

# Cutbacks threaten

The new business age wants non-linear, innovative thinking and flexible workforces—and traditional approaches to downsizing won't deliver. Wayne Cascio, professor of management at the University of Colorado, spoke to Les Pickett.

Today's job cuts are not solely about large, sick companies trying to save themselves. They are also about healthy companies hoping to reduce costs and boost earnings by reducing head count. They are about trying to pre-empt tough times instead of simply reacting to them. These layoffs are radical, preventative first aid.

At the same time as firms are firing some people they are hiring others, presumably people with the skills to execute new strategies. According to the American Management Association's annual survey, 36 per cent of firms that eliminated jobs in the previous 12 months said they had also created new positions. That's up from 31 per cent in 1996.

As companies lose workers in one department, they are adding people with different skills in another, continually tailoring their workforces to fit the available work and adjusting quickly to swings in demand for products and services. What makes this flexibility possible is the rise of temporary and contract workers. On a typical day they allow companies to meet 12 per cent of their staffing needs. On peak days that figure may reach 20 per cent.

There is increasing sympathy towards an employer's reasons for layoffs, and a growing refusal to personalise the experience. More managers are briefing employees regularly about the economic status of their companies. This raises awareness and actually prepares employees for what might happen to them. To many, the layoffs seem justified because

of the slowdown in economic growth, the plunge in corporate profits, and dive in stock prices. While it used to be traumatic to be laid off even once, some employees can now expect to go through that experience twice or even three times before they reach 50.

Outplacement centres have become America's new hiring halls—gathering places for those between assignments. As the managing principal of the New York office of outplacement firm Right Associates put it,

"These people are not ashamed, but they do feel dislocated, and there is anger. They were on track and now they are trying to get back on track."

Right has redesigned its offices to accommodate the new matter-of-factness about downsizing. Instead of enclosed offices and cubicles, where the downsized of the 1990s kept to themselves as they pursued jobs, there are many more glass walls and open gathering places where the downsized of the 21st century get to know each other. They socialise, and they even recreate office buzz. Said the managing principal, "It took us a while to recognise this had become important."

## The phenomenon of layoffs is

not limited to the United States. Asia and Europe have been hard-hit as well. Japan's chip and electronics conglomerates have shed tens of thousands of jobs in the past year as the worldwide information-technology slump and fierce competition from foreign rivals have battered their bottom lines.

The incidence of layoffs varies among countries in Western Europe. Labour laws in countries such as Italy, France, Germany and Spain make it difficult and expensive to dismiss workers. In Germany, for example, all 'redundancies' must by law be negotiated in detail by a workers' council, which is a compulsory part of any big German company and often has a say in which workers can be fired. Moreover, setting the terms of severance is tricky, because the law is vague and German courts often award compensation if workers claim they received inadequate settlements.

In France, layoffs are rare. As an example, considering that now-bankrupt appliance maker Moulinex, once considered an icon of French industry, repeatedly tried to restructure in 2001, but was blocked by the French Socialist government because its cost-cutting plans included layoffs. At present, even if companies offer generous severance settlements to French workers, as both Michelin and Marks &

## TEN RESTRUCTURING MISTAKES

- 1 Failure to be clear about long- and short-term goals.
- 2 Use of downsizing as a first resort, rather than as a last resort.
- 3 Use of non-selective downsizing.
- 4 Failure to change the ways work is done.
- 5 Failure to involve workers in the restructuring process.
- 6 Failure to communicate openly and honestly.
- 7 Inept handling of those who lose their jobs.
- 8 Failure to manage survivors effectively.
- 9 Ignoring the effects on other stakeholders.
- 10 Failure to evaluate results and learn from mistakes.

SOURCE: WAYNE CASCIO

# innovation

Spencer did in 2001, the very announcement of layoffs triggers a political firestorm.

