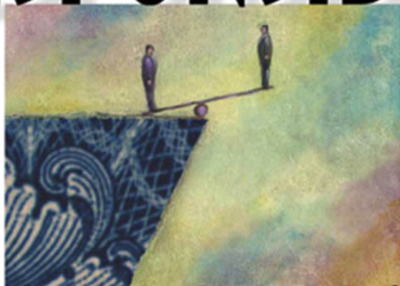
RESPONSIBLE



RESTRUCTURING

Creative and Profitable Alternatives to Layoffs

WAYNE F. CASCIO

An Excerpt From

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by Wayne F. Cascio

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Preface

This book is about changing managers' perceptions of employees from costs to be cut to assets to be developed. Almost two million American jobs were lost in 2001. In many cases, these job losses represented conscious decisions by managers to reduce the size of their workforces through layoffs or selling off unprofitable assets. In others, it almost surely was the result of "slash-and-burn" tactics that simply copied what competitors were doing.

Yet not all companies follow these approaches. This book highlights creative and profitable alternatives that some companies take in their approaches to restructuring and cutting costs. Those approaches are termed "responsible restructuring." The book shows that, especially in knowledge-based organizations, cutting people can often be disastrous, except as a last resort.

Consider this fact. Over the long term, any effort to develop an organization will encounter economic swings both up and down, as well as changes in markets, customers, products, services, and technology. I have found that "preventive planning" is a key difference between organizations that can deal with such changes in a systematic, orderly way, versus those that resort to knee-jerk reactions in order to respond swiftly (often through mass layoffs). Companies like Reflexite and Southwest Airlines (described in chapters 5 and 6, respectively) are good examples of preventive planners. Each has built a plan for restructuring into the overall economic plan for its business.

This book builds on the seminal publication I did in 1995 for the United States Department of Labor, entitled *Guide to Responsible Restructuring.* As I investigated the approaches that various companies, large and small, public and private, adopted in their efforts to restructure, what became obvious to me was that companies differed in terms of how they viewed their employees. Indeed, they almost seemed to separate themselves logically into two groups. One group, by far the larger of the two, saw employees as *costs to be cut*. The other, much smaller group saw employees as *assets to be developed*. Therein lay a major difference in the approaches they took to restructure their organizations.

- **Employees as costs to be cut**. These are the downsizers. They constantly ask themselves, "What is the minimum number of employees we need to run this company? What is the irreducible core number of employees the business requires?"
- **Employees as assets to be developed**. These are the responsible restructurers. They constantly ask themselves, "How can we change the way we do business, so that we can use the people we currently have more effectively?"

The downsizers see employees as commodities—like microchips or lightbulbs, interchangeable, substitutable, and disposable, if necessary. In contrast, responsible restructurers see employees as sources of innovation and renewal. They see in employees the potential to grow their businesses. Chapter 1 highlights these differences, puts the issue of restructuring into broad perspective, and examines the consequences of treating employees poorly versus the payoffs from treating them well.

Chapter 2 presents the results of an analysis of the financial consequences of alternative restructuring strategies used by 500 firms (Standard & Poor's 500, or the S&P 500) from 1982 to 2000. The S&P 500 is one of the most widely used benchmarks of the performance of U.S. equities. The study addressed two questions: "Are firms that downsize more profitable than those that don't, or more profitable than other firms in their own industries, in the year of the downsizing, as well as up to two years later?" and "Over the same time period, are stockholders better off investing in a portfolio of companies that downsize, as opposed to investing in companies that don't?" The answer to both questions is no. This is why it is reasonable to question the efficacy of downsizing as the

preferred approach to restructuring, and to examine alternative approaches.

Chapter 3 explodes 13 myths about employment downsizing and presents the actual facts, based on systematic research. The myths address issues such as the profitability and productivity effects of employment downsizing; its effects on quality as well as on the morale, workload, and commitment of survivors; the security of jobs at firms that are doing well; and the health consequences of layoffs.

