

Highlight Report

*An issue overview
to aid strategic thinking*

Corporate Restructuring

by David Wentworth

Scenarios in this issue:

Growth via Networks
Automated Management
Deglobalization
Technological Slowdown



INSTITUTE FOR
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About this report

Each of our Knowledge Centers has a corresponding Highlight Report that provides an external view of that issue, incorporating global perspectives on the current climate as well as future thinking. Highlight Reports are designed to help managers think strategically about particular trends or issues. Each one contains an executive summary, a global perspective, an overview of the current trends and countertrends, insights into what is driving the trend or issue, and four scenarios. Our members use Highlight Reports to provide their staff and colleagues with an up-to-date overview as well as strategic ideas about how to deal with issues that face their organizations.

For complete information on this topic, including a full bibliography, please visit our Web site at www.i4cp.com and follow the Knowledge Center link.

The Institute for Corporate Productivity invites reader feedback on this issue. Please send your comments to feedback@i4cp.com.

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Executive Summary

Difficult times necessitate difficult choices

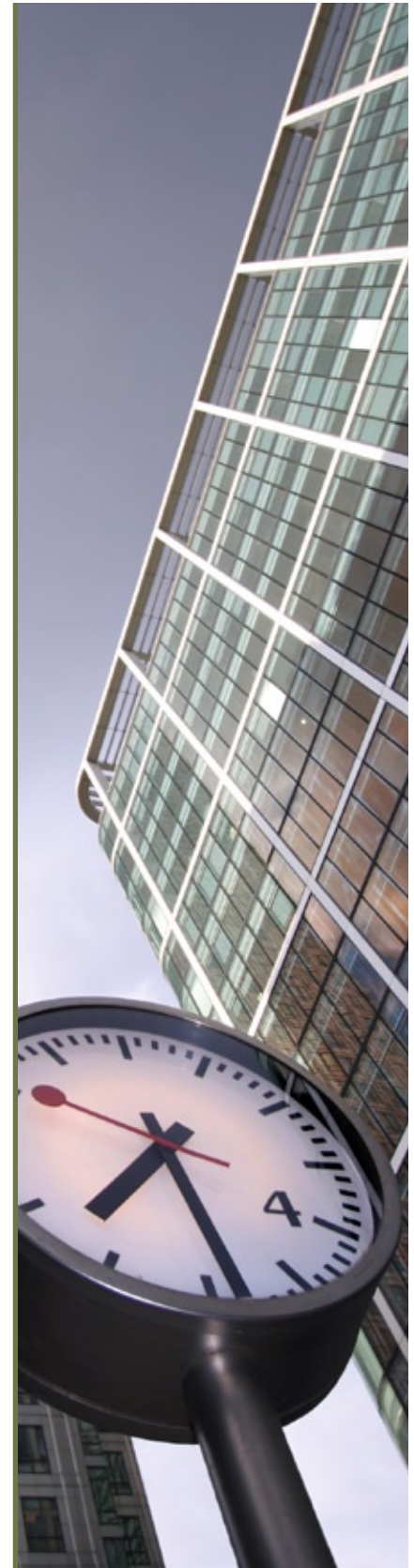
The current economic meltdown is forcing organizations worldwide to take a hard look at the way they do business. In the U.S., financial institutions are being bailed out by the government and automakers are begging for assistance lest they cease to exist. The complexities of the global financial industry and the forces that have brought it to its knees are creating a ripple effect that touches on every segment of the economy – almost no one is immune.

Yet while layoff statistics dominate the news, job cuts are not the only strategy companies are using to meet the challenge. In fact, many firms view this as an opportunity to grow their business by expanding their product offerings or their geographic footprint (Towers Perrin, 2008). Strategic alliances are another way to expand product pipelines, reduce research and development time, and expand global reach without much upfront cost.

