WORKFORCE REDUCTIONS

Downsizing Strategies Used in Selected Organizations
March 13, 1995

The March 31, 1994, enactment of the Federal Workforce Restructuring Act of 1994 presents significant human resource management challenges to federal agencies as they formulate strategies for complying with the statute’s requirement that federal employment levels be reduced by 272,900 full-time equivalent positions during fiscal years 1994 through 1999. The statute was enacted in response to a recommendation by the National Performance Review—endorsed by the President—that federal employment levels be reduced. Other administration actions were announced in early 1995 that are aimed at additional staff reductions.
This report provides information on how 17 private companies, 5 states, and 3 foreign governments planned for and carried out their downsizings. The employers were generally selected because they were reputed to have downsized successfully. The information should be helpful to congressional and executive branch decisionmakers in determining how to implement the mandated reductions in federal employment.

We are addressing this report to you in your capacities as Chairmen and Ranking Minority Members of committees that have jurisdiction over federal employment matters. We are also sending copies of this report to the heads of all departments and agencies of the federal government and other interested parties.

The major contributors to this report are listed in the appendix. Please contact me on (202) 512-5074 if you have questions concerning this report.
Executive Summary

Purpose

During fiscal years 1994 through 1999, federal agencies must reduce employment levels by 272,900 full-time equivalent positions, or approximately 12 percent of the civilian nonpostal executive branch workforce. This requirement was incorporated into law by the Federal Workforce Restructuring Act of 1994.¹

How can agencies ensure that they will be able to accomplish their missions with significantly fewer employees? What strategies will best accomplish the statute's objectives? How can employment levels be reduced in a manner that will effectively deal with employees who remain, as well as those who leave? Finding answers to these and other questions may be a daunting challenge for congressional and executive decisionmakers as the downsizing progresses.

To obtain information that might be of value in carrying out federal downsizing, GAO contacted 17 private companies, 5 states, and 3 foreign governments, which had downsized in recent years. This report presents a compendium of the approaches these employers used, as described by management officials: the planning involved, the methods used to reduce their workforces, and the human resources aspects of the downsizing activities.

Background

President Clinton came into office with a pledge to reduce the federal workforce by 100,000 employees. Subsequently, the National Performance Review (NPR) recommended that the federal workforce be reduced by 252,000 positions, primarily in supervisory, auditing, accounting, budgeting, personnel, and procurement functions. In accepting the President’s proposal that the workforce reductions recommended by the NPR be implemented, Congress increased the reduction to 272,900 positions and authorized agencies to offer separation incentives of up to $25,000 to federal employees who agreed to resign or retire. Other administration actions were announced in early 1995 that are aimed at additional staff reductions.

Many organizations in the private and public sectors have considerable experience with downsizing, and the governments of a number of foreign countries have reduced their workforces as well. Some of these employment reductions amounted to as much as 40 to 50 percent, often spread over a number of years. However, employment reductions of the magnitude contemplated are unusual in the federal government.

Executive Summary

Results in Brief

In general, the private companies in GAO’s review said their decisions to downsize were the result of corporate restructuring actions designed to make work processes more efficient and/or eliminate less profitable and unnecessary functions. Reducing employment was seldom the initial objective. Rather, it was a consequence of eliminating unnecessary work. Officials of many of the companies stressed the importance of identifying needed structural changes and other revisions to traditional methods of operation before deciding whether and where workforce cuts may be appropriate. In contrast, downsizings by the states in GAO’s review were generally undertaken as cost-cutting measures without consideration of work requirements. Although GAO did not identify detailed reasons for the downsizings in the countries it reviewed, their downsizings were generally characterized as the result of desires to streamline government and make the public sector more efficient.

Once their decisions to downsize had been made, 15 of the 25 organizations said they found it important to plan how the reductions would be carried out to retain a viable workforce when the reductions were completed. Those organizations that said they did not properly plan their downsizings acknowledged that they cut needed employees, suffered skills imbalances, and were often forced to rehire or replace employees who had been separated.

The organizations said they generally found that attrition and hiring freezes, while useful tools, were not always effective ways to achieve significant short-term reductions in the workforce. Thus, most of the organizations used monetary incentives to encourage “at risk” employees to resign or retire if they could not be redeployed to other jobs. Many offered separation incentives more generous than the incentives included in the federal government’s “buyout” legislation, including early retirement without penalties, credit of additional years of service in retirement benefit determinations, and lump-sum severance payments of up to a year’s salary. However, the organizations that had downsized several times over the years tended to reduce the separation incentives offered in successive downsizings. The organizations generally resorted to involuntary separations only after other tools such as attrition, hiring freezes, redeployments, and separation incentive programs did not achieve their employment reduction goals. Where possible, involuntary separations were managed by using various criteria to target specifically those parts of the workforce that were in keeping with the efficiency, profitability, span of control, or other restructuring goals of the organizations.
A concern GAO found among the organizations was the need to assist employees—both those at risk of losing their jobs and those who were ultimately retained—in coping with the personal disruptions caused by workforce reductions. The organizations found that frequent and open communications with their employees on all aspects of the downsizing were essential, along with programs to help affected employees through counseling, outplacement assistance, and retraining.

## GAO’s Analysis

### Importance of Planning in Downsizing Decisionmaking

While not all of the organizations claimed to have done so, most (11 companies, 3 states, and 1 country) said that planning before initiating or carrying out downsizing activities was essential. The private companies said that decisions to downsize were the result of company restructurings based on strategic planning designed to shape and guide the companies’ future directions. Most of the companies said they examined their functions and work processes to see if they should be revised or continued. Thirteen organizations also emphasized the importance of workforce planning procedures to determine the types and numbers of employees they would need in the restructured organization. An official in one company pointed out that simply reducing staff does not make the work they were doing go away, but with proper planning downsizing can be targeted to specific skills the organization no longer needs in its revised structure.

Restructuring based on strategic planning was generally not the impetus for the downsizings in the government organizations GAO visited. The state downsizings resulted primarily from budgetary considerations. For example, officials of one state said that it downsized because it had to fund retroactive salary increases ordered in a court decision. Another state reduced the number of employees after passage of a referendum limiting property taxes. An official of this state said the downsizing meant the state ended up doing less with less. Documentation from the three countries generally characterized the countries’ downsizings as the result of declining economic conditions and changing attitudes toward government services.

Regardless of the reasons for their downsizings, the organizations generally believed workforce planning to be essential in identifying
positions to be eliminated and pinpointing specific employees for potential separation. For example, one company believed work that added value to the organization was the ultimate test of an employee’s worth and evaluated the cost and value added to the final product of all its positions in determining whether employees in the positions would be retained or separated. Another company identified excess employees by reviewing work functions that appeared to be redundant or unnecessary for future operations.

In organizations where officials said planning did not occur or was not effectively implemented, difficulties arose in the downsizings. Officials in one company told GAO they recognized the importance of workforce planning in downsizing decisions when the company lost needed staff because it did not plan for skills retention. An official in another company observed that if an organization simply reduces the number of its employees without changing its work processes, staffing growth will recur eventually.

A number of factors may place constraints on organizations’ downsizing strategies. This was particularly true for the governmental organizations, which were constrained by public sentiment, budget limitations, legislative mandates to maintain certain programs, and personnel laws.

## Approaches to Reducing Workforce Size

Few of the organizations said they relied solely on attrition and/or hiring freezes to achieve significant workforce reductions. As officials in one organization explained, attrition is often not sufficient to reduce employment levels in the short term. Moreover, using attrition as a sole downsizing tool can result in skills imbalances in an organization’s workforce because the employees who leave are not necessarily those the organization determined to be excess.

