on this journey together.'"

In describing his company's downsizing, Mark Bagnall, Metabolex CFO,

Breaking the News

On the first day of its layoffs, Geron's CEO announced to a company-wide gathering what would happen.

The news was given to each employee by a team of two—usually a vice-president and a director—selected based on their ability to work well together, who worked off a script. Even the CEO delivered some of the messages. The company gave those being let go the option of going home or staying to work with an outplacement counselor on how to break the news to their spouses.

On the second day, there was a meeting for laid off employees to go over the paperwork they were given the day before and to lay out the next steps. Then there was a company-wide lunch, because the company had a tradition of taking people to lunch when they resigned. There were also two days of onsite outplacement activity, which included job postings from other biotech companies that had heard the news. The company organized support groups so the employees could meet and share job leads and keep their spirits up. A couple of weeks later, Geron sent each employee a good wishes card with a photograph of the remaining employees, signed by all of them.

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says, “We needed to be able to retrieve people after we obtained our next round of funding, so we told our people, ‘We’re giving you notice today, and if we don’t get the money in a certain period of time, your last day will be X.’” That early notice gave people the ability to take care of themselves but kept them on staff while the company looked for financing.

He continues, “We decided that we’d treat everyone—whether they were on the RIF list or the survivor list—equally. We’ve been very open, and people who are on the RIF list have, by and large, stayed with the company and worked hard while they looked elsewhere.”

Renewal

It’s important not to announce that layoffs are completed until there will be no new reductions for at least two years. Premature announcements eliminate credibility. To keep the rumor mill at bay and rebuild trust, senior managers must behave carefully and in accord with the realities of the changed organization. Cascio says, “Keep in mind that the source of innovation and renewal are the survivors. Give them a reason to stay.”

Jim Mooney, senior vice-president and senior consultant with North Carolina–based Farr Associates, an organizational and executive development firm, explains, “In a downsizing environment, many survivors will experience three primary emotions:

- fear—for themselves in the threat posed to their success and work load
- sadness—for the relationships lost
- guilt—that they have survived and others haven’t.

“The test of leadership is whether those can be recognized, acknowledged, and addressed before they metastasize into:

- anger—at levels all the way from resentment to retaliation
- exodus—usually highest among the people who are most vital to the organization’s success.”

Senior managers must ensure that the workload is streamlined along with the organization. Many leaders make the mistake of thinking that work is eliminated along with the people who were let go. Those in the trenches know different. Managers need to eliminate unnecessary work, reallocate necessary work appropriately, and reassemble formal and informal work teams.

Metabolex asked its supervisory managers to detail how the work would get done. “We said, ‘Don’t hesitate to cut out the stuff you think is of marginal value,’” Bagnall recalls. Then they planned weekly meetings to see how the process was working.

Serleth’s client, a company that couldn’t sustain its growth, knew that how the workload affected the survivors would be the key to success. He notes, “The termination interview will put your stomach in knots, but it’ll be over in ten minutes. It’s far more important to plan what work must get done and who’s going to do it afterwards.” When the company settled down after the reductions, it actually performed better than it had before the layoffs.

During the months following a downsizing, it is important that all senior managers communicate the benefits of streamlining clearly and often. “Managers should be completely visible even if they’re uncomfortable,” McMahon says. “That keeps it looking like business as usual.” A typical mistake is that companies forget about the RIF and move ahead within a few days. Not everyone gets through the grieving process in that time. “There should be a long-term effort— maybe three to six months,” he says, “of reaching out and staying in touch with and courting your employees so you can rebuild the trust you’ll need.”

Executives need to be realistic about productivity and manage their expectations accordingly. Celebrating significant achievements—inexpensively but with fanfare—goes a long way in improving staff morale. Bagnall says that making visible progress toward milestones is an excellent way to rebuild the company. Letting people know the steps that are being taken to return the company to health and how it is doing financially goes far in helping employees rebound from the trauma.

Although leaders’ abilities are certainly tested during the difficult times that make layoffs necessary, their real performance is best measured by examining company success over the long haul—not at any single point in time.

Hagey emphasizes, “Well managed firms—Merck, Pfizer, J&J—tend to be well in front of trends, managing costs throughout cycles both good and bad, staying focused and continuing to invest in innovation, while other companies are forced to respond to conditions and hence fall back on layoffs.

Firms that implement layoffs for a true ‘repositioning’—for a clear strategic change or refocusing after a merger—perform much better, as measured by share price, than those that implement layoffs purely to manage quarterly earnings.” ∎