MANAGING A DOWNSIZING PROCESS

Wayne F. Cascio and Peg Wynn

This article identifies five gaps between research and practice in the area of employment downsizing. Each area includes psychological research findings that should promote better management practices. Two organizations that successfully bridged the gap between research and practice are presented as examples of how to manage strategic and interpersonal processes effectively when there is pressure to downsize employees. One organization did downsize 8,000 employees as a last resort, while the other took creative steps to avoid any employment downsizing. The article concludes with suggestions for enhancing the effectiveness of downsizing efforts even further, and for evaluating the actions taken. © 2004 Wiley Periodicals, Inc.

How would you answer the following "true or false" item? "If a company feels it must downsize employment, the most profitable way to do it is through targeted cuts rather than attrition." The correct answer is "true," yet only 54% of HR practitioners answered the item correctly (Rynes, Colbert, & Brown, 2002).

To be sure, the term *targeted* could be interpreted in several ways. For example, it might mean (a) not random, and therefore based on performance; (b) strategic, and therefore based on a particular organizational unit, such as a division or a specific line of business; or (c) cuts in pay (perhaps according to a sliding scale by organizational level), capital expenditures, or other operating expenses.[1]

Responses to this question (Gap #1) represent only one of several gaps in understanding the economic, psychological, and managerial effects of employment downsizing. This article identifies four other gaps between research findings and actual practice. It then uses two company examples to illustrate (1) how to manage a downsizing process and (2) how to avoid one by finding other ways to reduce expenses. The first company example is Agilent Technologies, Inc. The second is Xilinx Corporation, a small, high-technology firm located in San Jose, California. The article concludes with practical, research-based guidance on how to manage a downsizing process.

Gaps between Research on the Effects of Downsizing and Practice

Gap #2: Indiscriminate downsizing boosts profits. Perhaps the largest gap is associated

Correspondence to: Wayne F. Cascio, The Business School, University of Colorado, Denver, Campus Box 165, P.O. Box 173364, Denver, CO 80217-3364, tel. 303-556-5830, Wayne.Cascio@cudenver.edu

 Published online in Wiley InterScience (www.interscience.wiley.com).
DOI: 10.1002/hrm.20034

more with managerial beliefs than with managerial practices. For example, a common belief among managers is that downsizing the workforce, sometimes through across-the-board cuts in employees, boosts company profits. It seems so intuitive, the economic rationale is so compelling, and yet it is so wrong. Consider the economic rationale. It begins with the premise that there really are only two ways to make money in business: either you cut costs or you increase revenues. Which are more predictable, future costs or future revenues? Anyone who makes monthly car payments knows that future costs are far more predictable than future revenues. Payroll expenses represent fixed costs, so by cutting payroll, other things remaining equal, one should reduce overall expenses. Reduced expenses translate into increased earnings, higher profits, and higher stock prices. The key phrase, however, is "other things remaining equal." In a downsizing process, especially an indiscriminate one, other things often do not remain equal, and therefore the anticipated benefits of employment downsizing do not always materialize.

In a downsizing process, especially an indiscriminate one, other things often do not remain equal, and therefore the anticipated benefits of employment downsizing do not always materialize.

In an effort to examine the relationships between changes in employment and financial performance, Cascio and Young (2003) observed a total of 6,418 occurrences of changes in employment for S&P 500 companies over the 18-year period from 1982 through 2000. They assigned companies into one of seven mutually exclusive categories based upon their level of change in employment and their level of change in plant and equipment (assets). Their seven categories were defined as follows:

- *Employment Downsizers*: Companies where the decline in employment is greater than 5% and the decline in plant and equipment is less than 5%.
- *Downsizing by Reducing Assets (Asset Downsizers)*: Companies with a decline in employment greater than 5% and a decline in plant and equipment that exceeds the change in employment by at least 5%.
- *Combination Employment and Asset Reduction (Combination Downsizers)*: Companies that reduce the number of employees by more than 5% but do not fit into either of the two categories above.
- *Stable Employers*: Companies with changes in employment between plus or minus 5%.
- *Employment Upsizers*: Companies where the increase in employment is greater than 5% and the increase in plant and equipment is less than 5%.
- *Upsizing by Acquiring Assets (Asset Upsizers)*: Companies with an increase in employment of 5% or greater and an increase in plant and equipment that exceeds the change in employment by at least 5%.
- *Combination Employment and Asset Increase (Combination Upsizers)*: Companies that increase employment by more than 5% but do not fit into either of the other upsizing categories.

