



## Creating a New Future for a Downsizing Organization

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by Frank Benest

Many local governments across the United States have been forced to downsize in response to the ongoing recession, reduced revenues, and skyrocketing health care and other employee-benefit costs. To aggravate matters, some states have shifted money away from local governments to solve their own budgetary problems. Whatever the reasons, local government executives face more than a financial challenge in cutting budgets. An even bigger dilemma for executives is the leadership challenge of crafting a new and vital future for the downsizing organization.

### The Leadership Challenge

An organization faces a structural budget problem when ongoing projected expenditures outpace ongoing anticipated revenues over the middle to long term. Simply reducing non-personnel-related costs will not be enough. Usually, local governments cannot wait for new economic development efforts to produce additional revenues. Such efforts may also be insufficient. Hoping for the general economy to improve or for the federal or state government to bail us out tends to be "magical thinking." Often, the only immediate structural solution, unfortunately, is cutting services and staffing.

Organizations being downsized are confronted with two problems. Objectively, the organization has fewer resources (fewer people and less money for technology, training, and contract help) to deal with existing community expectations, as well as new demands placed on the local government. Subjectively, the situation is even worse. The "surviving" employees—those who are not laid off—are often grieving and feel victimized, overwhelmed, unappreciated, and pessimistic about the future.

If the leader asks employees to do one new thing or try out another approach, they will scream. Consequently, the impact of diminished organizational capacity to deal with existing problems and new issues is greater than the impact simply of reduced resources. This is the classic "productivity paradox." At precisely the point when a downsizing organization needs great boosts in employee productivity to overcome fewer resources, productivity takes a dramatic nose dive.

The organization needs more than expert financial management. Cutting budgets and laying off employees, while painful, are relatively easy when compared with the larger and more time-consuming leadership challenge. What the organization sorely needs is large doses of thoughtful, visible, and strategic

leadership in order to create a new future and the added capacity to fulfill its goals and aspirations.

### **The Strategic Approach**

To overcome the productivity paradox and to achieve greater organizational capacity, the local government executive must develop a multiphase strategic approach:

#### **Understand the problem, and develop a preliminary plan of action.**

The chief executive and the leadership team must analyze the organization's structural problem, come to some conclusions about the sources of the financial problems, and develop a general course of action. This preliminary action plan may change over time as the executive team confronts the realities of reshaping the organization, but leadership still needs a plan. In developing an action plan, department directors must abandon their traditional "silo" mentality and derive, with the guidance of the chief executive, a wider, unified perspective.

The leader and other executive team members must also personally prepare themselves because creating a new future for the organization is a severe test requiring much fortitude and emotional and physical energy. Consequently, executive team members must care for and nurture each other as the team deals with organizational distress.

#### **Prepare the environment for change.**

Executive leaders need to ready the internal and external environment for downsizing and organizational change. The leadership team must develop a long-range financial forecast, prepare briefing papers based on its long-term financial analysis, and discuss the fiscal crisis with the governing board, employees, unions, boards and commissions, and all the external stakeholders (chamber of commerce, neighborhood groups, League of Women Voters, service groups, PTAs). To adequately ready the environment, the local government manager should use all available media to "overcommunicate" to internal and external audiences because people will not want to believe the chief executive or will resist the negative implications (service cuts, layoffs, broken commitments) of the financial analysis.

... Creating a new future for the organization is a severe test for leaders, requiring much fortitude and emotional and physical energy.

#### **Build political support for change.**

After preparing internal and external stakeholders, the leadership team must build political support for proposed budget reductions and downsizing. Obviously, to show that significant downsizing is critical, the leadership needs

first to cut nonpersonnel costs and other discretionary spending, as well as use hiring freezes where possible. At the same time, it is necessary to engage the community in the process to minimize opposition, as well as to generate citizen solutions. Citizen engagement techniques include:

- "Budget primers" and budget 101 classes to explain the financial crisis in understandable, nonbureaucratic language.
- Citizen surveys to identify "more important" and "less important" services.
- Prioritization of services based on criteria approved by the governing board (e.g., rankings based on whether service is legally mandated, is self-supporting, relates to public safety or health, or supports governing-board priorities).
- Community forums or family-room dialogues on the budget.
- "Budget toolkits" or budget-building computer simulations to help citizens struggle with tough budget choices.
- Citizen and employee budget ideas to raise revenue or cut costs, sent via e-mail to the chief executive.
- Coffees with the mayor and manager to generate citizen ideas and discuss solutions.

### **Resize and stabilize the organization.**

Once the leadership team has prepared the environment as best it can and secured the political support or minimized the political opposition to make the changes, it needs to make the tough changes, including the service cuts, employee layoffs, and other budget reductions.

The long-range financial plan must show how the service cuts and layoffs will get the finances of the local government into a stable situation, so the organization is sustainable over time. Leaders should make all the necessary cuts to minimize undue anxiety on the part of surviving employees, who may fear that new rounds of layoffs may be necessary.

While some of the major reductions in services and staffing can be scheduled over a number of months or even a year, an organization should not unnecessarily drag out this difficult process. The "grieving" must begin, so that it will end sooner rather than later.