Chapter 4 presents the case for restructuring and the introduction of "high-performance work practices." The latter include practices such as skills training and continuous learning, information sharing, employee participation in the design and implementation of work processes, flattened organizational structures, labor–management partnerships, compensation linked to employee skills and organizational performance, and customer satisfaction—as defined by customers. The chapter presents compelling evidence to support the conclusion that high-performance work practices have important, meaningful effects on a firm's financial and nonfinancial performance indicators and that the most effective employment relationships are those in which open-ended inducements provided by employers are balanced by open-ended contributions from employees.

Chapter 5 presents 10 alternative approaches to responsible restructuring, using as illustrations Charles Schwab & Co., Compaq Computer, Cisco, Accenture, Motorola, Reflexite, Intel, Minnesota Mining and Manufacturing Company (3M), ChevronTexaco, Acxiom, Sage Software, Louisiana-Pacific Corporation, Philips Electronics Singapore, and Procter & Gamble. The chapter describes the specific practices these firms use to demonstrate their commitment to their people as assets to be developed rather than as costs to be cut. Even when cuts are necessary, firms such as these use practices that promote goodwill and loyalty, both among those who leave as well as among those who stay.

Chapter 6 highlights a small group of firms, public as well as private, large as well as small, that have implemented no-layoff policies, and it describes specific employment and business practices at three no-layoff companies: Lincoln Electric, SAS Institute, and Southwest Airlines. The chapter emphasizes that there is virtue in the stability of employment and that there is a no-layoff payoff.

Chapter 7 is a capstone chapter that illustrates what to do—and what not to do—when restructuring responsibly. It points out common mistakes that companies make when restructuring, along with advice on how to avoid those mistakes. It is a step-by-step guide to responsible restructuring that builds on all of the research and practical experiences presented elsewhere in the book.

Wayne F. Cascio
Golden, Colorado
June, 2002

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Restructuring in Perspective

Many firms are restructuring by downsizing their workforces. Those most likely to take that approach see employees as costs to be cut rather than assets to be developed.

Picture this scenario. You are the chief executive officer at Grayson McBerry—a medium-sized securities trading firm headquartered in New York, with branches in most major cities in North America, Europe, Asia, and Australia. The second quarter just ended, and your firm's year-over-year revenues are off 52 percent. Its stock price is down almost 30 percent from the beginning of the year, and your best guess is that there will be little improvement until the first quarter of next year. You know you have got to do something to improve the financial condition of the firm, but what might that "something" be? As you study the latest set of quarterly reports, two competing considerations cross your mind.

On the one hand, you know that Grayson McBerry relies on the knowledge and creativity of its employees to a very great extent in conducting its business and in generating innovative products and services for its customers. You know that the firm's employees have enabled it to generate unparalleled results over the past decade and that customers are very loyal to the employees with whom they deal regularly. On the other hand, employees are also your most significant source of operating expenses, for compensation costs account for fully 52 cents of every dollar of sales.

You are well aware that firms have taken alternative approaches to coping with downturns in their businesses. For example, you know that in 2001 your competitor, Merrill Lynch, hit a rough patch. Its net earnings were off 39 percent from the previous year, and its stock price had fallen almost 32 percent since the beginning of the year. In an effort to cut costs, chief executive officer Stanley O'Neal announced plans to cut roughly one of every six employees from its worldwide workforce, as many as 10,000 out of 62,800 employees. Merrill took a $2.2 billion pretax charge in the fourth quarter of 2001 to do that.[1] In contrast, Charles Schwab & Co. faced circumstances similar to those of Merrill Lynch, and while ultimately it did cut 23 percent of its workforce of 26,000 in 2001, it used layoffs only as a last resort, not as a first step.[2] As a third example, you ponder the strategy of investment bank Lehman Brothers, Inc. At the same time as rivals were laying off thousands of employees to cut costs, chief executive officer Richard Fuld insisted that he would keep his staff intact and even hire new talent![3]

