Big Companies Don't Cry

Overcoming Organization Downsizing in the Midst of a Financial Crisis

Lenita Tobing & Iman Subarkah*

As the summer of 2008 brought the worst out of most companies around the world, optimizing the organization instead of reducing head counts is what differs the companies who think big to those who instantly whine…

From the many financial crisis that occurred in the past 100 years, we have seen the many organization downsizing that resulted in millions of job losses around the world. During the 1997-1998 Asian economic crisis and in the current global financial crisis Indonesian companies are no exception to this gloomy fact, and in both crisis organization downsizing is a quick remedy to survive in the time of crisis.

This has raised questions among executives on whether it is the most appropriate thing to do and how to overcome it?

"...and that, Ferguson, was you."

Source: cartoonstock.com

In the midst of a crisis whether it is a global or regional macroeconomic catastrophe, the most generic action that every corporate management would first consider in order to ensure their survival is to streamline costs. It could be hypothetically inferred that the main reason behind this widely accepted prescription is because under poor external condition, the one thing left under a company's control is their own internal cost. While many aspects of a company could be the target of a cost cutting initiative, many companies direct their initial cost cutting initiatives on reducing head counts. Based on our experiences, the main assumption underlying a downsizing decision is because people are assumed to be the most flexible yet unpredictable factor of production. People are the company's main asset but in a worst condition they could be a burden because unlike machines you cannot just simply "shut down" your people when they become idle, and not to mention they can unpredictably elevate their requirements that could add additional burden to a company during a downturn.

> "Don't agonize. Organize." -
> Florence Kennedy

Downsizing – Anticipate all the Implications

While the first implication that would be felt by companies as a result of downsizing is a reduction in cost there are other implications that cannot be overlooked.

1. Reduce morale
   The fact that a company is conducting workforce reduction could ignite an atmosphere of discomfort and distrust among remaining employees, which in turn could affect productivity. This could potentially worsen the company's condition.

2. Destroy existing core values
   Any core value that intended to guide the behavior of the people could potentially be ignored or corrupted in the midst of a downsizing. This is mainly due to the fact of people's nature to prioritize their own benefit when they are threatened.

3. Shatter the organization image

40,000 Jobs Seen Lost in Indonesia by Year-End
The Associated Press , Jakarta | Tue, 12/23/2008 8:13 PM | Business

Companies in Indonesia will have shed 40,000 jobs by the end of 2008 as a result of the global financial crisis, a government minister said Tuesday. Employment Minister Erman Suparno projected that 23,000 workers will be let go in December, while 17,000 jobs were cut in previous months.
The jobs are in the electronics and manufacturing sectors, but he did not specify at which companies.
The worsening economic climate will result in more losses in 2009, he said without providing details.
Hundreds of thousands of Indonesian workers abroad also face possible redundancy, he said.
As many as 150,000 people could lose their jobs in the first half of 2009, the head of the Indonesian Chamber of Commerce and Industry, Mohamad Suleman Hidayat, warned Tuesday, calling for the swift implementation of an economic stimulus package.
The official unemployment rate is around 10 percent. The Indonesian government lowered economic growth forecasts to between 5 percent and 5.5 percent in 2009, down from an earlier projection of 6.5 percent.

When a company conducts a workforce downsizing, the message that is sent to the stakeholders is that the organization is in trouble. Therefore it is very unlikely for the company to escape a negative image that could dig a deeper hole to the business.

4. Involve in Cumbersome negotiation

   As regulators and unions are usually the parties that are responsible for the well being of the workforce, it is in their interest to ensure that the negative effects of a downsizing could be minimized. Therefore a downsizing initiative could potentially involve a lengthy and time consuming negotiation process that would drain the energy of the executives.

5. Increase lay off cost

   In addition of the resulting cost saving, a downsizing initiative could also potentially cause a large lay off cost. This condition could potentially affect the company's short term financial condition to survive the crisis which is ironically contradictory to downsizing in the first place.

All in all, a downsizing initiative is a very delicate issue and must be taken cautiously. In the next section we will discuss the steps that need to be taken before a downsizing initiative is executed.

This is a Time to Consolidate – and Review the Mission and Strategy

As cliché as it may sound, the fact that "our people is our most important assets" is still very accurate even in the midst of a financial crisis. As such, executives should be asking some key questions before considering reduce head counts:

1. What are the underlying drivers of the company plunge?

   Is it really the wrong number of employees, or is it because of being in the wrong business, producing the wrong products, targeting the wrong market segments or even located in the wrong geographical locations? During past financial crisis, BNI closed down their overseas business, Duta Graha shifted their market segments from commercial to Governments and Barito Pasifik revamped their business focus from logging to mining.

2. What is the company's strategy and what are the options?

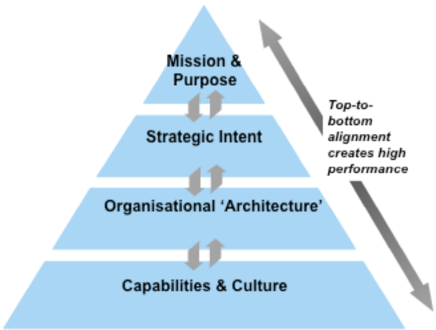
   Following the footsteps of Aventis dan Pfizer, the plan to merge Indofarma, Kimia Farma and Phapros to become a giant national pharmaceutical company is an option to attain maximum efficiency and synergy – especially among the state owned enterprises.