Cascio and Young (2003) recognized that their classification of companies as downsizers, upsizers, or stable employers was somewhat arbitrary. For stable employers, they chose ±5%, relative to a base year, as a cutoff point. They considered 3% and 10% as alternative limits, but concluded that using ±3% would include in the employment downsizing categories too many companies that could have reduced their employment that much merely through attrition and not through a conscious downsizing decision. On the other hand, using 10% excluded from the downsizing categories many larger companies that had announced and implemented employment downsizings that were quite large in terms of the absolute numbers of employees affected.

The researchers then observed the firms' financial performance (profitability and total return on common stock) from one year before to two years after the employment-change events. Thus, each firm that remained in the S&P 500 over the 18-year period contributed 18 observations. For each year of the analysis, the researchers computed return on assets and total return on common stock over a three-year period: one year before the employment asset–change event (the base year), the year of the event itself, and two years following the event. The unit of analysis is, therefore, each firm's actions with respect to changes in employment and assets each year of the study.

Cascio and Young (2003) examined results for firms in each category on an independent as well as on an industry-adjusted basis. It is important to assess results relative to results for the same industry in which a firm competes, because firms in the same industry face similar economic and competitive conditions.

Cascio and Young (2003) found no significant, consistent evidence that employment downsizing led to improved financial performance, as measured by return on assets or industry-adjusted return on assets. The latter are both measures of profitability. Downsizing strategies, either employment downsizing or asset downsizing, did not yield long-term payoffs that were significantly larger than those generated by Stable Employers—those companies in which the complement of employees did not fluctuate by more than ±5%.

This is not to say that firms should not downsize. In fact, many firms have downsized and restructured successfully to improve their profitability. They have done so by using layoffs as part of a broader business plan. Thus, the lesson from our analysis is that firms cannot simply *assume* that layoffs are a quick fix that will necessarily lead to increased financial performance. The fact is that layoffs alone will not fix a business strategy that is fundamentally flawed.

Gap #3: If downsizing becomes necessary, don't bother getting employee input. It is a truism that employees are more likely to support what they helped to create (Lawrence & Seiler, 1989; Schein, 1989), yet many employment downsizing efforts fail to involve employees in any decisions either about the process or the desired outcome. As a result, employees feel powerless and helpless, and there is massive uncertainty in the organization. Psychological research has shown that such perceived lack of control over important events that have personal consequences leads to a variety of negative personal and organizational outcomes (Clarke, 2003; Maslach & Leiter, 1997). Organizationally, employees become narrow-minded, risk-averse, and self-absorbed (Cascio, 1993). Conversely, when employees were asked to rate various factors that affect attracting, motivating, and retaining superior employees, one of the most important factors was "opportunities to participate in decisions" (Mirvis, 1997).

The fact is that layoffs alone will not fix a business strategy that is fundamentally flawed.

In and of itself, however, participation is not a panacea. Conditions must be right to use it. Robbins (2002) described four such conditions. There must be adequate time to participate, the issues in which employees are asked to get involved must be relevant to their interests, the employees must have the ability (including intelligence, technical knowledge, and communication skills) to participate, and the organization's culture must support employee involvement. On this last point, it is important to emphasize that employees are not likely to take participation efforts seriously when a company's culture has long been dominated by autocratic decision making and ignoring employee input (Robbins, 2002).

It is important to emphasize that in the context of a downsizing, even if all four of the conditions for successful participation are met, and even if an organization has a culture of participation, employee participation still may not work. This can happen, for example, if employees and managers believe that they are going to lose their jobs regardless of what they suggest.[2] Under these circumstances, a powerful antidote to rumors is honest, consistent, and regular communication efforts from the highest levels of executives on down. We will have more to say on this issue in a later section.

Gap #4: The psychological contract is broken. So what? Restructuring, including downsizing, often leads to predictable effects—diminished loyalty from employees. In the wave of takeovers, mergers, downsizings, and layoffs over the past 15 years, millions of workers have discovered that years of service mean little to a struggling management or a new corporate parent. This breach of the unwritten rules that constitute the "psychological contract" between employer and em-

When employees feel that they have not been treated fairly, they may retaliate in the form of theft, sabotage, and even violence.

ployee leads to a rise in stress and a decrease in satisfaction, commitment, intentions to stay, and perceptions of an organization's trustworthiness, honesty, and caring about its employees (Dabos & Rousseau, 2004; Gutknecht & Keys, 1993; Lester, Kickul, Bergmann, & De Meuse, 2003; Schweiger & DeNisi, 1991). Indeed, our views of hard work, loyalty, and managing as a career will probably never be the same.