You know that outside your industry, some firms have steadfastly refused to lay off employees. Leading advertising agencies, such as Wieden & Kennedy, Publicis Groupe's Saatchi & Saatchi, Omnicom Group's TBWA/Chiat/Day, and WPP Group of London have eschewed layoffs in favor of salary cuts, hiring freezes, and reduced expenses.[4] In aircraft manufacturing, while Boeing announced as many as 30,000 layoffs after the September 11, 2001, terrorist attacks left the global airline industry reeling, rival Airbus vowed not to cut jobs, choosing instead to reduce headcount by 1,000 from 45,000 through attrition and other cost-cutting measures.[5]

As the economy weakened, other firms actually seized the opportunity to strengthen their competitive positions through strategies such as price cuts (Dell Computer), capital expansion (Wal-Mart), aggressive marketing (Sara Lee, Wendy's), and acquisitions (Best Buy).[6]

To be sure, senior executives at firms both large and small have made difficult choices about strategies to cope with a downturn in business. Some have decided to cut costs, often by cutting employees. Others have taken a different tack, cutting costs without cutting people, cutting people as a last resort, or even adopting growth strategies to solidify their competitive positions. What will you do at Grayson McBerry?

To many senior executives, the choice is clear: cut costs by reducing headcount. Firms often take these actions in the name of "restructuring." Oh, yes, they use a variety of euphemisms to soften the blow—"rightsizing," "repositioning," "delayering," "downsizing," "retrenchment"—but it seems that the result is always the same. Employees lose their jobs. They get "ICEd" through Involuntary Career Events. Is this outcome preordained? Is it written somewhere that when firms restructure it has to turn out like this? To put this issue into perspective, let's consider the economic logic that drives layoff decisions.

THE ECONOMIC LOGIC THAT DRIVES EMPLOYMENT DOWNSIZING

What makes employment downsizing such a compelling strategy to firms worldwide? The economic rationale is straightforward. It begins with the premise that there really are only two ways to make money in business: either you cut costs, or you increase revenues. Which is more predictable, future costs or future revenues? Anyone who makes monthly mortgage payments knows that future costs are far more predictable than future revenues. Payroll expenses represent fixed costs, so by cutting payroll, other things remaining equal, one should reduce overall expenses.

As an example, consider Merrill Lynch, which, as we noted earlier, implemented massive layoffs in late 2001 in an effort to reduce its expenses. Before the layoffs, Merrill devoted fully 54 cents of every dollar it took in to employee compensation, compared to an estimated 49 cents at Goldman Sachs & Co. and 52 cents at Morgan Stanley Dean Witter & Co.[7] Reduced expenses translate into increased earnings, and earnings drive stock prices. Higher stock prices make investors and analysts happy. The key phrase is "other things remaining equal." As we shall see, other things often do not remain equal, and therefore the anticipated benefits of employment downsizing do not always materialize.

DIRECT AND INDIRECT COSTS OF LAYOFFS

Although layoffs are intended to reduce costs, some costs may in fact increase. The material below summarizes these costs.

DIRECT AND INDIRECT COSTS OF LAYOFFS

Direct Costs	***Indirect Costs***
Severance pay, in lieu of notice	Recruiting and employment costs of new hires
Accrued vacation and sick pay	Low morale; risk-averse survivors
Supplemental unemployment benefits	Increase in unemployment tax rate
Outplacement	Lack of staff when economy rebounds; training and retraining
Pension and benefit payouts	Potential lawsuits from aggrieved employees
Administrative processing costs	Heightened insecurity; reduced productivity
Costs of rehiring former employees	Loss of institutional memory and trust in management

It doesn't have to be this way. There is an alternative, one known as "responsible restructuring." This little book describes this alternative approach, illustrates its advantages over "slash-and-burn" layoff tactics, and provides examples of firms that restructure responsibly. Responsible restructuring is not some mystical, obscure set of practices. On the contrary, it is eminently practical and doable, but it does require a break with traditional thinking, as the next sections illustrate. Let's begin by defining our terms.

