Strategic Downsizing —

A New Model for Implementing Workforce Reductions

By John W. Myrna

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The turmoil in the financial markets and the tenuous state of the major U.S. auto manufacturers have led many companies to view their own futures with increasing pessimism. Pessimism inevitably leads companies to consider cutting staff as they begin to reassess their strategies, tactics, budgets, and overhead. As the pressure for cutting jobs mounts, HR executives can help their management teams avoid the unfair and unsuccessful practice of across-the-board cuts.

There is a more equitable and effective approach to rightsizing an organization. This process includes a quick method of total talent assessment and a game plan for strategic downsizing. By taking the time to objectively assess their workforces, companies can hold onto their performers who are "platinum" while they are able to identify and get the "lead" out. Even better, this can be accomplished without the usual acrimony and disruption to business continuity.

THE WRONG WAY TO DOWNSIZE

A quick review of the wrong way companies downsize includes:

- Cutting every function equally by a fixed amount such as 10 percent or 20 percent, which inevitably reduces productivity at best and totally cripples functions at worst.
- Cutting all investments in the future – i.e., eliminating all research and development, marketing, and other areas, along with the staff.
- Cutting all supporting staff so your highly compensated employees are forced to start performing $10/hour functions and critical projects, and programs are delayed.
- Cutting areas such as customer support, which should be beefed up to enhance client retention.
- Implementing an inflexible, across-the-board freeze on any new hires and spending, independent of their operational or strategic impact.
- Cutting too little at the onset, requiring you to cut again and again, which sustains fear throughout the organization and demotivates your best performers. Those who can leave, start to leave.
- Cutting people based on misguided compassion, fairness, or fear instead of meeting the strategic needs of the business.

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Fortunately, there is an alternative to these ill-advised downsizing approaches.

THE RIGHT WAY TO DOWNSIZE

The understanding of what the company needs to accomplish should be based on a team-developed, well-communicated, and management-supported strategic plan. The company's strategic plan is the senior team's consensus on where they are today and where they want to be within 5 years with an intermediate 18-month destination. It is executed through four to six strategic goals that will change the status quo, putting the company on a path to its future.

When first considering downsizing, management must take into consideration what needs to get done to stabilize the situation while keeping an eye on how to continue to move the company forward. There are seven important steps to follow, which are detailed below.

1. Start with Your Strategic Plan

The first step of a major downsizing is getting the team together to quickly review, revise, and renew the strategic plan or, if the company's plan has spent a lot of time on the shelf without periodic review, it's time to take a good look at it and create a midcourse correction for it. There are proven, effective processes to generate a new or revised strategic plan in as little as two intense days.

HR executives can help management achieve maximum benefit out of these sessions by bringing in qualified facilitators who have worked with organizations in developing and revising strategic plans and action steps. At the end of these sessions, each strategic goal will be backed up with four to six specific results the company is driving toward and the tactical action steps required in the next 90 days.

Remember to tap into the experience and insights of all the people in your company (your lifeboat) to create the best destination to paddle toward.

2. Identify Specific Action Steps

Step 2 requires identifying the facilities, offices, and initiatives that do and do not align with the company's direction. This includes identifying the legacy products and services that should be shifted from a "nurture" to a "milk" status. Milked products are managed to maximize cash flow by eliminating resources focused on obtaining new clients for these products while possibly increasing resources focused on retaining existing customers.

Determine what offices, departments, and/or plants should be shut down. By eliminating offices, products and plants that are no longer strategic you will cause the least negative impact on the short- and long-term health of the organization. You then need to staff the strategic core of the business with the best people you have, can attract, and can afford.

With a clear strategic plan, each position in the organization and the person within that position can now be evaluated for fit.

3. Communicate Your Plan and Action Items

Even the folks who find themselves in a lifeboat, for example, need to know which way to paddle. Bailing out the boat and asking everyone to paddle like mad is not enough. Everyone in the boat needs to know what direction to paddle and how fast the boat has to move in order to get to the destination before the food and water run out.

They need to know and be personally accountable for their specific responsibilities. (A printing company we worked with found that not informing employees of the downsizing plan directly contributed to a painful loss of some of their best people. People aren't stupid. They can see how much idle time workers have, how few shipping crates are on the loading dock, and how long it takes to get expenses paid.)

4. Evaluate Your Workforce

Before you begin the evaluation on your staff, it's important to understand how a typical workforce looks in most organizations.

The Pareto Principle (also known as the 80-20 rule) can be applied to employee performance. For example, 20 percent of your employees typically create 80 percent of the value. And a different 20 percent of your employees create 80 percent of your headaches.