Corporate downsizing has become entrenched in American culture since the 1980s, but it was not always so. It was not until the final 20 years of the twentieth century that such downsizing and the loss of the perceived "psychological contract" of lifelong employment with a single employer in the public and private sectors of the economy characterized many corporate cultures and the American workforce. As noted above, the psychological contract refers to an unwritten agreement in which the employee and employer develop expectations about their mutual relationship (Rousseau, 1995, 1996). For example, absent just cause, the employee expects not to be terminated involuntarily, and the employer expects the employee to perform to the best of his or her ability.

Stability and predictability characterized the old psychological contract. In the 1970s, for example, workers held an average of three to four jobs during their working lives. Change and uncertainty, however, are hallmarks of the new psychological contract. Soon workers will hold seven to ten jobs during their working lives. Job-hopping no longer holds the same stigma as it once did. Interviewers used to regard with skepticism a job candidate who held more than two jobs in three years. Today, workers in high-technology jobs often tout the fact that they have held two jobs in the past three years as a badge of honor, an indication that they are on the "cutting edge" of their fields. Beyond that, the massive downsizing of employees has made job mobility the norm, rather than the exception. This has led workers operating under the new psychological contract to expect temporary employment relationships. For many employers facing global competition, loyalty is an unaffordable luxury ("We want you to stay," 1998). In response, each employee is behaving as if he or she is the CEO of "Me, Inc." In some cases, tightly knit groups of employees (coworkers, former colleagues, classmates, or friends) decide to stay or leave en masse, behaving as if they are the CEOs of "We, Inc." That phenomenon has been termed the "Pied Piper Effect," as top performers at the heart of these networks convince others to follow them (Wysocki, 2000). Paternalism on the part of the company has given way to self-reliance on the part of the employee or a group of employees. In short, breaching the psychological contract has potentially serious consequences for employers.

Gap #5: It doesn't matter if an organization treats its employees fairly. In the wake of decisions that affect them, such as those involving pay, promotions, or layoffs, employees often ask, "Was that fair?" Judgments about the fairness or equity of procedures used to make decisions—that is, procedural justice—are rooted in the perceptions of employees. Strong research evidence indicates that such perceptions lead to important consequences, such as employee behavior and attitudes (Colquitt, Conlon, Wesson, Porter, & Ng, 2001; Konovsky, 2000). When employees feel that they have not been treated fairly, they may retaliate in the form of theft, sabotage, and even violence (Greenberg, 1997; Krueger & Mas, 2002).

Conversely, procedurally fair treatment has been demonstrated to result in reduced stress (Elovainio, Kivimaki, & Helkama, 2001) and increased performance, job satisfaction, commitment to an organization, and trust. It also encourages *organizational citizenship behaviors* (OCBs)—discretionary behaviors performed outside of one's formal role that help other employees perform their jobs or that show support for and conscientiousness toward the organization (Colquitt et al., 2001). OCBs include behaviors such as the following (Borman & Motowidlo, 1993):

- volunteering to carry out activities that are not formally a part of one's job;
- persisting with extra enthusiasm or effort when necessary to complete one's own tasks successfully;

- helping and cooperating with others;
- following organizational rules and procedures, even when they are personally inconvenient; and
- endorsing, supporting, and defending organizational objectives.

Two Organizations That Bridged the Gap between Theory and Practice

Having examined five gaps between research and practice, let us now consider how two organizations bridged those gaps through enlightened management practices. The first example is Agilent Technologies, Inc., through its deft handling of the difficult process of downsizing employees. The second example is Xilinx Corporation and its avoidance of employment downsizing entirely.

Agilent Technologies, Inc.

Agilent Technologies, Inc. is an $8.3 billion Palo Alto, California–based maker of test and measurement equipment that was spun off by Hewlett-Packard Company. Like many organizations, Agilent tried to avoid laying off employees by taking several proactive measures. For example, it imposed a three-month, mandatory, across-the-board pay cut of 10%. This was after the imposition of a hiring freeze, letting go about 5,000 temporary workers, and drastic cuts in travel expenses and equipment purchases.

Those steps were not enough, however, as business worsened and losses mounted. In two rounds of layoffs, the company had to cut 8,000 full-time employees (27% of its staff at its peak), eliminate bonuses, and impose temporary 10% pay cuts on 1,800 senior managers. Those employee cuts were not due to overstaffing, but rather to a severe drop in demand in the product markets Agilent serves. The actual process of laying people off was managed extremely well and in ways that are consistent with the findings of psychological research.

Employees being let go had to be told by their direct managers, and across-the-board job cuts were forbidden. The process was handled division by division, and the overall importance of each program and the job performance of each employee were reviewed carefully. Employees were kept informed through multiple rounds of regular communications from the CEO as well as from their immediate managers. Honesty and integrity were hallmarks of the process. Despite its problems, employees supported the pay cuts and the share-the-pain philosophy (Lublin, 2001). Morale remained high throughout the entire process. Said one Agilent employee, "It sounds hokey, but it's like a family. Everyone knows we have to chip in to make sure that everyone else is okay" (Roth, 2002).