Organizational restructuring refers to planned changes in a firm's organizational structure that affect its use of people. For example, General Electric scrapped the vertical structure that was in place in its lighting business and replaced it with a horizontal structure characterized by over 100 different processes and programs. Xerox currently develops new products through the use of multidisciplinary teams; the vertical approach that had been used over the years is gone. This is restructuring through "delayering." The objective? Improved financial performance through increased productivity and efficiency.[8]

Such restructuring often results in workforce reductions that may be accomplished through mechanisms such as attrition, early

retirements, voluntary severance agreements, or layoffs. The term *layoffs* is used sometimes as if it were synonymous with *downsizing*, but downsizing is a broad term that can include any number of combinations of reductions in a firm's use of assets—financial, physical, human, or information assets.[9] Layoffs are the same as employment downsizing.

Employment downsizing, in turn, is not the same thing as organizational decline. Downsizing is an intentional, proactive management strategy, whereas decline is an environmental or organizational phenomenon that occurs involuntarily and results in erosion of an organization's resource base.[10] As an example of decline, the advent of digital photography, disposable cameras, and other imaging products signaled a steep decline in the demand for the kind of instant photographic cameras and films that Polaroid had pioneered in the 1940s. On October 12, 2001, Polaroid was forced to declare bankruptcy.[11]

To put the issue of *organizational* restructuring into perspective, it is important to emphasize what it is not. It is not *financial* restructuring, which refers to a change in the configuration of a firm's financial or physical assets, and its financing of debt or equity. Nor does it imply a change in the configuration of a firm's information resources, such as downsizing or upsizing its information technology infrastructure. As noted earlier, organizational restructuring refers to planned changes in organizational structure that affect the use of people.

IS RESTRUCTURING A BAD THING TO DO?

No. Kodak, an old-line company that sold cameras and film in the early 20th century, is struggling to turn around its businesses in a digital era. Some form of restructuring is healthy—and needed. Likewise, companies that find themselves saddled with nonperforming assets or consistently unprofitable subsidiaries should consider unloading them to buyers who can make better use of those assets. Sometimes the process of restructuring leads to layoffs and losses of jobs, especially when the jobs relied on old technology that is no longer commercially viable. This was the case in the newspaper industry when most metropolitan dailies switched from hot to cold (computer-based) typesetting. There simply was no longer a need for compositors, a trade that had been handed

down from generation to generation. However, indiscriminate "slash-and-burn" tactics, such as across-the-board downsizing of employees, seldom leads to long-term gains in productivity, profits, or stock prices, as we shall see. There is another way, and that way is known as responsible restructuring.

RESPONSIBLE RESTRUCTURING— WHAT IS IT?

In 1995, I wrote a publication for the U.S. Department of Labor entitled *Guide to Responsible Restructuring*.[12] As I investigated the approaches that various companies, large and small, public and private, adopted in their efforts to restructure, what became obvious to me was that companies differed in terms of how they viewed their employees. Indeed, they almost seemed to separate themselves logically into two groups. One group, by far the larger of the two, saw employees as *costs to be cut.* The other, much smaller group of firms, saw employees as *assets to be developed*. Therein lay a major difference in the approaches they took to restructure their organizations.

- **Employees as costs to be cut**—executives at these organizations are the downsizers. They constantly ask themselves, "What is the minimum number of employees we need to run this company? What is the irreducible core number of employees the business requires?"
- **Employees as assets to be developed**—executives at these organizations are the responsible restructurers. They constantly ask themselves, "How can we change the way we do business, so that we can use the people we currently have more effectively?"