Taking this one step further, 20 percent of the 20 percent will deliver 80 percent of the 80 percent, i.e., 4 percent of the workforce produces 64 percent of the positive outcome in your company, and another 4

4%	Superperformers, self-actualized (the 20% of the 20%)	***platinum***
16%	Great performers	***gold***
30%	Core of steady performers	***silver***
30%	Employees not quite with it (striving to improve or drifting lower)	***bronze***
16%	Employees just getting by (struggling to improve or drifting lower)	***tin***
4%	Employees who are a negative force (no one understands why they are allowed to stay)	***lead***

Exhibit 1. The Platinum-Lead Model for Characterizing the Quality of Employee Performance

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percent produces 64 percent of the negative impact.

With these figures in mind, we created what we call a platinum-lead model to characterize the star performers and nonperformers in an organization. **See Exhibit 1.**

The top 4 percent of your employees are what we call *platinum performers.* Everyone in the company knows who they are. They are your super-performers, the self-actualized people who you can count on to consistently deliver value. Every senior manager should know them by name. They should be invited to participate in special projects, task forces, advanced training, etc.

Completing the top 20 percent are *gold performers* – the next 16 percent. They are great performers and companies need to lavish rewards, attention, and fresh challenges on them. They, too, should be on the short list for special projects and advanced training.

The next 30 percent of your work-force comprises the core of your operation—the *silver performers*, those steady workers who have their sights set on becoming gold or platinum some day.

After any downsizing, the platinum, gold, and silver performers are the people you count on to fill the gaps, pick up the slack, and generally get you through the tough times.

Another 30 percent are the employees are not quite with it. Depending on the organization they are striving to improve or drifting lower. These are the *bronze performers*.

Now we are into the lower 20 percent of the employees. Sixteen percent of this group is the *tin* of your organization, the workers who are just getting by. They are not quite sure why they are still there.

We call the bottom 4 percent of performers the *lead* of the organization. Everyone in the organization can identify the people who make up this sector. Consider this hypothetical situation with an employee named Mildred. Her manager, Joe, had just about had it with Mildred. "I'm spending more time cleaning up after her than she spends working," he would say.

Even so, he may not be willing to cut her job during a downsizing for the simple reason that she is "one of his hires" or she is one of the original team brought in to start the new venture. And to boot, she is a good and caring person–it just wouldn't be fair. He says to himself, "I'll do the compassionate thing, keep her on board and figure out how to work around her. I'll just have to cut someone else."

The lead players in your organization are like Mildred in the example above. The other employees are constantly complaining about Mildred to everyone in the organization – except Mildred. The lead players are negative forces; not only do they require other employees in the company to produce the results they cannot, but also they raise doubts in the minds of the tin and bronze employees. Why should they bother to try when Mildred comes in late, makes mistakes, leaves early, and still gets to keep her job with annual increases?

The lead, tin, and bronze players should be the group you look to when you downsize. However, this is not a simple process of eliminating the "lowest 20 percent" of your workforce. You need to understand what makes someone fall into the lead rather than platinum category.

5. Understand Your Platinum and Lead

What makes employees platinum performers? They have *passion* for the job, are exceptionally *competent*, and their personal needs are perfectly *aligned* with the requirements of the job. Platinum players are so passionate about what they do that time doesn't exist, and their work becomes a source of personal fulfillment and satisfaction. The knowledge and skills that they bring to their work can make them as much as a hundred times more productive than other workers. The requirements inherent in their jobs match their personal needs for a work environment, such as the level of challenge, hours on the job, personal interaction, recognition, compensation, and travel. Their jobs suit them perfectly.

What makes employees become the lead of the organization? In direct contrast with your platinum performers, the lead workers lack the *passion, competence,* and *alignment* required to execute their current jobs. The lead employees may totally lack passion for their jobs for a number of reasons. They may be burnt out because they have repeatedly performed a job that completely lacks any challenge, and they are too bored to even try to do it well. Perhaps these employees stay and do the work because they believe that they been directed to only complete the task at hand and no more. Some employees stay because they feel they have no choice.

The lead workers are incompetent in their jobs. Perhaps the jobs outgrew them, as was the case for the part-time bookkeeper who started with a manufacturer client of ours ten years ago and was no longer able to fulfill the current need for a comptroller or CFO in that position.

The personal needs of lead workers are out of alignment with the needs of the job, as was the case for an international sales manager for a dental burr company who needed to spend more time home with his children while his job required him to be on planes three weeks a month.

Employees who are lead performers

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aren't evil or bad; they are just trapped in the wrong jobs. The 92 percent of your workforce that lies between the two extremes of employees (the 4 percent platinum and 4 percent lead) have some imperfect mix of passion, competence, and alignment.

It is the ongoing role of management to develop people and positions to optimize all three. Individual training and development programs only improve competence. Redefining positions and carefully selecting whom you put in those positions optimizes your use of individual passions and alignments.

6. Assess Your Managers' Propensity for Alchemy

Where do managers get their highest return from investing their time – with the highest performers or the lowest? Obviously, the answer is supporting and utilizing your highest-quality performers–the platinum workers. However, most managers invest most of their precious time working with the lead. Alchemists in the middle ages spent lifetimes trying to transmute lead into gold. It didn't work then, and it won't work now.