Employees were kept informed through multiple rounds of regular communications from the CEO as well as from their immediate managers.

For Agilent, the need to downsize employees was unavoidable. Our next example, Xilinx Corporation, used an alternative logic to avoid layoffs altogether.

Phase I: The Response of Xilinx to the Global Turmoil in Technology

Xilinx is a San Jose–based semiconductor company known as the world's leading supplier of programmable logic solutions. With approximately 2,600 employees, Xilinx's annual revenues exceeded $1 billion for the last several years. When the semiconductor and other high-technology sectors experienced a significant downturn in 2001, a downturn that was global in its reach and effects, Xilinx Corporation's revenues plummeted 50% in six months. Consider how quickly things can change. Just the year before, the company had hired over 1,000 people to keep pace with the better than 50% per year growth rate from the previous two years.

During this difficult time, teams at Xilinx convened regularly. There were two recurring themes during those meetings: (1) the teams did not want to continue to lose money and (2) Xilinx should not mortgage its future with short-term actions. The company's immediate strategy was to reduce expenses, maintain productivity, and emerge stronger as an organization. The seasoned semiconductor executives at Xilinx were well aware of the cyclical nature of the industry, and they were confident that it would eventually rebound as it had done in past cycles. They believed strongly that the intellectual capital at Xilinx would enable it to maintain its innovation edge, and they were not about to undercut that source of competitive advantage. Xilinx President and Chief Executive Officer Wim Roelandts was fond of saying that "de-motivated engineers do not create breakthrough products."

Employees agreed to take an additional 7.5% pay cut, but they proposed a menu of choices to make that happen.

Consequently, in April 2001, immediately after delivering merit raises to employees based on their level of performance, Mr. Roelandts announced multitiered pay cuts, plus a complete company shutdown for two weeks, rather than implementing a layoff, as so many of Xilinx's competitors and customers were doing. The pay cuts ranged from 20% for the CEO to 0% for the lowest-level employees. The CEO also emphasized that while he could not promise there would be no layoffs, layoffs would only be considered as a last resort. In general, employees reacted very positively to the plan, and in many ways they were thankful, especially given the situation in other Bay Area companies.

For purposes of the two-week shutdown, employees were given the choice of taking the time without pay, using paid vacation time, or even "borrowing" time for the shutdowns. That is, some of the newly hired employees had not accrued enough vacation for the shutdown, so the company allowed employees to "borrow" from their future accrual. The previous frenzied efforts of dot-com companies to survive and grow during the go-go years of the late 1990s made the shutdown appear as a real benefit to many employees and managers. Moreover, work would not pile up if the company indeed was closed down, thus making the shutdown a real vacation for all.

As the situation continued to deteriorate, the human resources department held focus groups with employees, soliciting their input regarding next steps and other viable options. Senior managers had determined that further salary cuts would be the only way to reduce company expenses dramatically; however, employees developed a very palatable suggestion regarding this reduction. Employees agreed to take an additional 7.5% pay cut, but they proposed a menu of choices to make that happen. Each employee had the choice of taking additional vacation time with full pay, but using their vacation time nonetheless, taking stock options in lieu of pay, or taking time off without pay. In retrospect, it appears that providing choices to employees throughout the entire year of 2001 was the key to success in these initiatives. The element of choice is important, and not just in the high-technology industry. Firms in industries as diverse as financial services, consulting, timber processing, and manufacturing have used it with considerable success (Cascio, 2002a).

September 11, 2001, sent shock waves throughout the world, and Xilinx employees reacted to the horror as did the rest of the country. They felt its toll economically, politically, and emotionally. Fear permeated the entire corporation. Although some employees were skeptical of the company's "layoffs-as-a-last-resort" position, the newfound fear of 9/11 served as a catalyst for questioning the company's tactics during the downturn. Continued declines in revenues intensified the need for additional expense reductions.

Some managers wondered why the members of Xilinx's executive team thought they were smarter than their competitors. After all, most competitors were implementing substantial layoffs. Even the company's board of directors questioned whether management's actions were giving false hopes to employees. Investors wondered whether Xilinx would be able to meet their expectations for net profits. Employees who supported the company's layoff-avoidance programs admitted frustration with other employees who did not seem to be pulling their weight. The typical refrain went something like this: "I don't mind these pay cuts, but why hasn't my manager addressed the performance problems within our team?" Every constituency began to voice its doubts about the pragmatism and long-term viability of the Xilinx approach.