The downsizers see employees as commodities—like paper clips or lightbulbs—interchangeable and substitutable, one for another. This is a "plug-in" mentality: plug them in when you need them; pull the plug when you no longer need them. In contrast, responsible restructurers see employees as sources of innovation and renewal. They see in employees the potential to grow their businesses.

We will present several examples of responsible restructuring, but first let us consider the current state of employment downsizing.

EMPLOYMENT DOWNSIZING—THE JUGGERNAUT CONTINUES[13]

The "job churning" (movement of people from one organization to another) in the labor market that characterized the 1990s has not let up. In fact, its pace has accelerated. However, the free-agent mentality of the late 1990s that motivated some people to leave one employer so that they could make 5 percent more at another is over. Layoffs are back—and with a vengeance. Thus, in 2001, companies in the United States announced layoffs of 1.96 million workers, with firms such as American Express, Lucent, Hewlett-Packard, and Dell Computer conducting multiple rounds in the same year. Corporations announced 999,000 job cuts between September 11, 2001, and February 1, 2002, alone![14]

Manufacturing lost the bulk of the jobs (more than 800,000), but services were not exempt either, dropping more than 100,000. Most such jobs were in the travel industry, with airlines (United, Delta, American, Continental, USAirways Group, Northwest, and America West) leading the way. Boeing shed 38,000 workers, and Starwood Hotels & Resorts another 12,000. More than 600,000 high-technology jobs were lost in 2001, along with another 50,000+ in the U.S. securities industry.[15]

Medium- and large-sized companies announce most layoffs, and they involve *all* levels of employees, top to bottom. A study by Bain & Company's Worldwide Strategy Practice reported that in 2000, for example, 22 percent of the CEOs of the largest publicly traded companies either lost their jobs or retired, as opposed to just 13 percent in 1999.[16] CEOs at firms such as Ford Motor, UAL, British Telecom, Ericsson, and Providian were either ousted or resigned in 2001.[17] Morgan Stanley estimates that about 80 percent of the U.S. layoffs involve white-collar, well-educated employees. According to Morgan Stanley's chief economist, that's because 75 percent of the 12.3 million new jobs created between 1994 and 2000 were white-collar jobs. What the companies created, they are now taking away.

THE HUMAN AND FINANCIAL TOLL

Numbers alone are sterile and abstract. In fact, involuntary layoffs are traumatic. They exact a devastating toll on workers and communities. Lives are shattered, people become bitter and angry, and the added emotional and financial pressure can create family problems. "Survivors," workers who remain on the job, can be left without loyalty or motivation. Their workplaces are more stressful, political, and cutthroat than before the downsizing. Local economies and services (e.g., human services agencies, charitable organizations) become strained under the impact to the community.

The fact is, layoffs and heavy debt loads (which reached an all-time high in 2001, along with personal bankruptcies) are hitting families hard and ratcheting up stress levels. Employee assistance counselors have seen a marked increase in "crisis" calls involving problems such as online affairs, addictions in adolescents, and spousal abuse. Counselors say spousal abuse is occurring more and more against men.[18] Says Richard Chaifetz, chair and CEO of Compsych, the world's largest privately held employee assistance program, "People feel like they had the rug pulled out from under them; they were living in a fantasy world."[19]

Over the past decade or so, the same scenario has become depressingly familiar to millions of people, from former dot.com employees to those of former energy-trading company Enron. For example, at the time of Enron's bankruptcy filing in late 2001, it was the seventh largest firm in the United States in terms of revenues. When the dismissal notices came, some employees had as little as 30 minutes to collect their things and get out. Not surprisingly, many are bitter. As one former employee said, "You were on top of the world when you were there. I thought I'd be there a long time."[20]