Once the organizations had identified the employees who were to be separated, they used a variety of approaches to accomplish their downsizing plans. Officials of about half of the organizations—including private companies, states, and countries—said they sought to redeploy affected employees to fill needed positions in other parts of the organization. Often, these organizations encouraged redeployment to other locations by paying travel and relocation costs and other allowances. In some cases, the organizations found that retraining at-risk employees for other positions was an effective means of avoiding employee separations and cost-effective for the organization.
Most of the organizations offered affected employees monetary incentives to leave voluntarily. Seventeen of the 25 organizations allowed employees to retire early. In some of these organizations, officials said early retirement penalties were waived, and the organizations often credited employees with additional years of service and/or added years to their ages so they could either qualify for retirement or receive enhanced benefit amounts, or both. Officials of three organizations said they supplemented early retirees’ pensions until they were eligible for social security.

Lump-sum cash payments were often a feature of separation incentive programs. The amounts were usually based on the organizations’ severance pay formulas—generally 1 or 2 weeks’ pay for each year of service to a maximum of a year’s salary. These payments were available to employees who resigned or retired.

Other, but less common, separation incentives included continuation of insurance benefits for specified periods, paid college tuition and other training programs, and new business start-up assistance.

Officials of 18 of the organizations said they had downsized a number of times over the years. Of these, eight said their separation incentive packages tended to be less generous in successive downsizings. For example, one company discontinued offering its social security “bridge” payments\(^2\) for early retirees, and a state discontinued its paying amounts of up to $5,000 for early retirees’ health insurance costs.

When redeployment and voluntary separation programs did not achieve the employment reductions needed to meet efficiency, profitability, span of control, or other restructuring goals, the organizations said they instituted, or planned to institute, involuntary separations as a final downsizing tool. Various criteria, including key skills and expertise, tenure, and/or performance, were used to determine which employees would be involuntarily separated.

Officials of 21 of the organizations GAO reviewed said part of their restructuring and downsizing activities emphasized the “people issues” involved. They said they recognized that employees are apprehensive and

\(^2\)Bridge payments are the equivalent of retirees’ eventual social security benefits. Typically, these benefits are paid until employees become eligible for social security.
Executive Summary

concerned about how they will be affected when their employers restructure or cut employment levels.

Many of these officials emphasized the importance of communicating with employees during downsizing. Among the communication methods the various organizations used were staff meetings, employee newsletters, video presentations, and face-to-face discussions between employees and management. Officials in one company pointed out that a primary benefit of open communication between management and employees was helping to avoid distrust and morale problems. They said they made every effort not to appear as if they were withholding any information from employees.

Officials of these 21 organizations said they devised programs to assist employees who lost their jobs during downsizing. They provided, for example, employee and family counseling, job placement services, relocation assistance, and training for other careers. They also said they often found it important to address the morale and productivity of the “survivors” of downsizing by helping them deal with concerns brought about by the workplace changes.

Recommendations

GAO is making no recommendations in this report.

Agency Comments

GAO did not seek overall comments from the companies and states that participated in its review because of their numbers, and because GAO did not identify them when describing their restructuring and downsizing practices. GAO did, however, selectively verify the accuracy of the specific examples used in the report text.

GAO provided relevant sections of this report to officials of the Australian, Canadian, and New Zealand governments. Australia and Canada provided technical comments, which GAO incorporated where appropriate.
## Contents

<table>
<thead>
<tr>
<th>Chapter 1</th>
<th>Introduction</th>
<th>Objective, Scope, and Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>Planning Was</td>
<td>Strategic Planning Generally Identified Work to Be Eliminated or Redesigned</td>
</tr>
<tr>
<td></td>
<td>Considered an Essential First Step</td>
<td>Many Organizations Recognized the Need for Workforce Planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Factors Limiting Restructuring Activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Chapter 3</td>
<td>Approaches Used to Reduce Workforce Size</td>
<td>Redeployment to Other Jobs Was Often Used to Reduce Employee Separations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Few Organizations Relied Solely on Attrition and Hiring Freezes to Reduce Employment Levels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Incentives to Encourage Voluntary Separations Were Widely Used</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Involuntary Separations Were the Final Downsizing Tool</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>Human Resource Management Considerations During Downsizing</td>
<td>Good Communication With Employees and Their Representatives Was Considered Vital</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Most Organizations Provided Employee Assistance During Downsizing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>Observations</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>40</td>
</tr>
<tr>
<td>Appendix</td>
<td></td>
<td>Appendix: Major Contributors to This Report</td>
</tr>
<tr>
<td></td>
<td></td>
<td>42</td>
</tr>
</tbody>
</table>

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### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPR</td>
<td>National Performance Review</td>
</tr>
<tr>
<td>OPM</td>
<td>Office of Personnel Management</td>
</tr>
<tr>
<td>RIF</td>
<td>reduction in force</td>
</tr>
</tbody>
</table>
The federal government faces significant challenges in structuring and maintaining a workforce of the appropriate size and necessary skills to accomplish the missions of the myriad of programs federal agencies are expected to carry out. Effective program administration requires quality employees in the right numbers and with the right skills mix. If the government has more employees than it needs, the taxpayers do not receive full value from what they pay for government services. On the other hand, having too few employees can lead to inefficiencies as well, including program delays, expensive overtime and contracting costs, or simply not accomplishing the work required to achieve a program's objectives.

The federal government is in the early stages of implementing a mandated reduction in the number of its employees. As required by legislation enacted in March 1994, the executive branch must become smaller by the equivalent of 272,900 full-time positions during fiscal years 1994 through 1999. This requirement resulted from a report by the National Performance Review (NPR), endorsed by the President, which maintained that the government had too many employees. The NPR concluded that federal employment levels should be reduced by eliminating supervisory and management positions and cutting the number of employees in “management control” positions such as auditing, accounting, budgeting, personnel, and procurement.

To avoid or minimize the need for involuntary separations, the downsizing legislation authorized agencies to offer separation incentives to employees in any occupation in any location who agreed to resign or retire. The incentive is to be paid in a lump sum and is equal to the lesser of $25,000 or the amount equivalent to the severance pay allowance an employee has earned.

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2In early 1995, the President announced additional restructuring plans at five agencies that could result in additional staff reductions.
4Severance pay is normally paid to employees who lose their jobs through no fault of their own. It is computed on the basis of 1 week’s salary for each year of the first 10 years of service and 2 weeks’ salary for each year of service greater than 10 years (basic allowance). An additional 10 percent of the basic allowance is paid for each year an employee is over age 40. Total severance pay cannot exceed 1 year’s salary at the level received immediately before separation. To illustrate, a 50-year-old employee with 18 years of service would have severance pay equal to a full year's salary.
Although employment reductions of the magnitude contemplated are unusual in the federal government, a number of other employers have considerable experience with downsizing. For example, large computer manufacturers and automobile and telecommunications companies have reduced their workforces since the late 1980s, and some state and foreign governments have downsized as well. The downsizings varied in size and duration, but employment reductions of as much as 40 to 50 percent spread over a number of years occurred in some of these organizations. According to media accounts, some companies were able to improve their competitive positions through their downsizings, but others were not.

Objective, Scope, and Methodology

The objective of this report is to provide a compendium of the approaches used by selected companies, states, and foreign governments in downsizing their workforces. Specifically, the report provides information on the planning involved; the approaches used to reduce the workforce; and the human resource aspects of the downsizing efforts.

The companies and states in our review were identified through searches of available literature on downsizing and discussions with downsizing experts and consultants. This research identified companies and states that were reputed to have successfully met their downsizing goals. Of these, the following 22 organizations agreed to participate:

- AT&T
- Black & Decker
- DuPont
- Eastman Kodak
- General Electric
- General Motors
- Grumman
- Hewlett-Packard
- Honeywell
- IBM
- Johnson & Johnson
- K-Mart
- Minnesota Mining and Manufacturing
- Motorola
- Sears

These included authors of books and other publications on downsizing, representatives of organizations that have studied downsizing such as the Commonwealth Fund, the Rockefeller Institute, the Humphrey Institute, and the Committee for Economic Development.
We interviewed officials and obtained documents pertinent to their downsizings from each of the 22 organizations.