US-style layoffs are more common among some European multinationals. London-based EMI Recorded Music, facing a declining global market and growing threat from internet piracy, recently announced cuts affecting 18 per cent of its workforce. Stockholm-based LM Ericsson, the world's largest manufacturer of equipment for cell phone networks, with operations in 140 countries, had 107,000 employees in April 2001. By January 2002 it was down to 85,000, and in April 2002 it announced an additional 17,000 job cuts.

Massive corporate and personal disruption raises important questions about the long-term benefits of strategies that emphasise reductions in the workforce. To put that issue into perspective, let us consider a key driver of business success in the new millennium: business concept innovation.

The age of incremental progress is over. Its mantra—faster, better, cheaper—is true of fewer and fewer companies. Today change has

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changed. No longer is it additive. No longer does it move in a straight line. In many industries it is now discontinuous, abrupt, and distinctly non-linear, as radically different ideas and commercial developments render established products and services obsolete. The most far-reaching change of all is the internet, which has rendered geography meaningless.

In the age of incremental progress, companies practised rigorous planning, continuous improvement, statistical process control, six sigma quality-enhancement programs, re-engineering, and enterprise resource planning. If companies missed something that was changing in the environment—for example, in TVs, stereos and other consumer electronics, as in the 1970s and 1980s—there was plenty of time to catch up.

Today, if a company misses a critical new development—for example, in digital phones, internet auctions, or corporate extranets—it may never catch up. Consider the example of enterprise resource planning. Firms employed armies of consultants to help them use ERP to integrate internal operations like purchasing, manufacturing and accounting. This is important and useful to do, but now many companies use the Web to link up with suppliers and customers. Many ERP consultants (and their firms) are not players in this area, and the Web is the wave of the future.

Industrial-age management is a liability in a post-industrial world. Never before has there been such an incredible need for visionary leadership and the capacity to manage change effectively. Today the challenge is to think differently—to move beyond scientific management and 'kaizen' or continuous improvement. The focus today is not on the slow accretion of scientific knowledge but on leaps of human imagination. In a non-linear world only non-linear ideas will create new

wealth and lead to radical improvements in human welfare.

The starting point today is not a product or a service. It's the entire business concept. Here are just a few examples:

- internet telephony (the use of internet facilities, where voice transmission is one form of communication) versus dedicated voice networks (such as telephones allowing only voice transmission)
- buying insurance over the internet versus going to a physical agency
- searching for a job at Monster.com versus help-wanted ads in a local newspaper
- downloading music via MP3 files versus purchasing CDs at a music store
- instant buyer cooperatives versus shopping at a mall.



Wayne Cascio



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He received his PhD in industrial and organisational psychology from the University of Rochester in 1973 and has taught at Florida International University, the University of California at Berkeley, the University of Hawaii, the University of St. Gallen, Switzerland, and the University of Geneva. During the academic year 1987–1988 he was a visiting scholar at the Wharton School of the University of Pennsylvania. In 1988 he received the Distinguished Faculty award from the HR Division of the Academy of Management, in 1994 he received the Bemis award for excellence in HRM from the International Personnel Management Association's Assessment Council, and in 1999 he received the Distinguished Career award from the HR Division of the Academy of Management.

Cascio is a past president both of the Human Resources Division of the Academy of Management, and of the Society for Industrial and Organizational Psychology.

He is the author or editor of six texts in human resource management: *Managing Human Resources: Productivity, Quality of Work Life, Profits* (5th ed., 1998), *Applied Psychology in Human Resource Management* (5th ed., 1998), *Costing Human Resources: The Financial Impact of Behavior in Organizations* (4th ed., 2000), *HR Planning, Employment, and Placement* (1998), and *Human Resource Management: An Information Systems Approach* (1981).

He has published more than 60 journal articles and 20 book chapters and has consulted with more than 150 firms on six continents. Current and past editorial board memberships include *Journal of Applied Psychology*, *Academy of Management Review*, *Journal of Management*, *International Journal of Selection and Assessment*, *Journal of Pay and Reward Management (Europe)*, *Human Performance*, *Asia-Pacific HRM*, and *Organizational Dynamics*.