For those who still have jobs, their incomes, hours, and bonuses, like those of executives at Ford Motor Company and Sun Microsystems, may be cut, in an effort to avoid more layoffs. Companies are well aware of the effects of these financial problems. Human resource professionals figure that when workers worry about family finances, they waste 13 percent of the workday calling creditors and other distractions. Money woes also lead to medical problems, lower productivity, and to increased absenteeism and accidents. What about the managers who do all the fir-

ing? Their health suffers too. A recent study conducted at 45 American hospitals found that executives ran twice as much risk of a heart attack in the week after firing someone.[21]

These forces often culminate in a phenomenon known as burnout. *Burnout* is a gradual process of loss during which the mismatch between the needs of the person and the demands of the job grows ever greater. Ask people what it's like to feel burned out, and you are likely to hear the following:[22]

> "I'm frustrated! It's getting impossible to do a good job, and the situation just keeps getting worse."
>
> "I've lost my enthusiasm for work I really liked."
>
> "I have lots of anger, and nowhere to take it."
>
> "I'm scared; is the job going to last?"
>
> "I am getting more unhappy and depressed every day on the job, and questioning whether I should stick with it."
>
> "I'm feeling overwhelmed, overloaded, overworked—and trapped. There's no way out."

Research indicates that each person expresses burnout in a unique way, but the basic themes are the same:

- **An erosion of engagement with the job**. What started out as important, meaningful, fascinating work becomes unpleasant, unfulfilling, and meaningless.
- **An erosion of emotions**. The positive feelings of enthusiasm, dedication, security, and enjoyment fade away and are replaced by anger, anxiety, and depression.
- **A problem of fit between the person and the job.** Individuals see this imbalance as a personal crisis, but it is really the workplace that is in trouble.[23]

Burnout often causes people to quit their jobs. Others are laid off. This raises an interesting question—namely, what happens to displaced workers? The Labor Department's latest biennial survey of workers who lost long-term jobs (held for at least three years) provides a hint. Conducted early in 2000 when the economy was still red-hot, its results indicate that even in the best of times, many displaced workers suffer lost earnings (see Exhibit 1).

EXHIBIT 1 Status in Early 2000 of Full-Timers Who Lost Permanent Jobs in 1997–1998

A year or two after being laid off, 21 percent of former full-timers either were still unemployed or had given up looking for work, and another 11 percent were self-employed, working part-time, or doing unpaid family work. Nearly 40 percent of reemployed workers had to change occupations to find work. Moreover, 39 percent of those back on full-time payrolls were receiving less pay than at their previous jobs, with more than half of those suffering wage declines of at least 20 percent. (After adjusting for inflation, the declines were even larger.)

While these figures might be worrisome, they probably represent a best-case scenario because the survey was conducted when the economy was hot. The fate of people who lose jobs during periods of falling employment and plummeting profits will be far more onerous.

The outlook for displaced workers in their 50s and early 60s may be even more uncertain. That's the age category that was hit hardest in the layoff surges of the early and mid-1990s. It's also the category that many baby boomers have recently entered.[24] The experience of workers in these age groups is not encouraging. Thus, only about half of over-55 workers displaced in 1993–1994 were reemployed by February 1996.[25]

THE EFFECT OF POOR LABOR RELATIONS ON PRODUCT QUALITY

Do workers exert more effort and due diligence if they feel they are treated fairly, and with dignity and respect? Conversely, does a poor labor relations climate affect product quality? Both economic and psychological research suggests that the answer is yes.[26] Unfortunately, the consequences may be deadly, as indicated in a recent analysis by two Princeton University economists of Bridgestone/Firestone tire production at the firm's Decatur, Illinois, plant when labor and management were battling.[27]

When a previous contract expired on April 1, 1994, employees worked for three months without a contract before going on strike. In negotiations, Bridgestone/Firestone broke with its industry by moving from an 8-hour to a 12-hour shift that would rotate between days and nights, as well as cutting pay for new hires by 30 percent, cutting wages for most job classifications by $5.34 per hour to about $12 per hour, reducing incentive pay for piecework, cutting two weeks of vacations for senior workers, and requiring hourly workers to contribute to their health care costs. The United Rubber Workers union that represented the workers proposed that the company follow the master pattern agreement set with Goodyear, which called for no wage increases other than cost-of-living adjustments. It is noteworthy that the company insisted on such large concessions during a period when the overall economy was growing.