In addition to the companies and states, we obtained information on downsizing by three foreign governments—Australia, Canada, and New Zealand. We selected the foreign governments because they had downsized in the recent past, and their cultures and government activities were relatively similar to that of the United States. Because of the similarity, we believed their experiences might provide relevant insights for federal decisionmakers. We obtained documents from these governments about their downsizings and, whenever possible, interviewed officials from the governments. We were unable to interview some cognizant officials from the governments of Australia and New Zealand. Therefore, our discussions of these countries’ downsizing experiences are primarily based on policy documents the governments provided us.

Because organizational restructuring involved sensitive, competition-driven business decisions, some of the private companies asked that we not identify them when discussing their specific strategies in our report. We therefore chose to omit all company names elsewhere in the report, and with the exception of one company that did not want to be identified in any manner, to simply list the companies in this chapter. We also decided to omit the states’ names elsewhere in the report because we did not name the companies.

Company officials were also often reluctant to provide us information on issues involving certain business decisions, which they considered to be proprietary or part of business strategies. For example, we could not obtain cost figures for private-sector separation incentives. We also could not obtain specific strategic or workforce plans for these organizations.

6This company agreed to cooperate in the review with the understanding that its name would not appear anywhere in our report.
Further, we were unable to arrange discussions with unions or other employee representatives in 15 of the 17 companies. Consequently, the views of the degree of success of restructuring and downsizing in the companies often represent only those of the management officials we interviewed. Where we had relevant competing views, we included them in the report.

We did our work between May 1993 and August 1994 in accordance with generally accepted government auditing standards.

This report provides information on organizations’ downsizing strategies and is intended to show lessons learned and practices followed by management of the organizations. We did not seek comments from the companies and states that participated in our review because of their numbers, and because we did not identify them when we described their restructuring and downsizing practices. However, we did selectively verify the accuracy of the specific examples used in the report text.

We provided relevant sections of the report to officials of the governments of Australia, Canada, and New Zealand. We received technical comments from Australia and Canada, which we incorporated where appropriate.
Planning Was Considered an Essential First Step

Fifteen of the 25 organizations in our review indicated the importance of planning before initiating downsizing or other changes to an organization’s structure. We were told that strategic planning—a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it—is an essential first step that should be taken before any decisions on the appropriate size and composition of the workforce are attempted. Most of the organizations found that workforce planning, whereby care is taken to ensure that employees with the skills and training needed to accomplish the organization’s work are retained, was an important component of successful downsizing.

Some organizations in our review acknowledged that insufficient strategic and/or workforce planning had hindered their downsizing efforts. These organizations said they experienced skills imbalances when their downsizings were completed and had to rehire some of the employees they separated or hire new employees who had to be trained.

Further, officials indicated that factors such as legislation and agreements with employee unions sometimes limited the manner in which organizations carried out their downsizing. For example, one company determined that it was prohibited by law from excluding retirement-eligible employees from its separation incentive program.

Strategic Planning Generally Identified Work to Be Eliminated or Redesigned

In general, the private companies said that decisions to downsize occurred as the result of restructuring activities intended to eliminate less profitable and unnecessary functions and/or make work processes more efficient. Thus, the initial focus was on changing the future work of the company, not on reducing employment. On the other hand, the states’ downsizings were typically undertaken to cut costs by reducing the number of their employees.

We were unable to identify specific reasons for the downsizings in the three countries. However, documents provided by the countries generally characterized their downsizings to be the result of declining economic conditions and changing attitudes toward government services. In a separate report on the deficit reduction strategies followed by a number of foreign governments, we noted that desires to streamline government and make the public sector more efficient were common themes across the countries studied.1

In one company, officials said the decision to restructure was basically a response to anticipated changes in its primary industry segment, threats to market share from rising competition, and opportunities to automate certain manufacturing processes. Company officials said that, despite the fact that the century-old firm had never posted a loss and earnings per share had grown an average of about 13 percent over the previous 10 years, a restructuring effort was launched to gain better control over operating costs, eliminate redundant services, and reduce excess capacity.

Officials explained that the company did not establish specific financial or staffing goals for the restructuring. Instead, it analyzed the potential outcomes of several restructuring approaches and then decided if the potential outcomes were desirable. For example, it studied the likely ramifications of closing a particular production plant. The study demonstrated that closing the plant would be advantageous because the closing costs could be recovered in a relatively short period. Officials said the company also looked into the possibility of consolidating administrative functions by assigning teams of employees to study the various functions carried out in their units. The study included examining everything from how overhead services influenced costs to how they met their business needs. These analyses demonstrated that functions could be eliminated and positions abolished. A company official told us that one lesson the company learned from these efforts was that an organization must allocate sufficient time to devise a good restructuring plan.

In another company, officials said that industry decline, reduced profits, rising competition, and increased automation and technological upgrades during the 1980s convinced management that a restructuring was needed. Officials said the company had an extremely hierarchical structure, tremendous overhead, and archaic pay systems. According to these officials, a basic objective in restructuring the company was to reduce the number of employee levels from the top to the bottom of the organization to four: the Chairman, the head of a business, the first-line supervisor, and the first-line employee. To facilitate reorganization decisions, the company analyzed each of its component businesses to compare the components’ cost and competitiveness as well as their efficiency and effectiveness. As a result, the company reduced its staffing levels, and 45 business units were reorganized into 12 units, all of which reported directly to the chief executive officer.

Another company in our review decided to restructure its operations as a result of reduced profitability and increased competition. Company

Eliminating Work
officials told us they had earlier sought to improve these conditions by across-the-board personnel cuts in an attempt to control costs and increase efficiency and productivity. However, the officials said these early cuts were not sufficiently tied to a larger strategy and only exacerbated the company’s problems because simply reducing staff did not make the work they were doing go away. The officials said across-the-board cuts did not take into account an organization’s structure and workflow. They said the company’s more recent planning efforts were more strategic—involving analyses of the distribution of employees and resources to determine where to cut and where to consolidate. They said the strategic approaches resulted in downsizing being targeted to specific skills.

Further, officials said this company began to take a more strategic look at how it should be structured and developed a “three Rs” approach to determining its future direction: “Resize, Reshape, and Rethink.” Resizing depended on workforce planning efforts to focus on cutting staff. The reshaping effort involved an analysis by management of the value added by each functional area (design, production, and sales) in the organization and comparing the company’s practices with the best organizations in the world. Rethinking focused on manufacturing design.

Redesigning Work Processes

Officials of 11 of the private companies in our review said that redesigning work processes to eliminate unnecessary and duplicative work was the primary objective of their restructuring efforts.

Officials from one company pointed out that head-count reductions without changing the work itself can be appealing in terms of speed, visibility, measurability, and demonstrable results. However, they cautioned that such reductions are also costly, indiscriminate, and inconsistent with accomplishing a continuing productive work flow with fewer staff. Eventually, they said, organizations have to address their work processes.

An official from another company commented that the organization, which focused on increasing efficiency and productivity in planning its restructuring, had faced some criticism for not being more aggressive in reducing its employee head count. By focusing on ways to increase efficiency and productivity, however, the official said the organization was able to identify approximately 2,400 positions that could be eliminated. The official noted also that if an organization simply reduces the number
of its employees without changing its work processes, staffing growth will recur eventually. Indeed, a 1993 survey by The Wyatt Company, which summarized the restructuring practices of 531 U.S. companies, found that only 17 percent of the companies that downsized succeeded in cutting back without later replacing more than 10 percent of the employees they had dismissed.