Phase II: Reassessment and Further Actions

The full executive staff then met to review alternative courses of action. Table I lays out the advantages and disadvantages of the alternatives the executive staff considered. These are wall-chart notes developed at a meeting of Xilinx executives in October 2001.

TABLE I **Wall-Chart Notes from Xilinx Executive Meeting (October 2001)**

Pluses	*Minuses*
Layoffs	
Easy because depersonalizes solution	Management will lose trust and credibility
Quick fix	Takes years for a company to recover
Clear way of managing financials	Lets managers "off the hook"
Immediate boost to shareholder confidence	Decrease in productivity before and after
Better "excuse" out in world	Post-layoff attrition
	Departure from vision
	Decreases loyalty and demoralizes culture
	No proof that layoffs resolve issues
Pay Cut/Shutdown	
Delays the need for a layoff	Makes cost reduction everyone's issue and lets management off
Heightens our awareness of expenses	Not everyone can take time off
Some people really value the time off	Workload balance may not be measured well
People feel "part of the solution"	New hires are running out of vacation time and some are being paid less than they received from their former employers
Catalyst for other cost-reduction ideas	
Shutdowns are legitimate vacations	
Special One-Year Unpaid Sabbatical*	
May attract more takers than regular sabbatical	Might be more takers than we need
Allows for significant time off the payroll	Even with cash incentive, attraction might be low
External and internal opinion would be favorable	How would employees who took regular sabbatical feel?
Investing in education is a long-term return for Xilinx	How much would cost of cash bonus and two months' pay add up to?
Could call people back early	
Voluntary Severance Incentive Program	
Employees own their departure	Risk of losing key talent
Helps people make the decision to leave and we might not be getting the full benefit of these folks anyway	Usually a signal that "layoff" is next
	Inaccurate assumptions about who will leave
	Sets up "survival behavior"
	If limited to certain groups, it sets up a "hierarchy" of importance
Early Retirement	
Will target some people who are interested in leaving during this time anyway	Stock-option incentive is prohibitive
	Possible age bias and discrimination claims
	Loss of key talent
	Won't remove that many from the workforce
Regular Unpaid Sabbatical	
Appeals to people since time off is valued	Key people might want to leave at the wrong time
Retains key people even if they opt for this program	There might not be enough takers to influence payroll
Able to do this without prohibitive charges	The lack of a job guarantee might reduce interest
	The weak economy might dampen interest

Source: Xilinx, Inc.

*Note: The special one-year employee sabbatical would include two months' severance, an education bonus of $10,000 for furthering the employee's education, and/or a bonus of $10,000 for working as an executive on loan to a local nonprofit organization. The employee could return to the company at the end of the year with no loss in benefits, seniority, or stock options.

At the conclusion of that meeting, the executive staff decided to stay the course regarding layoffs. Managers agreed to hold mid-term performance reviews with all employees, to provide stock options to 85% of the employee population, and to send very clear messages regarding the need for performance improvement to the bottom 15% of the employee population. (New college graduates and employees hired within the previous six months were also included in this 15% population, thereby reducing the actual numbers that got the tough message.) Simultaneously, Xilinx executives held group meetings with managers and employees at every level, explaining the additional cost-cutting measures the company had decided to implement. Such measures included the following two programs:

Employees are proud to tell others that they work for Xilinx, one of the few companies to have emerged from the economic downturn without a layoff.

- *Voluntary Resignation and Voluntary Retirement*. This program included a severance package commensurate with each employee's years of service.
- *Sabbatical Leave*. If an employee agreed to take a one-year leave from the company, Xilinx agreed to accelerate the vesting of stock options if the employee returned and remained with the company for the same amount of time as his or her leave encompassed. In addition, for any employee who went to work as a volunteer for a nonprofit organization or a school in the local community, Xilinx agreed to pay him or her a $10,000 bonus.

Employees had until the end of the year (about two months) to volunteer for these programs. A total of 82 employees took the voluntary resignation-and-retirement program, and 41 employees opted for the sabbatical leave. This yielded a labor-cost savings of $5.4 million.

The following quarter—that is, the first quarter of 2002—the company's business improved significantly. Xilinx restored employees' pay halfway through the quarter, and although it could not pay its typical profit-sharing bonus to all employees, it did award each employee a one-time "recognition bonus" for weathering the storm with the company.