Using replacements, the company imposed 12-hour shifts and kept production going. The union workers surrendered in May 1995, returning under the terms originally demanded by Bridgestone/Firestone. Although the strike officially ended in May 1995, the labor dispute continued until a final settlement was reached in December 1996. For nearly three years, therefore, from April 1994 to December 1996, union workers at the Decatur plant either were on strike or working without a contract. During this period, tires were produced by 1,048 replacement workers, union members who crossed the picket line, management, and recalled strikers.

The Princeton analysis is compelling because three different sets of data all point the same way. Firestone tires made in Decatur during the labor strife were 376 percent more likely to prompt a complaint to the National Highway Transportation Safety

Administration than tires made at two comparison plants. The two plants were Firestone's nonunion plant in Wilson, North Carolina, and its unionized plant in Joliette, Quebec, which had a 1995 strike but did not use replacement workers. During times of labor peace, Decatur tires were 14 percent *less* likely to prompt a complaint.

Second, customers with tires made in Decatur during the dispute were more than 250 percent as likely to seek compensation from Firestone for property damage or injury blamed on faulty tires than were customers of tires made there during more peaceful times. Third, tires made in Decatur during the labor dispute did worse on laboratory stress tests that Firestone conducted when the tires were produced than those made at other times or at other plants. The consequences were lethal, for the report concluded that more than 40 lives were lost as a result of the excessive number of problem tires produced in Decatur during the labor dispute.

Apparently the problem tires were not the result of production by inexperienced replacement workers. Rather, it appears that it was something about the chemistry between the replacements and the recalled strikers. Why? Analysis of monthly tire production revealed that there was no surge in problem tires when replacement workers were making them, adjusting for lower production volumes. The problems were with tires made in 1994 following tough company demands on the union and, again, after the strikers returned in May 1995 without a contract to work alongside workers who had crossed the picket line.

Is there a lesson to be learned in all of this? According to one observer, "squeezing workers, even in an age of weakened unions, can be bad management, especially when employers abruptly change the rules. A company can shut a plant and successfully hire lower-paid workers elsewhere. And if management convinces workers that the alternative to wage cuts is unemployment, workers may go along. But brute force can backfire, and the consequences can be severe."[28]

THE PAYOFF FROM TREATING EMPLOYEES AS ASSETS

Each year *Fortune* magazine publishes lists of top companies: the "100 Best Companies to Work For," "America's Most Admired

Companies," the "Global Most Admired Companies," and the best companies for Asians, African Americans, Hispanics, and Native Americans. Does it matter if a company's name appears on one of these lists? As one international observer recently commented: "'A good place to work' is one of the criteria for getting on the 'most admired companies' lists around the world. Analysts, investors, customers, potential employees and the community frequently use this quality to make judgments about the company, its stock and its future value."[29] Do these companies do better in the marketplace than those who are not listed?

A recent analysis by Hewitt Associates of the financial performance of publicly traded companies featured on the "100 Best" list versus the broad market and similar organizations that did not make the list found some compelling results. "Best Companies" have higher average stock returns, higher operating performance (ratio of operating income to assets), higher returns on assets, and higher returns on capital employed. In addition, they receive almost twice the number of job applications (1.9 times) compared to companies in their industries that are not on the list, and they also have much lower employee turnover (12.6 percent vs. 26 percent).[30]

Consider another analysis that compared the stock market performance of the top ten firms versus the bottom ten firms in the list of America's Most Admired Companies. From 1995 to 2000, the average total return on common stock for the top 10 firms was 41.4 percent; for the bottom 10 firms it was minus 23 percent. Compare these returns to that of a well-known benchmark of the performance of U.S. equities, the Standard & Poor's 500 (S&P 500), whose average return was 16.5 percent.[31]