The states’ planning approaches typically were based on budgetary considerations and did not focus on the work done by the organization. For example, officials of one state explained that the state downsized because a referendum limiting property taxes created a need to cut state expenditures. The state’s downsizing objectives were to eliminate about 4,000 employees (about 10 percent of the total state government workforce) and to increase the manager-to-staff ratio from 1:7 to 1:9. According to the budget director for the state at the time of the downsizing, the downsizing resulted in eliminating 4,118 positions, but it was considered only moderately successful because there was too much focus on reducing total employment by a particular number. This official felt that not enough attention was given to exploring other, more creative strategies for cutting expenditures. Also, while the downsizing did result in some savings, the official said the state ended up merely doing less with less.

In another state government, an official said a series of budget deficits created a need to significantly cut costs. Previous attempts to cut costs by withholding state employee pay increases were challenged and overturned in court, resulting in additional budgetary problems. To fund the retroactive salary increases required by the court decision, the state decided to downsize its workforce. According to officials, the state decided to lay off 1,500 employees during a 2-month period in 1991 to produce the $23 million in cost savings required as a result of the court decision. In addition, about 1,150 employees separated through an early retirement program. Officials said that in total, between July 1991 and October 1993, about 2,600 state executive branch employees (about 9 percent of the state government workforce) left their jobs. Other employment reduction measures included (1) contracting for services previously provided by state employees and (2) reducing the number of state departments from 65 to 28. Finally, to reduce the number of levels of employment within state organizations, officials said changes were made to the way in which jobs were defined, and alternative career paths were created.

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created that allowed staff to advance by moving horizontally rather than vertically.

While this state’s downsizing objectives were basically met in dollar terms, state officials said that they began to realize a more strategic approach to downsizing—changing work processes—was needed. These officials explained that morale and productivity suffered during the layoffs and continued to be a problem, especially because of the increased workloads imposed on the remaining staff. According to state officials, the objective of a subsequent initiative was to build a more effective state government by exploring innovative ways of delivering services for less cost while taking advantage of the best in staff resources and new technology.

Many Organizations Recognized the Need for Workforce Planning

Thirteen of the organizations in our review emphasized the importance of workforce planning to identify positions to be eliminated in their downsizing efforts. This planning enabled them to pinpoint the employees who were at risk of losing their jobs in the downsizings. In general, employees were targeted for separation on the basis of a variety of criteria including skill levels, seniority, value-added work, performance, and span of control (the number of employees supervised by one individual). Officials said that when insufficient planning and targeting occurred, skills imbalances often resulted.

Officials from one company said their restructuring efforts were targeted to specific divisions, departments, or units, and added that the approaches used varied from unit to unit. When the restructuring actions resulted in determinations that units or functions were overstaffed, employees were identified for retention based on a number of criteria including past performance, skills, and knowledge. In those instances where entire units or functions were determined to be unnecessary, all positions were eliminated. However, the officials said they attempted to find other positions for the best employees elsewhere in the organization.

Similarly, another company evaluated each position in terms of its cost and value added to the final product in determining whether employees would be retained or separated. A company official told us that, while many excellent employees were determined to be excess and separated through this process, the company believed work that added value to the organization was the ultimate test of an employee’s worth and, therefore, should be the chief determinant of whether an employee would be retained. Despite the care taken to determine which employees should
leave, officials from this organization acknowledged that there had been instances where essential functions were eliminated and employees had to be rehired. They attributed these situations, however, to the fact that businesses normally go through life cycles, both shedding and adding employees.

Another company focused the restructuring efforts in its headquarters office on examining supervisory spans of control. According to a company official, top management believed the company had too many layers of supervision. The official explained that the average number of persons directly supervised by a manager was 4.2, and the goal was to increase the average to 7. The official said the company concentrated on analyzing management positions where the manager supervised three or fewer employees. While this exercise fell short of achieving top management’s goal of increasing the average to 1:7, it resulted in about 100 persons being demoted or reassigned and about 17 managers being involuntarily separated. Upon completion of the restructuring effort, the average span of control was 1:6.

Officials from another company admitted that they had not fully appreciated the importance of workforce planning until they lost staff with needed skills in a previous downsizing effort. Officials explained that in the earlier downsizing, the organization focused on head-count reductions, did not plan for skills retention, and did not recognize the importance of targeting separation incentives to prevent the loss of employees with needed skills. In its later downsizing, however, officials said managers focused on work elimination instead of on head-count reductions. That is, the organization reviewed work functions within units and identified those functions that appeared redundant or unnecessary. The company planned, where possible, to redeploy or retrain employees identified as excess as a result of the work elimination assessments. It then considered skills when deciding which staff should be retained and which were excess. If the excess employees did not have the skills needed by other units, the employees were separated.

Officials from another company said they too had come to recognize the value of workforce planning in deciding how to downsize. They explained that an early downsizing effort had involved across-the-board personnel cuts. In later efforts, a group commissioned to evaluate the company’s competitive position found that three major human resource problems existed: (1) excess people, (2) shortage of skills, and (3) poor distribution of talent. They said an approach involving across-the-board cuts would
have addressed the problem of excess people but would have worsened the other two problems because it did not consider the organization’s work flow and possible structural inefficiencies. To better respond to all three problems, the company adopted a five-pronged approach to workforce downsizing that considered (1) size, (2) skills mix, (3) skills distribution, (4) costs, and (5) organizational capability and culture.

In an August 1994 report evaluating the NPR’s accomplishments, the Brookings Institution’s Center for Public Management expressed concern that insufficient planning has preceded the decision to downsize the federal government. The report maintained that decisionmakers may have been too eager for quick savings and characterized the government’s approach as shrinking employment first and then expecting management improvements to follow. The report cautioned that an emphasis on short-term savings created the risk of increasing long-term costs, especially “...if downsizing in the absence of a ‘reinvented’ workplace led the wrong employees to leave...” An example of where this situation may have occurred is the Department of Education. As described in our report, Buyouts at the Department of Education (GAO/GGD-94-197R, Aug. 17, 1994), when the 1994 Restructuring Act was still being considered by Congress, Department officials contemplated using the anticipated separation incentives as a workforce planning tool. By targeting the separation incentives to particular groups of employees, the Department hoped to streamline the organization, improve productivity, increase workforce diversity, and restructure its workforce to better reflect new legislative priorities. However, when its “buyout” program was established, the Department accepted applications only from its older employees who were eligible for retirement. Department officials said any fiscal year 1995 buyouts will probably be targeted to particular areas and limited to higher-graded employees.

Factors Limiting Restructuring Activities

Several organizations in our review pointed out that, in deciding upon the need for and a plan for restructuring, an organization needs to consider a number of factors that can affect how the plan is carried out. These factors include the organization’s mission, its budget, any limitations imposed by law or union contract, and the views and values of its stakeholders. Some

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A stakeholder is any group or individual who is affected by or who can affect the future of the organization—customers, employees, suppliers, owners, governments, financial institutions, and critics.
of these factors may place constraints on organizations’ downsizing strategies. This was particularly true for the governmental organizations, which were constrained by public sentiment, budget limitations, legislative mandates to maintain certain programs, and personnel laws.

