Managing Effectively in the Downsized Organization

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Many health care institutions have downsized in recent years for a variety of reasons including cost savings and the need to be proactive in restructuring the organization for more effective performance. In a downsized organization, top management must develop new strategies to enable line managers at all levels to operate effectively. New policies for human resource strategic planning, selective hiring, employee empowerment, training and development, reduction of status distinctions, sharing of appropriate information with employees, and paying for performance must be implemented. Key Words: downsizing, line manager support in downsizing, proactive downsizing, top management support in downsizing

INTRODUCTION

Today's health care organizations tend to be lean. Due to constraints of cost containment, competition, and rising health care costs, few organizations employ more people than required. Downsizing may become necessary to improve operating efficiency and position the institution for achieving a more significant competitive advantage.

While many managers view downsizing as synonymous with layoffs due to cost cutting, it also may mean a proactive reduction in the workforce. Rather than laying off employees, downsizing may be achieved by not replacing employees when they leave for any reason. The net result is that managers must learn to operate their departments or work units with fewer employees than before, but accomplish the same or even greater productivity.

The following overview examines some of the broader implications of downsizing.

EFFECTS OF DOWNSIZING

While many managers tend to dwell on the negative aspects of downsizing, there can be positive outcomes as well. Each is analyzed below.

Positive outcomes

Operating with fewer employees requires reasessing the way an organization and its departments function. By examining current work methods, it is possible to develop better job design, leading to increased work efficiency and productivity. A newly redesigned job may require broader skills, which enhance the motivational aspects of job performance. Managers must improve selection procedures to acquire quality employees. Cross-training becomes even more necessary because employees may not have rigid job descriptions; rather, they must be fluid at interfacing with other employees' work performance. Managers must communicate more accurately and delegate more effectively.

Negative outcomes

Increased job stress may occur because employees are asked to do more when their jobs are already stressful enough. This is particularly true for hospital employees due to the more serious health problems of patients admitted to hospitals today. Increased absenteeism and turnover rates may occur. Nurses, already in short supply, may elect to accept positions in nonhospital settings, such as clin-
ics, where they can work more regular schedules. Feelings of job security may decrease as employees wonder if they will be the next to be terminated. Feelings of guilt on the part of downsizing survivors may increase.

**IMPORTANCE OF TOP MANAGEMENT SUPPORT**

Top management’s support is crucial to the operating success of a downsized organization. Areas particularly impacted by top management are organizational culture and human resource management policies such as employee selection, training and development, performance appraisal, and compensation.

**Organizational culture**

Top management plays an important role in establishing and maintaining a culture that is aligned with the organization’s vision and strategies. When a downsizing strategy is implemented, it is very important that the organizational culture evolve to include employee values and attitudes that are consistent with requirements for successful performance in the new organization. For example, if the organization has changed from a more hierarchical and bureaucratic culture to a flatter and less hierarchical one, employee values and attitudes required for success also may need to change. In the initial culture, important employee values may have been carefulness, comfortableness with rules, stability, and job security. Values in the newly downsized organization may be innovation, risk taking, and empowerment. Top management should now attempt to achieve a good match between new organizational values and employee values. Human resource management policies should be revised to help achieve this required match. Economic and noneconomic reward systems may need to be changed to promote behavior consistent with the new values. Recruiting and selection policies should be revised to help managers hire people whose values and attitudes are a good cultural fit.

Implementation of a downsizing strategy by top management may have a major impact on the evolution of the new organizational culture. If employees are jettisoned quickly, without regard to their well-being, and remaining peers become upset as a result, employee resistance to change is likely to increase. In a more negative climate where employees are upset with management, it will be difficult for the culture to evolve positively as required, thus resulting in a negative long-term impact on organizational performance. Turnover may increase (often among the best performers who are the most marketable), productivity may decline, and quality improvement efforts may fall on deaf ears. This negative climate, resulting from a poorly implemented downsizing strategy, may create significant difficulties in implementing new human resource management policies to assist managers in functioning effectively in the new organization. If employees are accustomed to a traditional, paternalistic culture with annual rewards based on security and consistency rather than risk taking and innovation, an immediate change in how employees are rewarded is likely to meet with significant resistance. Furthermore, if top management is unwilling to allocate money for training to enable employees to perform effectively in the new environment, the downsizing effort will probably be unsuccessful.