Work with your staff to change this not-unusual management behavior. In fact, our observation of employee behavior in hundreds of companies over the past 17 years is what motivated us to develop the platinum-to-lead model with its underlying basis in passion, competence, and alignment. We have found that once managers understand the model they become empowered to act appropriately. As head of HR, it is important that you:

- Support your managers with policies, procedures, and coaching that optimize utilization of their highest performers.
- Require specific timeframes for getting the lowest performers out with frequent follow-up to assure follow-through.
- Maintain a list of your best employees and make sure you provide them with challenges, the tools they need to do their jobs, and regular recognition.

7. Train Managers to Avoid Errors of Judgment

Firing someone is one of the most difficult tasks for managers. The reluctance to fire the Mildreds of an organization has been an issue in just about every one of the hundreds of mid-sized to large organizations Myrna Associates has worked with. The following are the three main reasons given for such reluctance.

1. **Compassion.** There is a belief that firing someone is just too hard on the employee. This is a false sense of compassion. When an employee stays in a job in which he or she is failing, both the company and the employee incur the damage. The longer an employee is allowed to continue to fail in a job, the more he or she loses a sense of self worth and confidence to succeed in the outside employment market.

   An employer that is truly compassionate will help under-performing employees find jobs in which they can be silver or gold. Compassion is providing a larger than normal severance package, employment placement services, or transition counseling; it is not keeping employees in the wrong jobs.

2. **Fairness.** Many managers feel that it isn't fair to fire someone who isn't performing, fearing that the underperformance was a result of too little direction or training and too little time to realize improvements or change. Often, however, the organization isn't large enough to provide the training programs that would be required for the employee to improve, and the manager may not have the time necessary to supervise such an employee. The reality is that life isn't fair. The company is what the company is – not some idealized image from a textbook. Jobs have certain requirements, and if the employees can't meet those requirements then they are in the wrong jobs.

3. **Fear.** Managers may fear that they will be overwhelmed by work if the underperforming workers are fired. The reality is, the platinum and gold players will step up and cover. Letting the lead go will create enough energy to replace the modest value he or she created. Another fear is the potential legal liability that may arise from firing employees. Do your due diligence and, if necessary, buy your way out of risk with a generous separation agreement – but act. It is vital to create and maintain a sense of urgency in dealing with your lead. (See also the Questions—And Answers department in this issue of *Employment Relations Today*.)

In good times or bad, your lead – the lowest 4 percent of your workforce who never get it – accounts for 64 percent of the dead weight dragging the company down. They are the wrong people, trapped in the wrong jobs for them. Helping them locate suitable positions elsewhere not only saves the organization from their negative energy, but also sends a clear signal to the lower 46 percent of employees in the bottom half of your workforce: shape up or ship out. In all our years of consulting with senior management on strategic planning and downsizing, I've never heard someone complain about having fired someone too quickly. A good rule of thumb is hire slowly and fire quickly.

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Employee	Passion	Competence	Alignment	Action
Andy	+	+	+	Add to the strategic-planning team
Mike	+	0	+	Enroll in skills training
Mary	+	+	-	Restructure job to reduce travel
Melissa	0	+	+	Enrich job with new challenge
Mildred	-	-	-	Transition to another company

Exhibit 2. Simple Table to Assess Employees' Job Sustainability

USING THE PLATINUM-TO-LEAD MODEL AS A DEVELOPMENT TOOL

You can use the platinum-to-lead model as a tool for personnel development as well. Create a simple table that allows you assess each employee's fit in the organization. **See Exhibit 2.**

Have your top team engage for a couple of hours in discussing each middle manager and ranking each one also using one of the three criteria in Exhibit 2. Having all members of the team do this eliminates individual biases. Also, identifying key employees and taking specific, tailored actions will keep them challenged and increase likely retention. Acknowledging the Mildreds, speeds up the replacement of negative resources with positive ones.

It is much easier for managers to take action when times are bad and they are forced to downsize. However, dealing with the 4 percent of players that are your lead should not be a one-time event. In our 17 years of experience, we have found that every year approximately 4 percent of an organization will drift into becoming lead. (A former GM HR manager first alerted me to this phenomenon.) Again, this is not because these employees are bad people, but because things change. For example, company growth may require new competencies or changes on the home front may affect people's ability to align with a job's requirements or interests and passions change. At the same time, your platinum and gold players will also likely change as the environment changes.

MAINTAIN THE VITALITY OF YOUR ORGANIZATION

People are a company's greatest strength. The competencies of employees, multiplied by their individual passions, create an intellectual equity. It is key not only to enhance individual competence, but also to align individual responsibilities with each employee's passion. This is even more important during a strategic downsizing.

Take the time to really understand your workforce and strategic direction. With that insight, you can implement strategic downsizing and avoid lead poisoning.

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