Although only four private companies reported difficulties from legal constraints on their downsizing plans, officials in two companies said they would have carried out their downsizings differently were it not for their interpretations of certain statutory requirements. Officials of one company said the company wanted to exclude employees eligible for retirement from its voluntary separation incentive program. The company believed it was too costly to pay such employees both separation incentives and retirement benefits. For a short time, the company offered cash buyouts ranging from $15,000 to $72,000 to other employees it had targeted for separation. However, officials said the company became concerned that this approach might be a violation of the Older Workers Benefit Protection Act of 1990 and terminated the separation incentive program. In the other company, officials said they would have liked to offer more generous separation incentives to single mothers than it offered other employees. However, these officials said the company interpreted the Employee Retirement Income Security Act of 1974 as requiring that all at-risk employees be offered the same incentive package.5

The statutory, regulatory, and other limitations affecting downsizings in the governmental units were demonstrated by a state’s experiences. Officials said the state’s discretion in targeting specific groups of employees for separation was limited because of seniority “bumping” rights offered to state employees, whereby displaced employees could supplant, or bump, nondisplaced employees with less seniority. According to state officials, the bumping rights prolonged the separation process and caused uncertainty and chaos for about 2 months following the layoff announcement. These officials said that, on the other hand, bumping helped preserve the state’s knowledge base because more experienced workers displaced less experienced workers.

Officials said this state’s ability to target particular groups of employees for separation was further limited by collective bargaining agreements that required that union employees be separated based primarily on seniority. Officials said the state had slightly more flexibility with nonunion employees, where it used a formula considering performance evaluations

5We did not research the laws cited by these companies in relation to the individual situations. Therefore, we take no position on the companies’ interpretations.
Planning Was Considered an Essential First Step

along with seniority in making separation decisions. Union agreements also affected this state’s downsizing efforts in other ways. An employee union challenged three separate cases over the state’s plan to retain part-time, temporary, and student employees while laying off full-time employees. The union also maintained that the state was laying off too few supervisory and management employees in comparison with lower-level employees. All three challenges were upheld in arbitration. The union later successfully lobbied the state legislature to adopt a requirement for a 50-percent reduction in the layers of management.

Officials from another state said they had to rely mainly on attrition and, to a limited extent, involuntary separations to reduce employment levels because of negative public perceptions about paying separation incentives to encourage state employees to leave. This state’s union agreement also had a large effect on determining which employees would be involuntarily separated. Employees in bargaining units had to be separated based on seniority.

In Canada, since December 1991, labor agreements with employee unions provided protection similar to employment security for government employees. Thus, the Canadian government was required to minimize the number of involuntary separations and was primarily limited to voluntary separations and employee redeployments in downsizings that occurred after the labor agreements were made. Government officials said the government is seeking changes to the labor agreements.
Once an organization has determined that it will downsize, strategies must be devised on how the workforce will be reduced. The 25 organizations in our review used a variety of approaches to develop and manage their downsizing programs. Redeployment of affected employees to other available positions was a commonly used strategy. In some cases, the organizations attempted to reach their reduction goals through attrition and hiring freezes, but the majority used monetary incentives to encourage employees to voluntarily resign or retire. Many of the organizations instituted employee dismissals when other strategies did not result in accomplishing their downsizing goals. Three organizations elected to use only involuntary dismissals without offering programs or incentives for voluntary separations.¹

Redeployment to Other Jobs Was Often Used to Reduce Employee Separations

Before initiating actions to separate “at-risk” employees, the organizations often sought to redeploy them to fill needed positions in other parts of the organizations. For example, officials from one state said redeployment was one of the state government’s essential tools in its restructuring efforts. They told us that employee union and state government officials had agreed that no involuntary separations would occur without first considering efforts to redeploy affected staff.

Several organizations said they found that redeploying employees to other positions in the organization was effective. In this manner, the number of employees who otherwise would have been separated was reduced, and the organizations were able to retain more of their employees instead of hiring new workers to fill needed positions. For example, at one company, redeployments significantly reduced the number of employees who would otherwise have left the organization during a restructuring. Company officials estimated that 40 percent of the employees in the company who were designated to be laid off actually left the organization.

The following examples illustrate how some organizations carried out their redeployment efforts:

- One company paid travel costs for employees who, on their own initiative, located prospective jobs at other company locations. The company paid expenses plus regular pay for up to three trips of 2 days each for the employees to be interviewed at other locations. If an employee was hired

¹It should be noted that 18 organizations downsized a number of times, and their downsizing approaches varied each time. For example, a company may have offered buyouts to anyone who separated in one downsizing and offered buyouts only as incentives to retire early in another downsizing.
at a new location and a move was required, managers were authorized to pay relocation expenses up to $7,500.

- The New Zealand government encouraged agencies to assist employees deemed surplus in the positions they held to relocate to other jobs in the government. The government paid all the costs associated with relocating employees and their families. In those instances where the new jobs were at lower salaries, the government paid allowances equal to the difference in salary for 2 years. Employees could also receive an equalization allowance, payable in two lump sums, if they chose to take part-time positions. If a geographic move was not required but the new job location resulted in additional public transportation costs for commuting, the government was to pay the extra expenses for up to 12 months. Moreover, if the new job was in the same locality but the employee had to commute more than 30 minutes longer one way by public transport, the employee could move closer to the new job within 1 year and the government would pay all relocation expenses.

- When necessary, New Zealand officials said their government provided training for government employees who chose to be redeployed to new jobs. Other potential assistance for employees who relocated included loans for mortgage financing; reimbursement of realtor and legal fees; bridge loans (to finance a new home until credit had been approved); guaranteed sale of the existing home; and reimbursement, for 1 year, of any additional child care expenses incurred.

- In Canada, hiring officials had to consider surplus employees for retraining or redeployment before new employees could be hired. Any employee whose position was deemed to be surplus was to be guaranteed one reasonable offer of another public service position. The officials said that the government was to pay for up to 2 years’ retraining for its surplused employees to prepare them for other positions in the government.

- One company found that retraining employees to work in other jobs also was cost-effective, particularly when employees’ skills closely matched the needs of the new job. Company officials noted that it was less expensive to train an employee to work in a new area than to bring in a new employee. The redeployed employee already had institutional knowledge of the organization, and more time and energies must be expended on an employee brought in from the outside who knows little about the organization or its processes.
Chapter 3
Approaches Used to Reduce Workforce Size

Few Organizations Relied Solely on Attrition and Hiring Freezes to Reduce Employment Levels

An organization can reduce the size of its workforce simply by not hiring replacements for employees who leave. According to the management officials we interviewed, few of the organizations in our review used this approach. Only seven organizations said they used hiring freezes as part of their overall efforts to downsize. Officials in one company said that normal attrition, even with hiring freezes, is often not sufficient to reduce employment levels in a short time frame.

Relying on attrition to reduce employment levels can also result in skills imbalances in an organization’s workforce. One company in our review froze hiring for 3 years. In the first year after the freeze ended, the company had to hire nearly 3,000 new employees to acquire needed skills.

Another company that generally hired only entry-level employees did not freeze hiring but sought to control the process by centralizing it. The company wanted to limit the number of new employees entering the organization. Each hiring decision had to be approved at a high level in the organization rather than allowing local managers to decide who would be hired.

Incentives to Encourage Voluntary Separations Were Widely Used

Of the 25 organizations in our review, at least 18 provided various incentives to encourage employees to voluntarily leave. Often these incentives were offered in some combination. Eighteen organizations downsized a number of times (32 times in the case of one company), and the features of their incentive programs varied with each downsizing. Examples of some of the incentives offered include the following:

Early Retirement. Seventeen of the organizations offered early retirement programs that allowed employees to retire before their normal retirement age. At least 10 of these organizations offered a variety of incentives to encourage employees to take early retirement. Generally, the incentive programs gave employees credit for a specified number of years of service and/or a specified number of years added to their age toward retirement eligibility and calculation of benefit amounts. Early retirement age requirements among the organizations ranged from 10 to 15 years younger than regular retirement age requirements. Early retirement service requirements ranged from 10 to 15 years fewer than normal service requirements.