To help organizational culture evolve to fit well with the downsized organization, top management should inform employees about why the organization was changed and explain how this change will improve organizational performance, thus actually increasing job security in the long run. It is especially important to communicate clearly how rewards will now be allocated, and how employees can develop their careers further.

**Human resource management policies**

For a downsizing strategy to be implemented successfully, top management must be committed to the development and use of new human resource management policies that will enable line managers to improve performance in the new organization. Since fewer layers of management, wider spans of control for managers (number of employees directly supervised), and more broadly de-
signed jobs for employees likely will result, human resource management policies for employee selection, training and development, appraisal, and compensation may need to be changed significantly.

**Employee selection**

After identifying the type of culture considered appropriate for the newly downsized organization, employee selection policies can be formulated and adopted. A large applicant pool should be developed, consisting of people with the critical skills and characteristics necessary for successful job performance. Managers should screen candidates for important attributes that are difficult to instill or modify in training and development programs. They should consider using an assessment center to help identify candidates with the appropriate attitudes and values necessary to provide a good cultural fit. Identifying people with these attributes is important, but it is not enough in and of itself. If candidates are not a good cultural fit, their probability of turnover is significantly higher and their job performance is likely to be lower. If the organization is too small to justify an in-house assessment center, then the process should be outsourced. Regardless of the selection process used, it should be rigorous and incorporate the use of multiple selection techniques.

**Training and development**

Training and development must be aligned closely with the selection process. If managers are selecting people based primarily on attitude and cultural fit, and also ensuring that the candidates have at least the ability to learn the necessary job skills, then the training and development process should be enhanced significantly. In downsized organizations where jobs are designed more broadly and employees are empowered to assume more responsibility for successful job performance, training is an essential component. The organization tends to rely more on front-line employee skills and initiative to identify and resolve problems, initiate changes in procedures, and exercise responsibility for quality. Training can become a source of competitive advantage when top management is willing to make the necessary investment in employees in order to ensure an increased rate of return through higher performance.

Newly downsized organizations face challenges to develop better socio-technical systems where people and technology are combined for high performance. Since health care technology changes rapidly, continuous training is crucial in achieving organizational effectiveness. New technology cannot be utilized effectively if employees are not trained to use it well. A recently downsized organization should perform an extensive needs analysis to determine where training is required, establish training objectives, involve potential trainees in establishing the training curriculum, select and implement appropriate training methodology, and evaluate training effectiveness by analyzing subsequent job performance. Evaluating training effectiveness is critical because data are needed to demonstrate that the organization is receiving a rate of return on its training investment to justify making additional investments in the future.

**Performance appraisal**

If management seeks to develop a culture where employees are empowered and committed to work interdependently in broadly defined jobs, then it must carefully define the purpose(s) of performance appraisal. Where performance appraisal is used primarily to allocate pay on an individual basis, a number of problems may arise. Employees may perceive that their appraisals are dependent on politics and flattery toward managers. Teamwork may be undermined, as employees may believe they must act in their own self-interest since they are competing with other individuals for rewards. There may be little, if any, concern about
organizational performance since employees may tend to concentrate on individual effort and focus on short-term performance.

If performance appraisal is conducted primarily to provide feedback to employees about improving their job performance and preparing them for more important roles in the organization, it is likely to be more effective. Performance feedback should be provided to employees on a continuous basis, not merely once or twice a year in a formal appraisal interview. In addition, in the more interdependent work system in the downsized organization, performance feedback from peers may be helpful in improving individual performance. In downsized organizations with a significantly flatter structure, managers may find it more difficult to isolate individual performance and analyze it without considering how, and the extent to which, employees interact with and impact the performance of others. Some organizations have implemented a 360° system where employees and patients, or other customers who work with an employee, provide feedback about job performance. This method is too new for most users to know if it will be successful in the long run, but it may be most effective in providing feedback for employee development. Feedback also must be shared with those charged with evaluating the effectiveness of training and development programs.