A fair question at this point, two years later, would be, did it work, and was it worth it? The answer to both questions is a resounding "Yes!" Xilinx's market share prior to the downturn (1998) in its core business was 30%. By the second quarter of 2003, it was 51%. At the same time, the company's revenues exceeded that of all three of its major competitors combined! Xilinx brought more products to market on time than at any other time in its corporate history. Looking to the future, the Xilinx management team is more financially savvy regarding the management of company expenses, and it is also more disciplined in its management of poor performers within the organization. Shareholders understand the value of maintaining committed people after the 21% market-share boost. Employees are proud to tell others that they work for Xilinx, one of the few companies to have emerged from the economic downturn without a layoff. Finally, the downturn focused the company on its driving principles: (1) put a programmable logic device in every piece of electronic equipment, and (2) set a new standard for how to manage a high-technology company.

Avoiding Common Mistakes in Restructuring

Both Agilent and Xilinx largely managed to avoid the five common mistakes noted at the outset of this article. To a significant extent, they did so by involving their employees, treating them as assets to be developed rather than simply as costs to be cut. As knowledge-based organizations, both saw their employees as the source of innovation and renewal, although for Agilent, the company's dire financial condition made employment downsizing necessary as a last resort. Note also that Agilent forbade across-the-board cuts in employees. Xilinx did offer its employees voluntary resignation and retirement programs in Phase II (Mistake #1 noted earlier), but it did so only after making extraordinary efforts to avoid layoffs through its actions in Phase I.

Mistake #2 is the faulty belief that downsizing employees will boost financial performance. Agilent's financial situation was so dire that it simply had to cut employees to boost its financial performance, at least in the short run. Failure to do so would have jeopardized the very survival of the company and the jobs of all of its remaining employees.

Xilinx bucked the common wisdom of involuntarily laying off employees. In return, the company expanded its market share, grew revenues, and introduced more new products than at any time in its history. Its core belief that motivated engineers create breakthrough products paid off—and positioned it nicely to take maximum advantage of improving global economic conditions in high technology.

Mistake #3 is the common strategy of avoiding employee input when times get tough. Xilinx did not do this. On the contrary, it satisfied the four conditions for effective employee participation (Robbins, 2002). It provided adequate time for employees to participate, the issues on which they were asked to get involved were central to their interests (continued employment for them and continued viability of the company), the employees had the ability to participate (smart people working in an existing team-based structure, good communication skills, facilitative managers), and, perhaps most important of all, the Xilinx culture supported employee involvement. Through regular communication, starting from the top (the CEO's belief and frequent statement that "de-motivated engineers do not create breakthrough products"), employees and managers believed that jobs could be saved through their efforts and inputs.

Mistake #4 is the cavalier approach of many organizations toward breaking the psychological contract that reflects the common interests of employers and employees. Xilinx never did that. Rather, it worked hard to maintain the stability and predictability of employment relationships that so many employees desire. At Agilent, regular communication, coupled with honesty and integrity, led employees to support the pay cuts and the share-the-pain philosophy, even as it led to layoffs.

Finally, Mistake #5 is a failure to treat employees fairly and with dignity. As noted above, Agilent was honest and fair with its employees throughout its downsizing process. All along, Xilinx's culture emphasized the importance of human capital in sustaining competitive advantage. Its practices reflected that belief, as it implemented "share-the-pain" pay cuts for all, with management leading by example and taking the deepest cuts. The same sense of fairness permeated the company's Phase II voluntary resignation, retirement, and sabbatical-leave programs. In all cases, employees were given the opportunity to exercise personal choice, thereby preserving a sense of personal control over important events in their lives. This is central to perceptions of fairness, and considerable research indicates that such perceptions lead to important consequences, such as better employee behavior and attitudes (Colquitt et al., 2001; Konovsky, 2000).

All along, Xilinx's culture emphasized the importance of human capital in sustaining competitive advantage.

Enhancing the Effectiveness of Employment Downsizing Efforts Even Further

A considerable body of research and practical lessons born of experience in downsizing and restructuring has accumulated (Cascio, 2002a). Here are nine important considerations that might serve to enhance the effectiveness of these efforts even further.

1. *Carefully consider the rationale behind employment downsizing.* Invest in analysis and consider the impact on those who stay, those who leave, and the ability of the organization to serve its customers.
2. *Consider the virtues of stability.* In many cases, companies can maintain their special efficiencies only if they can give their workers a unique set of skills and a feeling that they belong together. Xilinx Corporation is a fine illustration of this philosophy.
3. *Before making any final decisions about downsizing, executives should make their concerns known to employees and seek their input.* Make special efforts to secure the input of "star" employees or opinion leaders, for they can help communicate the rationale and strategy of employment downsizing to their fellow employees, and also help to promote trust in the restructuring effort.
4. *Top management should lead by example, and use downsizing as a last resort.* Ensure that managers at all

There should be no secrets, no surprises, no hype, and no empty promises.

levels share the pain and participate in any sacrifices employees are asked to bear. Top management should lead the way with pay cuts, as CEO Wim Roelandts did at Xilinx. This did not happen at United or American Airlines, and workers strongly resented it (Cascio, 2002b). Moreover, unless severe overstaffing is part of a long-term problem, consider alternatives to downsizing employees first, as Agilent did. Indeed, because of its strong belief in the value of its human capital in sustaining innovation, Xilinx was loath to mortgage its future by implementing layoffs.