The Hay Group surveyed the Global Most Admired companies, as well as their peers who did not make the list, about the performance measures they use to chart the progress of their companies. Hay Group vice president Mel Stark noted, "High-performing companies do walk the walk when it comes to performance measures. It's clear that they are seriously committed to the human elements that contribute to their success."[32]

Here's a third example. *Working Mother* magazine annually ranks companies based on pay, opportunities for women to advance, child care, flexibility, and other family-friendly benefits (e.g., maternity leaves) and work-life supports, such as management training on work-life issues. Is the presence of work-life policies

related to performance in the marketplace? When the public companies that made the *Working Mother* "Best" list were assembled into a stock portfolio and their price performance compared to that of the S&P 500 Index, the "best companies for women to work for," on average, consistently outperformed the index over the three-year period 1996 through 1998, a time period of extraordinary returns for the S&P 500 Index.[33]

In its 2002 list of the "100 Best Companies to Work For," *Fortune* included these snippets of information about a dozen firms in different industries:

- **Container Store** (retailer of boxes): Workers are enthusiastic about good pay (salespeople average $36,256), great benefits (100 percent match for 401[k] up to 4 percent of pay), and respect (94 percent of those surveyed feel they make a difference).
- **Fenwick & West** (law): Whipped by declining fortunes of its high-tech clients, it laid off 47 people, but gave them four months of full pay. New recruits were offered an average of $62,500 not to join the firm.
- **Graniterock** (construction): This firm sends positive customer comments about employees home for families to read. Its safety record is twice as good as the industry average, and workers get 12 massages per year.
- **JM Family Enterprises** (auto distribution): Post–September 11, 2001, founder Jim Moran told an all-company gathering, "We're a family. We've got to make sure we do whatever we can do not to lay off one single associate." And they did not.
- **American Century Investments** (financial services): Clobbered by the decline on Wall Street, it avoided massive layoffs. Only 75 people were let go, and they walked out with one month's pay for each year of service.
- **Valassis** (printing): This company invites workers to provide suggestions at briefing sessions. As orders fell after September 11, 2001, employees offered ways to cut costs, such as using more uncoated paper, and avoided layoffs.
- **Continental Airlines** (airlines): Workers suffered as September 11, 2001, rocked the airlines, but Continental

tried to do right by them. It furloughed 4,000 people who got severance payments, the chance to transfer, or the promise of a job when times get better.

- **Wegmans** (groceries): When 315 jobs were phased out recently, displaced workers were offered the option of another job without any cut in pay or leaving with severance up to one year's pay.
- **First Tennessee** (banking): This company declares, "Employees come first. Not customers, not shareholders."
- **Ernst & Young** (accounting): This firm was judged a "friendly place to work" by 88 percent of those surveyed. Employees also think management treats minorities, gays, and women fairly. A quarter of the new partner class last year was female.
- **Marriott International** (hotels): After September 11, 2001, it enhanced early-retirement packages and cut managers' pay, but layoffs happened anyway.
- **Texas Instruments** (technology): Ninety-two percent of employees surveyed say they are proud to tell others they work here.

There is a common thread that runs through all of these companies, as well as the others recognized as good places to work. Every one of them views its employees as assets to be developed rather than as costs to be cut.

We noted earlier that restructuring, including employment downsizing, is driven by the need to improve productivity and efficiency, whether in response to organizational decline or as a means to enhance profitability when the corporation is performing well. We assume that decision makers understand the relationship between their approach to restructuring and future financial performance so that restructuring can be used as a rational, predictable tool for manipulating that performance. Is that a reasonable assumption to make? The next chapter presents some surprising findings about the long-term financial consequences of alternative restructuring methods.

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Creative and Profitable Alternatives to Layoffs

by Wayne F. Cascio

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