Rethinking Restructuring

An influential scholar tells why layoffs often add to costs—and why some businesses have over-relied on them.

Interview by Karen McCally '02 (PhD)

I was drafted into the military right after finishing a master's degree. I kept thinking about how the military really transforms people, and what powerful effects organizations can have on people. I'd studied experimental psychology at Emory. I started to think I'd love to do research on organizations and the people working in them. I wrote to one of my professors, and he recommended that I write to Bernie Bass, who led what was then the Management Research Center at Rochester. The rest is history.

I wrote an article in 1993 called "Downsizing: What Do We Know? What Have We Learned?" Managers had been seeing people as costs to be cut, rather than as assets to be developed. I argued this was all wrong. If all they did was cut people, and didn't change anything else, it didn't pay off in terms of financial outcomes. I wrote that article out of passion; and it won the best article award [for the *Academy of Management Executive*] the following year.

The economic logic of layoffs is pretty straightforward. If you cut costs, other things being equal, your earnings should go up. But I've spent my career showing that other things are not always equal. People always talk about direct costs—things like severance pay, legal fees, pension and benefit costs. But they fail to anticipate the longer-term costs that are not always so obvious.

One unexpected cost comes from the loss of institutional knowledge. And we now have a lot of empirical evidence to show that the really scary thing is voluntary turnover among those who survive. In the year following a round of layoffs, whatever your turnover rate was—let's say it was 10 percent a year—you can expect it to be 15 percent the next year. And the people who are leaving are the ones who are the most marketable.

When business is bad, the first question to ask is, is this just part of the business cycle? Or is this a structural change in our industry? If it's part of the business cycle, and therefore temporary, then alternatives to layoffs make good sense. These include things like cutting temporary staff, eliminating overtime, offering voluntary retirements, and instituting salary and hiring freezes.

In 1995, I traveled around the country on a Department of Labor grant interviewing senior executives and workers at lots of companies. It took about five to 10 minutes for senior executives to sort themselves into one of two camps. The first one was the downsizers. Their philosophy was, what's the smallest number of people we need to run this place? And I would say that was probably 90 percent of the executives I interviewed.

The second group said, "How can we take the people we already have and use them even more effectively?" I called them the responsible restructurers. I wrote a guide for the Department of Labor on responsible restructuring and then published the book *Responsible Restructuring* a few years later, based on that research.

It's a myth that companies only lay people off in bad times. The American Management Association surveyed companies over about a 10-year period in the 1990s and early 2000s. They found that in any given year, about 80 percent of the companies that had layoffs were profitable. A lot of them were trying to meet a quarterly goal, or anticipating changes that might be on the horizon.

Attitudes have started to change. The Society for Human Resource Management found that during the Great Recession, for example, about 60 percent of companies tried to implement at least one alternative before they implemented layoffs. A lot of the evidence is anecdotal; but it is happening. ®

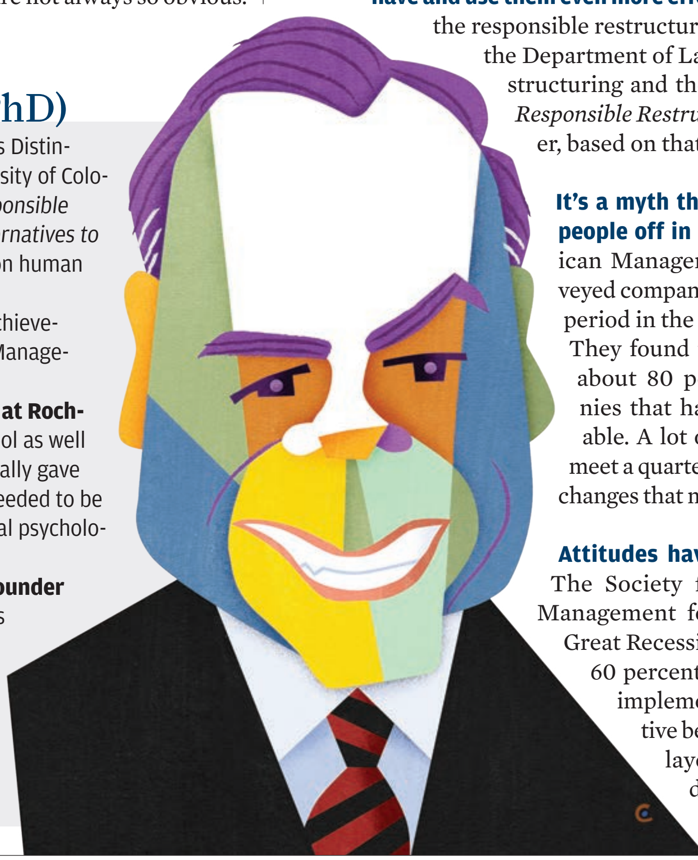
Wayne Cascio '74 (PhD)

Industrial psychologist; Robert H. Reynolds Distinguished Chair in Global Leadership, University of Colorado Denver Business School; author, *Responsible Restructuring: Creative and Profitable Alternatives to Layoffs* (2002), and multiple other books on human resources.

Latest career highlight: 2016 Lifetime Achievement Award, World Federation of People Management Organizations.

On studying organizational psychology at Rochester: "I took courses in the business school as well as in the psychology department, and it really gave me the crossdisciplinary exposure that I needed to be effective as an industrial and organizational psychologist. It was an ideal setting."

On Rochester professor Edward Deci, founder of self-determination theory: "I was Ed's first PhD student. He had just come out of graduate school. We were like the odd couple. I was straight out of the military, with my short haircut. Ed had his long hair. We got along famously. He was a wonderful mentor and remains so."



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