**Compensation**

Labor costs account for more than 50 percent of operating costs in many organizations, ranging even higher in professional service industries. Despite its cost significance, many organizations continue to allocate compensation based on flawed performance appraisal systems. This causes serious problems for managers charged with differentiating performance among employees on an individual basis when, quite often, their work is interdependent. The difficulties of raising funds, necessary to grant individual merit increases high enough to impact motivation, compound the problems of pay administration.

Health care institutions may wish to place more emphasis on organizational-level reward systems that are congruent with the flatter structure often found in downsized firms. These reward systems motivate employees to work together to become more effective and improve productivity so that each person can receive a higher reward. They also eliminate headaches for line managers trying to tie performance appraisals to pay increases, and then having to deal with employee grievances resulting from differences in individual appraisal outcomes. Performance appraisals then can be used as recommended previously—as feedback mechanisms to improve performance, rather than as a primary means of allocating pay. Therefore, top management should study the current pay system carefully to determine if there should be greater emphasis on organizational-level compensation.

**EFFECTIVE LINE MANAGEMENT PRACTICES**

Top management by itself cannot ensure the operating success of a downsized organization. Line managers at all levels play a critical role, and they must become partners in areas such as performing strategic planning for human resources, adjusting to the loss of midlevel managers, practicing selective hiring, empowering employees, providing cross-training and employee development, reducing status distinctions and barriers, sharing appropriate information with employees, and implementing pay for performance.

**Performing strategic planning for human resources**

Strategic human resource planning takes on even greater importance in downsized organizations. Employees have seen colleagues leave and subsequently wonder who may be next. In such an environment, it is very important to complete a downsizing effort as soon as possible, whether it was implemented in response to a decline in demand or in a proactive effort to make the organization more efficient and competitive in the future. Protracted workforce reductions create a climate of fear that can have a negative impact on performance. Employees who have been through a
downsizing effort will be even more concerned about employment security. Therefore, management must be cautious in forecasting the future supply and demand for labor to minimize the probability of additional workforce reductions.

Effective human resource planning should enable the organization to provide some degree of employment security, if not for the entire workforce then at least for a core of critically needed employees. In a downsized organization, where management has spent a significant amount of time and money cross-training and developing employees for more broadly designed jobs, the loss of this investment through turnover can be costly. In addition, it is difficult for managers to obtain from employees the innovation and commitment necessary to compete effectively in today’s market(s) if the employees do not feel that they have some degree of job security.

Adjusting to the loss of midlevel managers

While concern is typically expressed about the effects of downsizing on line employees, an adjustment to the resultant loss of midlevel managers also must be examined. Workloads for line managers will be increased when an organization downsizes because the work formerly accomplished by midlevel managers will now be delegated downward. Job responsibilities for line managers will need to be reviewed and attention paid to compensation levels as well. The work previously performed by midlevel managers does not cease to be a consideration because these positions were deleted. The workload is simply shifted elsewhere in the organization.

Practicing selective hiring

As unemployment fluctuates, managers may be confronted with reduced pools of qualified applicants, and they might be tempted to hire “warm bodies” to fill vacancies. However, strong managers will resist this temptation, even at the risk of leaving a vacancy unfilled. Downsized organizations cannot afford to hire anyone but the most capable individuals since hiring decisions impact all aspects of organizational life.

Organizational culture is affected. Good employees find it demoralizing to work with poor employees and may leave. Hiring better quality employees will lead to decreased turnover, thus saving money. Improved patient service quality is also a benefit of selective hiring, which requires a consideration of not only technical skills but also fit and attitude. Attitude, in particular, affects how employees perform their jobs as it impacts enthusiasm, motivation, and work effort. Employees who truly enjoy their jobs will function as goodwill ambassadors and, in turn, make recruiting other good employees easier.

Selective hiring also can rejuvenate a work unit. For example, in one department the selection committee looked for job applicants who not only had good technical skills but also were collegial and enthusiastic. As a result, the department’s work atmosphere changed for the better. Even senior members experienced a sense of renewal and commented that the departmental environment was now more satisfying.