Three companies’ programs allowed some employees to retire before the normal retirement age with no reduction in annuity. Nine organizations
imposed early retirement penalties. For example, if after factoring in service and age credits an employee still did not qualify for regular retirement but was eligible for early retirement, these organizations applied a 3- to 6-percent reduction or penalty in the employee’s retirement annuity for each year the employee was below the organization’s regular retirement age at the time of separation. We were unable to determine whether early retirement penalties were imposed in the remaining organizations.

Buyouts or Lump-Sum Payments. Fourteen incentive programs provided for employees to separate voluntarily and receive lump-sum payments. The amount of the payment was usually based on the organization’s severance pay formula—generally 1 or 2 weeks’ pay for each year of service with a maximum of a year’s salary. These lump-sum payments were available to employees electing early retirement, regular retirement, or resignation.

Paid Insurance Benefits. At least four incentive programs continued the health, and/or life insurance benefits for specified periods for employees who voluntarily separated. Typically, retirement eligible employees were given these benefits for life as part of the pension plan. Nonretirement-eligible employees who voluntarily separated were generally granted these benefits for 4 to 18 months past the separation date.

Social Security Supplements for Early Retirees. Three programs supplemented early retirees’ pensions until they were eligible for social security. These companies agreed to pay (or “bridge”) amounts equivalent to the retirees’ social security benefits until they became eligible for social security. At that time, the supplemental payments ceased.

Paid Tuition. In four downsizing programs, companies paid separating employees’ tuition for up to 2 years for college or training programs to enhance their skills and help make them marketable for employment elsewhere.

New Business Start-Up Assistance. One company sponsored workshops to teach separating employees how to start their own businesses.

The following examples illustrate how organizations actually combined and used the various separation incentives.
To encourage employees to retire, a company offered lump-sum payments equal to 2 weeks’ pay (up to a maximum of 1 year’s pay) for every year of employment and 5 years of additional service credits in retirement benefit calculations for employees over the age of 50.

A company’s regular retirement plan required a combination of age and years of service totaling 85 for eligibility. For employees who agreed to retire early during the downsizing, full annuity benefits were available for age and service totaling 75 years. In addition, all retirees received 2 weeks’ severance pay for every year of employment, up to a maximum of 1 year’s salary; bridge payments until social security eligibility at age 62; a $5,000 retraining allowance; and health and life insurance benefits for life. The company also offered the severance pay, retraining allowance, and up to 4 months’ insurance benefits to employees who resigned if they were not eligible for retirement.

In one of its incentive programs, another company offered a 5-year service-and-age credit plan so that employees within 5 years of the retirement age or service eligibility threshold could qualify for immediate retirement with full benefits.

Another company allowed employees to retire early but imposed a 4-percent reduction in their retirement annuities for each year the employees were under the company’s normal retirement age of 62. Under the company’s early retirement option, employees could retire at age 55. The company added 5 years to employees’ ages and 3 years to their length of service in determining retirement eligibility and calculating benefit amounts.

Another company had six early retirement programs from 1986 to 1993. The minimum early retirement age varied from age 50 to 58 in the various programs. The company’s regular retirement age was 65. The company also offered to separating employees who were not eligible for early or regular retirement lump-sum payments of $15,000 to $72,000, depending on length of service.

Another company gave employees designated as at risk of losing their jobs 60 days to locate other positions in the company. If they were unsuccessful in finding other jobs, the employees were offered up to 35 weeks of severance pay based on length of service in the company. Employees who agreed to release the company from any future claims arising from the termination received a bonus of 20 percent of their severance payment, up to a maximum total severance payment of 42 weeks. In addition, employees who had at least 5 years of service were provided company-paid medical insurance for 6 months after the separation.
Chapter 3
Approaches Used to Reduce Workforce Size

• The Australian government offered its Public Service Act employees (about 30 percent of all Australian public servants) a separation incentive of 2 weeks’ pay for every year of service, up to a maximum of 48 weeks’ pay. Employees who retired immediately received an extra 4 weeks’ pay. Employees also had the option of receiving a refund of their contributions to the retirement fund, the interest that had accrued on these contributions, plus a payment equal to 2-1/2 times their contribution, plus interest. This amount could either be taken as a lump-sum payment or rolled into another retirement fund.

Separation Incentives Became Less Generous Over Time in Some Organizations

Seven companies and one state, all of which had undergone multiple downsizings over a number of years, said they tended to offer less generous separation incentive packages in successive downsizings. For example, one company’s incentive package in an early downsizing consisted of 2 weeks’ pay for every year of service, tuition assistance, and assistance in starting a business. Company officials told us this package was too expensive, and the company subsequently eliminated the tuition and business assistance components. The officials said any future downsizings may rely totally on involuntary separations.

Another company discontinued offering its social security bridge payments for retirees who were not yet eligible for social security.

Officials in another company said the separation incentive package it used in 1993 was somewhat less lucrative than one it offered in 1991. The 1991 plan provided for voluntary early retirement with full benefits, 2 weeks’ pay for every year of service (up to a year’s pay), social security bridge payments up to age 62, a $5,000 retraining allowance, and health and life insurance benefits for life. The 1993 separation incentive package allowed only those eligible for retirement who were also targeted for involuntary separation to qualify for the separation incentives. Also, the organization would only pay for health insurance costs up to 4 months after an employee’s separation date.

One state government offered early retirement separation incentive programs in 1986, 1988, and 1992. In the 1986 and 1988 programs, employees could elect to have the state pay all costs of their health, dental, and life insurance coverage until age 65 or continue to share the costs and receive a payment of 10 percent of their annual wages, up to $5,000. The 1992 program dropped the cash option and life insurance payments and required all retirees to share health and dental insurance costs.
Chapter 3
Approaches Used to Reduce Workforce Size

Involuntary Separations Were the Final Downsizing Tool

When redeployment and voluntary separation programs did not achieve the employment reductions needed to meet efficiency, profitability, span of control, or other restructuring goals, the organizations in our review said they instituted, or planned to institute, involuntary separation programs or reductions in force (RIF). Various criteria, including tenure and performance, were used to determine which employees would be involuntarily separated. The following examples demonstrate how these criteria were applied during actual layoffs.

- Officials of one company said managers of units targeted for downsizing ranked employees according to their performance appraisals and types of skills they possessed. Lower ranking employees were scheduled for separation, and those employees received 60-day notice letters. Officials said that during the 60-day period, efforts were made to redeploy the employees to other units, but if those efforts were unsuccessful, the employees were involuntarily separated.

- Another company concentrated on identifying employees the company wanted to retain in the restructured organization. Company officials said the company used past performance appraisals, seniority, and potential for future promotion as the criteria for determining who would be kept. Certain dimensions of the performance appraisals, such as customer service, which was considered an essential part of the company's mission, were weighted higher than other dimensions. Scores were determined for each employee, and a list of employees was generated with evaluation scores in descending order. A cut-off point was calculated based on the number of positions that would be available after the downsizing was completed. Employees whose scores were above the cut-off point were retained and the others separated.

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In an earlier report, Federal Personnel: Employment Policy Challenges Created by an Aging Workforce (GAO/GGD-93-138, Sept. 23, 1993), we discussed the potential effects of organizational downsizing on older employees. Among the issues discussed in the report was that older employees have often filed age discrimination complaints about the manner in which employees were selected for separation during downsizings. It cited an example where employees accused a company of intentionally selecting older workers for layoffs and won an age discrimination ruling from the Equal Employment Opportunity Commission.
When organizations downsize, employees are apprehensive. They are concerned about (1) possible job loss, (2) uncertainties about career advancement, (3) relations with new supervisors, (4) revised performance expectations, and (5) other matters that may affect them personally as their employers restructure or cut the number of people they employ.