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### Business concept innovation is

not about spinning-off non-core businesses, stock buy-backs, tracking stocks and efficiency programs. All of these strategies release wealth but they do not create wealth. This is financial engineering, not business concept innovation. Strategies like these do not create new customers, new markets or new streams of revenues. Their only purpose is to wring a bit more wealth out of yesterday's strategies. Sure, money talks, but it doesn't think. Machines work efficiently, but they don't invent. Thinking and inventing are done by the only true, long-term source of innovation and renewal that organisations possess—smart, well-trained people.

How do you increase the probability that radical, new, wealth-creating ideas will emerge in your organisation? Certainly not by indiscriminate downsizing of your workforce or by trying to imitate the best practices of other companies. Rather, a key task for leaders is to create an environment in which the creativity and imagination of employees at all levels can flourish. In many cases doing so requires a radical shift in the mindset of managers at all levels. That new mindset is called responsible restructuring.

The way a company approaches restructuring says a lot about how it views its employees. Indeed, they almost seem to separate themselves logically into two groups. One group of firms, by far the larger of the two, sees employees as costs to be cut. The other—a much smaller group of firms—sees employees as assets to be developed.

### ... indiscriminate and non-selective downsizing has the potential to inflict considerable damage on the learning and memory capacity of organisations.

Companies that view employees as costs to be cut are the 'downsizers'. They constantly ask themselves, what is the minimum number of employees we need to run this company? What is the irreducible core number of employees the business requires?

On the other hand, companies that view employees as assets to be developed are the responsible 'restructurers'. They constantly ask themselves, how can we change the way we do business, so that we can use the people we currently have more effectively?

The downsizers see employees as commodities, like paper clips or light bulbs—interchangeable and substitutable—one for another. This is a 'plug-in' mentality: plug them in when you need them, pull the plug when you no longer need them. In contrast,

## RESTRUCTURING RESPONSIBLY WHAT TO DO

- 1 Carefully consider the rationale behind restructuring.
- 2 Consider the virtues of stability.
- 3 Before making any final decisions about restructuring, managers should make their concerns known to employees and seek their input.
- 4 Don't use downsizing as a 'quick fix' to achieve short-term goals in the face of long-term problems.
- 5 If layoffs are necessary, be sure that employees perceive the process of selecting excess positions as fair and make decisions in a consistent manner.
- 6 Communicate regularly and in a variety of ways in order to keep everyone abreast of new developments and information.
- 7 Give survivors a reason to stay, and prospective new hires a reason to join.
- 8 Train employees and their managers in the new ways of operating.
- 9 Examine carefully all HR systems in light of the change of strategy or environment facing the firm.

SOURCE: WAYNE CASCIO

responsible restructurers see employees as sources of innovation and renewal. They see in employees the potential to grow their businesses.

Learning organisations, from high-technology firms to the financial services industry, depend heavily on their employees—their stock of human capital—to innovate and grow. Learning organisations are collections of networks in which inter-relationships among individuals, that is, social networks, generate learning and knowledge. This knowledge base constitutes a firm's

industries, such as biotechnology, pharmaceuticals and software, where survival depends on a firm's ability to innovate constantly. Downsizing a learning organisation is not the only mistake that some companies make (see box on page 12).

Restructuring is not a one-time event for most firms. Unless firms are brutally honest about the processes and outcomes of their restructuring efforts, they are doomed to repeat the same mistakes over and over again. Don't be afraid to ask employees and managers at all levels, "What did you like most and like least about our restructuring effort?" Don't be afraid to ask customers if the firm is now meeting their needs more effectively, and for suggestions on how it might do so.

Above all, if you do choose to restructure, do it responsibly, and use it as an opportunity to focus ever more sharply on those areas of the business where your firm enjoys its greatest competitive strengths. Strive to achieve three emblems of organisational success. We might call these the 3Cs: care of customers, constant innovation and committed people.

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Wayne Cascio is the keynote speaker at AHRI's 60th Anniversary National Convention in Sydney in May 2003.