Empowering employees

In a downsized organization, empowerment must become a critical management concern. In its broadest sense, empowerment entails decentralizing decision making throughout all organizational levels and all jobs. Within established parameters, employees become enabled to make decisions regarding the breadth and scope of their job performance without having to consult their managers. This leads to improved health care delivery and increased patient satisfaction with that provider. In one health maintenance organization (HMO), rather than having patients contact their doctors regarding the need to extend physical therapy, the therapist initiated the call. Communication with doctors is now more accurate, and patients find that the HMO’s service delivery is less frustrating. Thus, through increased job autonomy and performance latitude, employees provide better quality patient service.
Providing cross-training and employee development

When an organization downsizes, the remaining employees must be as effective and efficient as possible. Therefore, organizations need to cross-train and develop employees extensively, not only for current jobs but also for future job responsibilities.

Cross-training permits organizations to continue functioning satisfactorily when layoffs occur. Because remaining employees possess the skills, they can fill vacancies as they arise. They can perform multiple tasks, substitute for people on leave, and improve their chances for upward progression.

Organizations that need to cut costs might be tempted to decrease training and development endeavors. However, this is the very time when emphasis must be increased. Employees will not be able to assume additional or higher-level responsibilities without proper training. Development efforts are important to prepare employees for upward mobility. In addition, employee development programs increase or improve morale because employees realize that management is willing to invest in them even in times of budgetary constraints.

Reducing status distinctions and barriers

In order to motivate people to contribute mentally and physically at a high level of commitment, it is important that managers show employees that they are important to the organization’s success. This is especially significant in the downsized organization, where communications are likely to be strained as employees resent workforce reductions that have affected their coworkers.

One way to make employees feel like part of an overall team is to reduce traditional status differentials. All employees should eat in the same cafeteria, executive rest rooms or special parking privileges should be eliminated, and managers should dress less formally. Managers are viewed as more approachable if they use informal communication methods such as management by walking around. As a result of such changes, the work environment fosters multidirectional communication between employees at all levels. This is an important accomplishment in a downsized organization that is trying to streamline decision making to respond more quickly to its markets.

Sharing appropriate financial information with employees

Most employees feel that they have a vested interest in the organization’s continued or improved success. If managers solicited employee input about saving money, employees would probably offer viable suggestions. However, employees first need to understand the organization’s current budgetary and financial situation; otherwise, asking them for cost-saving ideas is a meaningless exercise.

Managers must be willing and able to share appropriate financial and organizational performance information with employees. Then employees can make knowledgeable suggestions for financial improvements. In one large department, for example, the manager asked employees for suggestions about handling an unexpected, sizeable budget-giveback situation. Few were able to contribute ideas because they knew nothing about how total revenues were generated, the size of individual department budgets, or how monies were allocated across departments. The manager had never shared this information with them.

Even if employees are not able to generate massive cost-saving suggestions, sharing this information allows them to become better-informed consumers of organizational resources. This increases the likelihood that they will become more careful in performing their jobs relative to supplies and materials, thereby helping to decrease expenditures.
Implementing pay for performance

Management must pay careful attention to the compensation system in the recently downsized organization. Jobs for managers and employees have become broader in scope, and job evaluation should be performed with appropriate adjustments in pay for those whose responsibilities have been increased. Survivors of a recent round of downsizing are not likely to be motivated to perform at the higher levels now needed if they perceive that the organization has taken advantage of them by giving them more work for the same or less compensation. The pay structure should be adapted to the newly flattened organizational structure, and employees should have input in the process. If the organization relies on merit pay, employees should be given continuous performance feedback in their new jobs, and merit increases may have to be larger to make up for the lack of promotional opportunities in the downsized organization.

CONCLUSION

It is important for recently downsized health care institutions to continue to provide effective patient services while minimizing the downsizing costs for employees, the organization, and society. Employees' values and attitudes have an important impact on their ability to provide high-quality service, which, in turn, is a major factor in the ability of a health care organization to achieve a competitive advantage.

In a recently downsized organization, top management must be prepared to revise its human resource management policies to enable line managers to achieve high levels of employee commitment and performance. The policies used in a more hierarchical organization with emphasis on upward movement and downward communication are less likely to be effective in a downsized organization with emphasis on lateral coordination and multidirectional communication.

Whether an organization is downsized proactively to improve operational efficiency or to respond to a long-run decline in demand, an important objective is to improve organizational performance and achieve a more significant competitive advantage. Over time, a competitive advantage can become synonymous with increased job security for all employees, thus placing both managers and employees in a win-win situation.

REFERENCE