5. *If employment downsizing is unavoidable, be sure that employees perceive the process of selecting excess positions as fair and make decisions in a consistent manner.* Begin by assessing each employee in terms of his or her performance and ease of replacement. Make special efforts to retain your best performers who would be difficult to replace, and provide maximum advance notice to terminated employees. Provide as much personal choice to affected employees as possible.
6. *Communicate regularly and in a variety of ways in order to keep everyone abreast of new developments and information.* "Everyone" includes investors and outside analysts as well as managers and employees. To the extent that talent is essential to implement the strategy of a business (e.g., innovation, high-quality customer service), take the time to educate investors and analysts on why downsizing employees should be used only as a last resort. In developing an integrated communication strategy, there are four firm rules. We might call them "the four no's." There should be no secrets, no surprises, no hype, and no empty promises. Use newsletters, e-mails, videos, the company's intranet, and employee meetings to get the message out in a regular, consistent manner. Sharing confidential financial and competitive information with employees establishes a climate of trust and honesty. Executives should be visible, active participants in this process, and be sure that lower-level managers are trained to address the concerns of victims as well as survivors.
7. *Give survivors a reason to stay and prospective new hires a reason to join.* As one set of authors noted, "People need to believe in the organization to make it work, but they need to see that it works to believe in it" (De Vries & Balazs, 1997). Develop a new business plan that shows how the company will be more successful in the long run by implementing its downsizing strategy. The plan should describe how the company will be able to attract new customers, penetrate new markets, and generate new streams of revenue. For companies that pride themselves on stability over time, providing a stable, predictable employment relationship that honors the psychological contract is a powerful attraction to join and to stay at an organization.
8. *Train employees and their managers in the new ways of operating.* Evidence indicates clearly that firms whose training budgets increase following a downsizing are more likely to realize improved productivity, profits, and quality (Appelbaum, Lavigne-Schmidt, Peytchev, & Shapiro, 1999).
9. *Examine carefully all management systems in light of the change of strategy or environment facing the firm.* These include workforce planning, based on changes in business strategy, markets, customers, and expected economic conditions; recruitment and selection, based on the need to change both the number and skills mix of new hires; performance management, based on changes in the work to be done; compensation, based on changes in work require-

ments or responsibilities; and labor relations, based on the need to involve employees and their unions in the overall process.

The nine principles identified above represent a useful checklist that individuals and organizations can use to evaluate the short- and long-term effects of a strategic decision to use employment downsizing. These principles are consistent with research findings that illustrate effective practices in this area. It is important to emphasize that such evaluation is useful only to the extent that it leads to organizational learning and improved management practices the next time conditions favor employment downsizing.

Wayne F. Cascio is professor of management at the University of Colorado at Denver. A board member of the Society for Human Resource Management Foundation and of the Academy of Management, he has published more than 80 journal articles and consulted with more than 150 organizations on six continents. He has authored or edited 18 textbooks, including *Responsible Restructuring: Creative and Profitable Alternatives to Layoffs* (2002). He also authored the U.S. Department of Labor's 1995 *Guide to Responsible Restructuring,* and is a two-time winner of the best paper award from the *Academy of Management Executive* for his research on downsizing and responsible restructuring.

Peg Wynn serves as the vice president of worldwide human resources at Xilinx, which has ranked in the top ten in *Fortune*'s "Great Places to Work" for the past three years. Wynn served from 1993–1998 with Winning By Design as a principal consultant. She also served with Intel Corp. for 13 years in a variety of HR, engineering, and corporate consulting positions. Wynn is the recipient of the 2002 Overall HR Excellence Award presented by the Silicon Valley HR Symposium, and also received the 2002 Tribute to Women and Industry Award presented by the YWCA for her role in the company's cost reduction program. She received her BS degree from Bowling Green State University.

NOTES

1. We would like to thank an anonymous reviewer for identifying the ambiguity in the word *targeted*.
2. We would like to thank an anonymous reviewer for pointing out this possibility.

REFERENCES

Appelbaum, S. H., Lavigne-Schmidt, S., Peytchev, M., & Shapiro, B. (1999). Downsizing: Measuring the costs of failure. Journal of Management Development, 18, 436–463.