During previous economic downturns, companies often looked to reduce headcounts first, as it was the quickest way to cut costs and appease Wall Street. But with many companies typically running lean already, trimming jobs is seen as a last resort (Marquez, 2008). Instead, companies are focusing on improving efficiencies and cutting discretionary spending as well as implementing strategies such as outsourcing to cut costs (i4cp, 2008b). Firms are also asking employees to voluntarily take shortened workweeks, unpaid vacations and early retirement (Richtel, 2008).

But the reality is that layoffs have become unavoidable for many organizations. In an October 2008 i4cp survey, 58% of firms reported that they had already had a reduction in force (RIF) in the previous year. Almost half of those companies planned on going through another RIF by May 2009 (i4cp, 2008c). U.S. employers cut more than 1.22 million jobs in 2008 (Schlisserman, 2009), and there were more than 21,000 layoff events affecting more than 2.1 million workers (U.S. Department of Labor, 2009).

Whether it's straight layoffs or a restructuring of the organization, companies are increasingly facing the prospect of letting workers go. It's a task that, if not handled properly, can actually cost a company more than it saves (Gandolfi, 2008). Not only are workers who lose their jobs affected, but so are surviving employees. RIF survivors are often overwhelmed by an

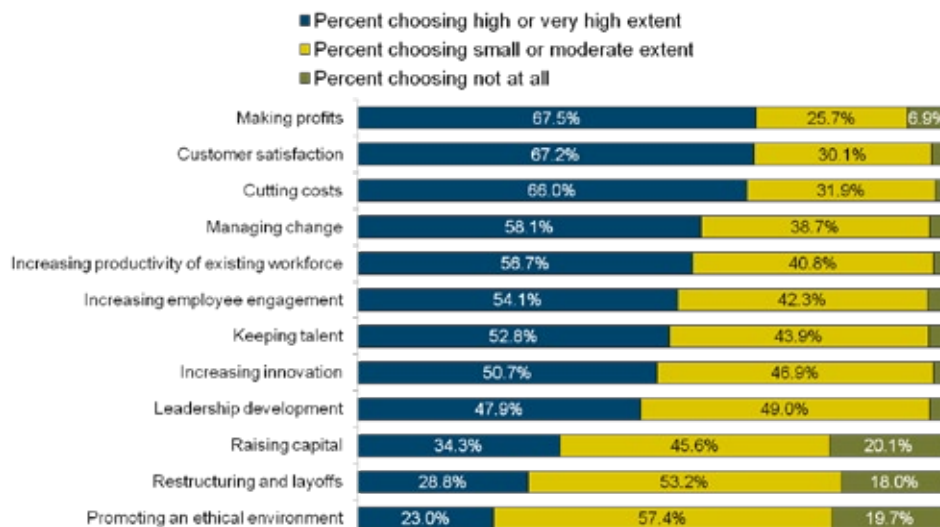


increased workload, new responsibilities and feelings of guilt and fear – guilt from having survived when others did not, and fear that they may be next (“Prepare for,” 2009). One study found that following even a modest reduction in force, turnover rates tend to increase; companies wind up losing key employees they wanted to hold onto the most (Dresang, 2008). Companies can’t rely on job scarcity to retain key people. If a reduction is handled poorly, the best talent will remember how they and others were treated and will be more likely to leave once the opportunity presents itself (Marquez, 2008).

Companies need to look beyond the current economic situation when planning their next moves. Cutting the wrong people now can leave a company ill-prepared to handle the eventual upswing. Any strategy adopted should focus on the long term, and any reduction must be tempered with an eye on meeting company goals and being ready when business picks up again. Organizations need to be keenly aware of the knowledge, skills and competencies they could be losing as a result of downsizing, either directly or indirectly.

Companies may find that the structure they have now is not the right one to weather this storm. Too many layers of management, impenetrable silos and strict hierarchies may make it difficult to be flexible and responsive enough to meet current challenges. Having an agile, adaptable workforce that can react to these changes may be the only way to emerge unscathed.

To what degree will the following areas be a major challenge for your organization over the next year?



A total of 523 organizations participated in the 2009 Forecast Pulse Survey in January 2009

Source: i4cp, 2009



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