Managing Downsizing: Key Considerations
by Mike Sweeney

In today’s business climate, downsizing and plant closure have become common and important strategic management activities to increase competitiveness and eliminate redundant capacity. We should view downsizing as a natural progression in the development of today’s organisations, not an exceptional or unusual activity. However, from my experience of working with organisations that have restructured, many do not handle this process well and can suffer serious long term damage as a result. With colleagues, I have developed a five stage model which can act as a road map for planning downsizing and reviewing its implementation.

1. Retention of corporate reputation

When a company makes an announcement to close or to downsize its operations, the consequences of such a decision upon the local community and the customer and supplier bases are profound. It is, therefore, essential that the reasons for making such a decision are clearly communicated by the company to the affected people and groups before rumour and innuendo increase the barriers of acceptance of the need for such a decision. Closure or downsizing is a balancing act; managers must protect the reputation and the legacy of the organisation and they must also consider the impact of the decision upon those customers served by the facility to be closed or downsized and those people who are employed within it.

In the five stage model, managing corporate reputation is the most critical issue to be immediately addressed once a decision to downsize or close a facility has been made, so make sure you understand the impact that such a decision will have upon the local community and carefully consider all the ramifications of its effect upon the corporate brand and reputation.

2. Manage communications

This consists of informing two types of interested parties, those who are external to the organisation and those who are employees of the firm. External communications consist of accurate and timely information about what capacity management decisions have been made and the reasons for those decisions. Internal communication aims to keep employees informed fully about the planned changes to be made to the number of people employed by the firm and why the organisation is downsizing. In addition, it is essential to inform employees why the plant to be closed or downsized has been chosen for such types of organisational change. In my experience many organisations are not very good at managing the total communication process, often the reasons for downsizing or facility closure are not clearly communicated to the employees affected which stimulates a higher level of resistance to change.

In these days of social media such as Twitter and Facebook, such technology provides an opportunity for improved individual communication; you can use it to better inform everybody inside and outside the organisation about the capacity reduction decision and the reasons why the plant has been chosen for downsizing or closure.
3. Manage the actual closure

This stage is essentially an important project management activity. It is very much a key operational task; it will involve setting the vision for the closure or downsizing, planning its timing and the run-down of operations, determining the reduction of employee numbers and the company’s separation policy and clarifying and informing employees of their role in the immediate future. It involves creating and maintaining a clear vision of the capacity reduction process and the preparation of a sound operational plan for everybody to understand their part in the closure process or their future contribution to business operations following downsizing.

4. Manage investment in employees

This stage is where attention to employee aspects of closure or downsizing will have the greatest impact. If you don’t understand the emotional impact upon employees of a downsizing or closure decision, it can prove to be both a difficult and a very costly process to implement. Counselling and training people for displacement and determining the appropriate separation packages will take time and effort. The survivors of such decisions should also be offered such counselling or mentoring to ensure the rebuilding of their commitment to the company and their motivation to continue as one of its employees.

5. Manage continuity of operations

This involves the creation of a multi-functional leadership team. It requires the involvement of both Trade Union representatives and employees (or employee representatives). During the run down of operations to closure, some employees may require to be trained to substitute for those leaving prior to closure. Therefore, their development to fill early leavers’ roles within the business will need to be anticipated and managed. Downsizing creates opportunities to identify, train and develop capable employees to fulfil more responsible roles within the firm. Their selection and mentoring creates additional challenges for middle management who will be already stretched by managing the implementation of the downsizing or the closure process.

I observed this process at close hand at Luton when the Vauxhall plant was closed. Continuity of car production at Vauxhall was essential, with volume cars produced in the plant for another 15 months. They therefore had to retain some employees in a reduced operation and, at the same time, it was essential that they managed the transfer of others to another plant. Throughout the management of these organisational changes, plant performance must be managed to ensure the continuity of output from the company.

Downsizing as a Balancing Act

Downsizing is essentially a balancing act: managing the legacy of the organisation, its reputation and its ongoing business performance. It is equally about skilfully managing people, those who are retained by the organisation and who will separate from it.

Mike Sweeney is Emeritus Professor of Production Management at Cranfield School of Management