Borman, W. C., & Motowidlo, S. J. (1993). Expanding the criterion domain to include elements of contextual performance. In N. Schmitt & W. C. Borman (Eds.), Personnel selection in organizations (pp. 71–98). San Francisco: Jossey-Bass.

Cascio, W. F. (1993). Downsizing: What do we know? What have we learned? Academy of Management Executive, 7(1), 95–104.

Cascio, W. F. (2002a). Responsible restructuring. San Francisco: Berrett-Kohler.

Cascio, W. F. (2002b, December 19). How can United Airlines thrive? The Denver Post, p. B7.

Cascio, W. F., & Young, C. E. (2003). Financial consequences of employment-change decisions in major U. S. corporations: 1982–2000. In K. P. De Meuse & M. L. Marks (Eds.), Resizing the organization (pp. 131–156). San Francisco: Jossey-Bass.

Clarke, M. (2003, March). Taking voluntary redundancy: A retrospective study. Unpublished doctoral dissertation, University of South Australia.

Colquitt, J. A., Conlon, D. E., Wesson, M. J., Porter, C.O.L. H., & Ng, K. Y. (2001). Justice at the millennium: A meta-analytic review of 25 years of organizational justice research. Journal of Applied Psychology, 86, 425–445.

Dabos, G. E., & Rousseau, D. M. (2004). Mutuality and reciprocity in the psychological contracts of employees and employers. Journal of Applied Psychology, 89, 52–72.

De Vries, M., & Balazs, K. (1997). The downside of downsizing. Human Relations, 50(1), 11–50.

Elovainio, M., Kivimaki, M., & Helkama, K. (2001). Organizational justice evaluations, job control, and occupational strain. Journal of Applied Psychology, 86, 418–424.

Greenberg, J. (1997). The quest for justice on the job. Thousand Oaks, CA: Sage.

Gutknecht, J. E., & Keys, J. B. (1993). Mergers, acquisitions, and takeovers: Maintaining morale of survivors and protecting employees. Academy of Management Executive, 7(3), 26–36.

Konovsky, M. (2000). Understanding procedural justice and its impact on business organizations. Journal of Management, 26, 489–511.

Krueger, A. B., & Mas, A. (2002, January). Strikes, scabs, and tread separations: Labor strife and the production of defective Bridgestone/Firestone tires. Retrieved January 11, 2002, from http://www.irs.princeton.edu

Lawrence, P., & Seiler, J. (1989). Participation in decision making and work group productivity. In R. McLennan (Ed.), Managing organizational change (pp. 207–208). Englewood Cliffs, NJ: Prentice Hall.

Lester, S. W., Kickul, J. R., Bergmann, T. J., & De Meuse, K. P. (2003). The effects of organizational resizing on the nature of the psychological contract and employee perceptions of contract fulfillment. In K. P. De Meuse & M. L. Marks (Eds.), Resizing the organization (pp. 78–107). San Francisco: Jossey-Bass.

Lublin, J. S. (2001, Dec. 4). Amid downturn, more companies cut pay, benefits. Wall Street Journal, pp. B1, B12.

Maslach, C., & Leiter, M. P. (1997). The truth about burnout: How organizations cause personal stress and what to do about it. San Francisco: Jossey-Bass

Mirvis, P. H. (1997). Human resource management: Leaders, laggards, and followers. Academy of Management Executive, 11(2), 43–56.

Robbins, S. P. (2002). The truth about managing people. Upper Saddle River, NJ: Financial Times/Prentice Hall.

Roth, D. (2002, February 4). How to cut pay, lay off 8,000 people, and still have workers who love you. Fortune, pp. 62–68.

Rousseau, D. M. (1995). Psychological contracts in organizations: Written and unwritten agreements. Newbury Park, CA: Sage.

Rousseau, D. M. (1996). Changing the deal while keeping the people. Academy of Management Executive, 10(1), 50–59.

Rynes, S. L., Colbert, A. E., & Brown, K. G. (2002). HR professionals' beliefs about effective human resource practices: Correspondence between research and practice. Human Resource Management, 41, 149–174.

Schein, E. H. (1989). Planned change theory. In R. McLennan (Ed.), Managing organizational change (pp. 209–212). Englewood Cliffs, NJ: Prentice Hall.

Schweiger, D. M., & DeNisi, A. S. (1991). Communication with employees following a merger: A longitudinal field experiment. Academy of Management Journal, 34, 110–135.

We want you to stay. Really. (1998, June 22). Business Week, pp. 67–72.

Wysocki, B., Jr. (2000, March 30). Yet another hazard of the new economy: The pied piper effect. Wall Street Journal, pp. A1, A16.