The organizations we visited were generally attentive to the “people issues” involved in downsizing by attempting to soften the potentially harsh effects employees could suffer. The organizations generally communicated with their employees as part of their downsizing strategies. They also established programs to help affected employees through counseling, outplacement assistance, and retraining.

According to the literature we reviewed, significant changes in an organization’s structure and size can create a host of sentiments among the organization’s employees—both those at risk of losing their jobs and those who are ultimately retained—including anxiety, distrust, self-pity, frustration, bitterness, anger, depression, and guilt. The literature suggests that employees should be told in a straightforward way what to expect to help lend credibility to the reasons for the downsizing and the actions that are being taken.

A 1991 survey by The Wyatt Company of 1,005 human resource executives in large U.S. companies found that communication efforts during restructuring could be improved. For example, 79 percent of the respondents to Wyatt’s survey said they most often used letters and memorandums from senior executives as a means of communicating with employees about the restructurings. Yet only 29 percent of the respondents said they found these communications to be effective. The study concluded that such impersonal approaches to communicating with employees on a subject as traumatic as restructuring were easy to use but did not address many employee concerns. The report suggested that face-to-face communication such as managerial briefings and small group meetings was a more persuasive approach for disseminating news of organizational restructuring to employees. Face-to-face communication also gave employees the opportunity to provide input.

Many of the organizations in our review emphasized the importance of communicating with employees as part of their restructuring and

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1Restructuring—Cure or Cosmetic Surgery, Results of Corporate Change in the ’80's with RX's for the ’90's, The Wyatt Company, 1991.
downsizing strategies. Organization officials said that to be good, communication should be delivered quickly and frequently. The organizations used various approaches, including (1) information videos, (2) memorandums, (3) electronic messaging, (4) newsletters, (5) telephone hotlines, (6) personal discussions, and (7) tailored messages.

Officials of one company said they had mistakenly believed that employees hear only what senior management communicates, and that communication done right the first time was all that was needed. However, they said they learned that rumors were more powerful than official communications. They found that, to get an accurate message to employees and dispel rumors, information must be disseminated constantly through multiple media.

The general communication policy of another company encouraged sharing all information that might stimulate employee reactions and cooperation in the downsizing initiative. Officials said the company encouraged informal employee dialogue sessions, one-on-one discussions, and breakfast gatherings to supplement its more formal communications, such as memorandums, staff meetings, and audiovisual briefings. Information was also supplied on bulletin boards and in the employee newspaper. A special edition of the employee newspaper was issued to announce the company’s voluntary separation incentive program.

Officials in another company said a primary benefit of open communication between management and employees was helping to avoid distrust and morale problems. These officials said they made every effort not to appear as if they were withholding information from employees. For example, when the company decided to close specific units, it provided affected managers with scripts to use as guidance in informing their employees about the closures. The scripts described the reasons for the actions being taken and outlined options available for the employees. The officials said this approach was an effective means of assuring that all employees heard the same message. The company also prepared videotape presentations on specific matters associated with the downsizing such as the early retirement program and used videoconferencing, electronic messaging, and toll-free numbers to help answer employees’ questions and convey information.

Officials from another company said it was important to communicate continuously with employees before, during, and after downsizing. The company used its newsletter as a communication tool, including special
editions on specific downsizing issues. Information sources such as memorandums from the chairman and question-and-answer sheets were also used. For more personal communications, a member of the employee relations staff was assigned to answer telephone inquiries from employees who were calling about rumors they had heard, and the organization’s chairman hosted discussion groups and videoconferences. The chairman also led a 3-hour question-and-answer session for all interested employees on the restructuring.

Canadian government officials said they communicated in various ways during the merger of Canada’s Customs and Excise and Taxation agencies into a single department, Revenue Canada. The officials explained that each agency had its own distinct corporate culture and history. During the merger, managers were responsible for informing and involving staff in the restructuring decisions. Canadian government officials also said the deputy minister personally met with many staff at the headquarters, regional, and field levels. Managers were responsible for keeping employees informed of developments in an open and timely manner. Many forms of communication were used, including memorandums to employees, employee meetings, newsletters, electronic mail updates, special bulletins, and telephone hotlines. Managers also regularly consulted with union leaders.

New Zealand officials provided documents that showed that the government encouraged effective communications with its employees during the reorganization and reform that began in the late 1980s. The government prepared communication guidelines for senior managers to use during their restructuring. The guidelines encouraged the managers to speak directly to employees about the changes that were taking place and to arrange for constant and consistent information on the reorganization of their departments through a mix of communication approaches such as (1) telephone hotlines, (2) newsletters, (3) regular visits and progress reports from upper management, (4) information and support networks, (5) staff meetings, (6) discussion groups, and (7) face-to-face meetings with individual employees. Any information provided in writing was to be clear and easy to understand and was to be communicated to the employees before any public announcements were made. The guidelines required that employees be provided information on the following:

- reasons for the restructuring,
- objectives of the restructuring,
- timetable for decisions and announcements,
Most Organizations Provided Employee Assistance During Downsizing

Twenty-three of the 25 organizations in our review devised programs to assist employees who lost their jobs during downsizing. Services included employee and family counseling, job placement, relocation assistance, and training. Some of the organizations also recognized a need to assist those employees who remained after the downsizings were completed. Literature we reviewed suggests that employees who keep their jobs often have anxieties about whether they are next to be terminated, may have doubts about the organization’s loyalty to its employees, and can feel guilty that they are still working while many of their colleagues lost their jobs.

Counseling and Job Placement Assistance

Losing a job can be a traumatic experience. Not only does job loss disrupt an individual’s personal life and plans, but displaced employees may have real concerns about their abilities to locate other work. The organizations in our review offered a number of programs to help employees in these circumstances.

Some of the organizations provided stress counseling to assist both displaced employees and survivors in dealing with the upheaval associated with downsizing. Two companies said they provided counseling to employees’ family members as well. Officials in one company that offered counseling said they originally had been under the misconception that employees were accepting the changes brought about by downsizing, whereas in reality, the employees were fearful of showing their anxiety. They said they also believed that employees would react in a rational manner once the reasons for the changes were explained. However, they found that the employees became very emotional when it came to losing their jobs.

Another company provided extensive “prelayoff” workshops to its employees who were being separated. Officials said these workshops were designed to help the employees face the reality of layoffs. One of the
company's objectives in the workshops was for employees to gain an understanding of the experiences they would encounter in a downsizing.

Company officials also said the company learned it was important to address the needs of the survivors of the company's downsizing. They said management initially thought that survivors did not need any assistance since they should be glad to have a job when, in reality, they found survivors can be resentful of the changes in the organization and of the support provided to those who left. Because of the increased workload demands on survivors and diminished opportunities for advancement, the company developed a program to address what it called "survivor syndrome." The program was designed to help survivors focus on productivity, address their fears and concerns, and dispel rumors.

Similarly, officials at another company said its management recognized that morale and productivity could be low during a period of downsizing. To help survivors deal with their emotions and concerns, the company held a number of workshops to discuss with employees the normal reactions to workplace changes and how to constructively deal with them.

Placement assistance for separated employees was offered by 21 of the 25 organizations. It was felt such assistance aided the employees who left, helped avoid lawsuits by displaced employees, reduced unemployment costs, and enhanced the employers' reputation in the community by showing that the organization cared about its employees.

At least 10 organizations used outplacement firms rather than providing placement services themselves. These organizations explained that they had insufficient staff with the necessary backgrounds and expertise to provide placement assistance. It was also felt that displaced employees might be reluctant to use in-house services out of concern that their privacy and confidentiality would be compromised.

One company formed an alliance with other area businesses to help displaced employees in all the allied organizations find jobs. Alliance members notified each other when they were laying off employees and described skills the employees possessed. Any of the organizations in the alliance that needed employees with these skills could then interview the employees for available job openings.