3. Given the options, what are the company's priorities?

   Are the base stations more important than the employees? Apparently not for the Telkom Group, as an example, who kept their employees during the time of the last financial crisis and allocate them in the then-new business: mobile telecommunications.

Going through a financial crisis, executives must take a step back and make the time to rethink the top-to-bottom alignment of the company's vision and strategy to its organizational architecture, capabilities and culture.

First of all, executives need revisit the company mission and purpose – "what we stand for" – as a time of crisis is a good time to reflect and review whether the company is still in line with its mission or whether the mission is not viable anymore. The mission should be the unifying theme that aligns all the stakeholders and as such, buy-in from the key stakeholders is imminent for the strategy setting and its execution.



Secondly, executives need to analytically derive consensus on what to do – and what not to do. This can be derived from, for example, a SWOT analysis and this part is called setting the strategic intent. The strategic intent consists of a small number of 'campaigns' which - collectively - address all challenges, issues & opportunities and these should be used to initiate the company's activities and action plan within a specific timeframe.

> "Whether you think that you can, or you can't, you are usually right" – Henry Ford

Once the mission and strategy is set, then this is the time when the executives assess their organizational 'architecture', namely: systems, processes and structure. "Are we using the right system?", "Do we have the right processes?" is then followed by "Do we have the right organization and people to support our mission and strategy?". This last question can be elaborated into the following themes:

- Organization structure
- Empowerment and control
- Alignment of system and processes to people
- Allocation of functions and people

This is a key question that cannot be answered in the nick of time however as this is the "Hardware" of a company, it is always worth to take the required time before coming into a conclusion.

Lastly, executives must ensure that the values, skills & behaviors that guide how things get executed or the "Software" are in place.

If Downsizing is Imminent – How to Downsize with Leniency?

Summarizing from the mission and strategy reviews, the first and foremost principle to downsize is for a fundamental reason, which is to achieve the company's strategy and sustainability, and not simply for cost cutting.

"If I have to lose employees, how can the company do it appropriately?" and "How can the company cut respectfully enough so that remaining employees will stay loyal and productive?" are the most frequently asked questions once the decision to downsize is undoubted.

"I've been restructured."

To downsize appropriately, the company must conduct transparent and comprehensive assessment to the organization and the employees. Organizational assessment has the objective to identify and analyze organization effectiveness. Indicators such as spans & layers, staffing pyramids and ratios could clearly identify where the role redundancies and the excessive management layers. Conducting such assessment may also result into an organization repositioning or downgrading and can be an alternative initiate to downsizing – if the executives and employees come to an agreement.

Employee assessment is a 'must' for a company to identify where the top 20% and bottom 20% of the company is – as there are people in every workplace who are substantially more valuable to the company than the others are. Treating employees with fairness do not imply to treating everyone equally but to treat everyone in accordance of their performance. Moreover, employee assessment provides executives with an in-depth understanding of strengths and gaps in a company's talent pool. This assessment should be based on a set of competencies such as skills, abilities and knowledge, and this result combined with historical employee performance will provide the necessary 'bullets' and due diligence to decide on employee retention.

When implementing the decision of downsizing, an expedient communication, preservation of the intellectual capital and compliance to the regulations are factors that ensure a seamless downsizing process. An expedient communication is a combination of a clear, honest and continuous communication to all layers of the organization. Conveying the facts on strategic realignment and organization restructuring rather than withholding information and letting the employees witness HR staffs hasten from one meeting to another will avoid creating panic among not only the employees but also the investors and the market. One communication initiative during organization downsizing could be in the form of a creation of an internal unit to help employees to find jobs elsewhere, train employees on interview skills, forward the CVs to HR consultants and counsel them to complete the exit process seamlessly. Making sure that the intellectual capital does not leave the company is also critical to ensure the continuous growth of the company at times when intellectual capital is the most critical. Lastly, compliance to the Indonesian labor law and regulations needs to be looked into whereby companies are in risk where downsizing is merely based on other factors than business decisions.

A Closing Note – Big Companies just Don't Cry…

In the face on an unpredictable financial landscape, there is no one-size-fits all solution and all solutions – short term and long term – must be considered in conjunction. How companies consider the solutions and position organization downsizing in a proper context to navigate through the uncertainty is what separates the big companies that have a cool head to distinguish opportunities and challenges. An annual CEO survey conducted by the Economic Intelligence Unit concluded to an eye-opener for companies everywhere: No matter what the status of the economy and financial systems, companies will always need to maintain, recruit and develop their best talent.

> "Control your destiny or someone else will" –
> Jack Welch

About Arghajata Consulting

Arghajata Consulting offers services in the fields of management consulting, corporate finance advisory, and accounting services. With global resources and deep local knowledge, Arghajata works closely with clients and commits to deliver essential value.

Contact us: +62-21-5266001
Lenita Tobing – lenita.tobing@indoconsult.co.id
Iman Subarkah – iman.subarkah@indoconsult.co.id

References:
1. *Cary L. Cooper, "The Organization in Crisis," Wiley-Blackwell, October 2000*
2. *Franco Gandolfi, "How do organizations implement downsizing? – An Australian and New Zealand study", Contemporary Management Research, September 2005*
3. *Alan Downs, Downsizing with Dignity, About.com, 2008*
4. *Paul Branstad et al., "Rethink Your Strategy: An Urgent Memo to the CEO", Booz & Co., 2008*

* *Lenita Tobing and Iman Subarkah are a Principal and Consultant, respectively at Arghajata Consulting.*