Another company established a nonprofit career resource center to provide counseling and placement services to displaced employees. The
center provided information on and support for reaching life and career decisions and had crisis counselors available on-site. The center also provided job search coordinators to assist the displaced employees in looking for jobs and made office equipment and secretarial service available for preparing resumes and other related correspondence.

Another company contracted with a human resource consulting firm to offer job placement support to salaried staff who accepted the company’s separation incentive package. Company officials said a variety of services were available, depending upon the employee’s level in the organization. The services included providing (1) office space, (2) secretarial support, (3) copying, (4) faxing, (5) computers, (6) telephones for long-distance and local calls, (7) library and resource materials, (8) seminars and career counseling, (9) self-marketing techniques, (10) information on starting a business, and (11) spousal counseling. Further, officials said the company had a specific program to assist hourly employees who worked in plants that were closing. Transition teams coordinated with local governments and community organizations to help these employees find other career opportunities. Available assistance included job placement services and guidance in helping the employees prevent or deal with crises, develop career plans, assess job skills, learn new skills, and pursue training and education options.

One state developed a program designed to help its displaced employees overcome the fears and insecurities that accompany job loss. It incorporated counseling, resume writing, and other workshops in addition to job placement services. A state official said the program found jobs for nearly all of the approximately 1,000 displaced state employees it assisted. However, a state employees’ union official complained that the program did not require state agencies to hire displaced state employees in preference over new outside hires. The union official maintained that all state government vacancies should be filled by displaced state workers.

The Canadian government also assisted its employees affected by restructuring. For example, one department issued guidelines to help in the employees’ search for new employment in the Canadian public service as well as in the private sector. Each affected employee was also assigned a mentor. Within 2 days of notifying employees they were being displaced, the department encouraged them to begin one-on-one counseling, take resume writing and other workshops, and obtain job search counseling.
Chapter 4  
Human Resource Management  
Considerations During Downsizing

In anticipation of the significant required downsizing in the federal government, in December 1993, the Office of Personnel Management (OPM) instituted a new program to help displaced employees find jobs in other federal agencies. Known as the Interagency Placement Program, it is to make placement assistance available to employees for 2 years and to require registrants to update their status every 6 months to enable OPM to keep registrant information current. OPM intends the program to be a supplement to agency placement programs, as agencies will continue to have the primary responsibility for helping their displaced employees find other jobs. The program requires hiring agencies to give priority to RIFed employees when filling positions with competitive appointments. Proposed legislation, the Federal Service Priority Placement Act of 1994, introduced in both the House and Senate, would have broadened the scope of OPM’s program to a governmentwide mandate that would have covered most other appointments. On September 21, 1994, we testified on the bill in a hearing before the House Subcommittee on Civil Service, Committee on Post Office and Civil Service. We said we fully supported the legislation’s goal and that in creating an expanded priority placement program, a number of questions should be answered. These questions include

- What types of appointments should the program cover, and how might it affect agencies’ other hiring goals?
- How much flexibility should agencies be allowed in selecting candidates?
- Are there additional approaches to enhancing the placement program that should be considered?

We also said that OPM should resolve these questions in a study of how best to place RIFed employees and to ensure that the placement program serves the needs of both displaced workers and the government as a whole. OPM agreed.

Training for Employees Affected by Downsizing

Some of the organizations devoted considerable resources to training employees to enhance their current skills or provide new and more marketable skills. Skills training was given to survivors of downsizing as well as to separated employees. Following are some examples of how the organizations afforded training opportunities to their employees in connection with restructuring and downsizing activities.

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• One company used funds available under the Economic Dislocation and Worker Adjustment Assistance Act\(^4\) for training and building the skills of its displaced employees. Company officials said the government requires that private funds be used before federal funds can be committed, or that a combination of federal and private funds be used. The company paid $2,500 toward each employee’s training costs during the first 12 months after the employee’s separation.

• A company sponsored an on-site “university” that provided a wide range of training for all employees. Company officials told us they found that keeping employee skills up-to-date not only helped the organization stay competitive, but was also helpful when employees were redeployed to other jobs in the restructuring. They said the training programs also enabled displaced employees to better compete in the outside job market when layoffs were necessary.

• A company reimbursed its displaced employees up to $5,000 each for vocational training or academic study satisfactorily completed within 24 months after separation. The program was to help displaced employees enhance their occupational skills to enable them to continue in their current careers or to prepare for new career areas. The reimbursement covered 100 percent of tuition costs; all application, registration, and graduation fees; a portion of thesis/dissertation fees; and up to $100 a class for textbooks.

• The New Zealand government gave displaced employees who were not eligible for early retirement the opportunity to be trained for new jobs in the government. The government also stressed that the training would make the employees more attractive to other potential employers because of the added skills they would gain. The policy provided that training employees in other skills would make it easier to deploy them to meet organizational needs and give the employees a more positive attitude about the changes that were being made. For surplus staff who agreed to be retrained for teaching positions in primary, secondary, or early childhood education, the government would provide up to 2 years of salary; 6 months’ leave with pay while awaiting selection for, or the beginning of, teacher training; and relocation expenses.

Observations

Any circumstance in which an employer reduces the size of its workforce can be fraught with uncertainties and perils for both the employer and its employees. These potential uncertainties apply to the federal government since the aggregate employment reductions federal agencies are required to make in the coming years are extremely large. Moreover, the decision to downsize the government was largely made without clear evidence that federal agencies had more employees than they needed to accomplish the tasks required to carry out the public’s business. Nevertheless, federal downsizing is now a statutory requirement, and decisionmakers must see that the workforce cuts are made as efficiently as possible while ensuring that federal programs are administered effectively.

While none of the organizations in our review had workforces that came anywhere close to the federal government in size or responsibilities, we believe the lessons they learned through their downsizing experiences can be instructive for federal decisionmakers. Regardless of an employer’s size or function, it would seem apparent that sound planning and implementation of downsizing activities are critical to their success.

We believe an important lesson learned in this review was that organizations need to carefully examine their functions and identify needed structural changes and other revisions to traditional methods of operation as a precursor to making decisions on where and to what extent workforce cuts are appropriate. By their own acknowledgment, the organizations that did not practice sound strategic and workforce planning often experienced skills imbalances when their downsizings were completed because they had separated, or paid separation incentives, to the wrong employees. The observations of the officials we talked with in this review are consistent with the Brookings Center for Public Management report’s caution that insufficient attention to up-front planning in making federal downsizing decisions could well lead to higher long-term costs.

Many of the organizations in our review offered employees separation incentives that were more generous than the federal government is offering. It remains to be seen whether the government’s incentive program will be sufficient to encourage the large number of employees who must be separated to leave voluntarily. Perhaps a more important observation, however, was that in some organizations the generosity of the incentive programs decreased in successive downsizings. This suggests to us that the government may wish to exercise care in communications with
its employees so they will not expect that waiting longer to leave may mean their eventual incentive payments will be greater.

We found it meaningful that managers in most of the organizations in our review said they found it necessary to assist their employees in coping with the personal disruptions caused by the workforce reductions, including the employees who were losing their jobs and those who were not. Many organizations emphasized frequent and personal communications with employees as the downsizings developed, showing a concern for the employees’ information needs that federal agencies undoubtedly should strive to emulate in the interest of fairness to employees and to reduce the potential for disruptions caused by uncertainty and misinformation. Similarly, the extensive efforts to counsel and help displaced employees find other jobs suggests that most employers recognize an obligation to attend to employee needs that the employers created through their decisions to downsize. These organizations’ experiences are consistent with the interest in improving the federal employee placement program shown by OPM and the sponsors of the legislative proposals to strengthen the program.
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