### **Engage employees in building a new future.**

This is the hard part! The leadership challenge is engaging the hearts and minds of employees in envisioning a reshaped yet vital, productive organization, enthusiastically taking on new challenges and initiatives, and making new strategic investments in the future.

What are some strategies for creating this kind of new organizational capacity, even as the local government is being downsized?

## **Twelve Strategies**

Here is a set of 12 interrelated strategies to reshape the local government and build employee spirit, passion, and commitment and, ultimately, organizational capacity:

### **1. Demonstrate that you care.**

As the executive team downsizes and restructures the organization, the leadership must provide support, show respect for employees, and demonstrate compassion and caring in tangible ways:

- "Overcommunicate" with employees through a series of open e-mails and employee briefings discussing the growing financial problem and approaches for dealing with it.
- Tell the whole truth to all employees; deliver bad news face to face, so that employees can look you in the eye and question you.
- Train managers and supervisors on how to communicate the bad news, refer employees for assistance, and support the "survivors" who will carry on after layoffs or workforce reductions.
- Provide outplacement services and training in writing resumes and interviewing.
- Extend health insurance coverage, and provide severance packages where appropriate.
- Provide individual and family counseling services and other employee assistance programs for any employees who leave or stay.
- Create "job banks" so that laid-off employees can be moved into vacancies where there is a good fit.
- Ensure that employees who take on higher levels of responsibility are appropriately compensated and recognized.

### **2. Create a new story for the organization.**

After the chief executive has taken the needed action to downsize and some grieving has occurred, it is time for the leader to help the organization focus on the future. As Marcus Buckingham states in a recent Fast Company article by Bill Breen, "The Clear Leader," a leader's job is to rally people toward a better future.

- To raise revenue or cut costs, will the organization sell services to other communities or collaborate with other local governments in delivering services?
- Will the local government collaborate successfully with other partners in promoting economic development in certain sectors, generating jobs and local government revenue?
- Will the local government be able to free up revenue to invest in additional infrastructure?
- Will employees acquire new experiences and learn the additional competencies needed to succeed in the new environment?

As part of the story, will the leadership team be able to answer the big question of employees: What's in it for me? The story must resonate with employees. While the local government is creating a new future, will their jobs become more secure? Will their salaries and benefits become more competitive? Will they learn new skills and become more valuable? Will the work be more exciting, challenging, and meaningful? Will they become partners in the enterprise?

The new story for the organization must be "real" and doable, with everyone's commitment. And it must provide a sense of meaning for employees. As Margaret Wheatley has stated, "Meaning is the most powerful motivator of human behavior."

To help the story become real, Marcus Buckingham recommends that leaders help employees focus their attention on one core strength. What is the organization's winning edge? Is it customer care, engaged employees, risk taking and the courage to innovate, learning agility, or connectedness with citizens?

To maintain an emphasis on the organization's competitive advantage, the leader must help everyone focus on the one "core score." Of all the things that a governmental agency measures, what is the one essential measure? One core score distills all the complexity and ambiguity and provides confidence to proceed.

In a downsizing organization, people fear the future. Therefore, Buckingham urges leaders to "engage our fear of the unknown and turn it into spiritedness." To do so, leaders need to "define the future in such vivid terms that we can see where we are headed."

Once the story has been created, the leader and other executives must tell it over and over so it becomes the vision for the future.

### **3. Retain your talent.**

The organization cannot build new capacity to fulfill its new story unless it can accelerate through subtraction.

Through conversation and storytelling (not charts and PowerPoint presentations), the chief executive needs to solicit the hopes, dreams, and aspirations of employees about the future of the organization. New thinking and, ultimately, new behaviors in organizations are shaped by speaking to people's feelings through narratives, not "facts." Thus, our stories must be simple, positive, and easy to identify with and must resonate emotionally. In telling stories, leaders must ultimately focus on joy, which is always a stronger motivator than fear.

A good example of storytelling as a change strategy relates to the Xerox turnaround. Confronted by poor financial results, a lack of investor confidence, and major layoffs, the CEO of Xerox told a new story of what Xerox would look like in five years. The CEO, Anne Mulcahy, wrote an article in the style of a Wall Street Journal news piece, dated five years out, about how Xerox had overcome its difficulties and reemerged as an industry leader. Not only did the piece bolster the general spirit of employees, but it also drafted a blueprint for rebuilding the corporation.

As a prelude to another transformation, Steve Jobs engaged Apple employees and customers in a new story for the embattled company. Jobs recast the self-image of Apple from that of a marginal player to that of a small yet innovative elite who dared to "think different." In the same way, city and county executives can engage employees in conversations about current challenges and fears and then solicit ideas on what a new, more focused, vital, and sustainable organization will look like in five years.

For example, in the next five years:

- Will the organization shed or outsource certain outmoded programs and thereby better focus on a better-defined set of core services and competencies?
- Will the local government reduce some layers of management, widen the span of control of managers, and push leadership further down in the organization?
- Will the local government better use technology to enhance productivity, cut labor costs, and streamline operations?
- Will the organization eliminate non-value-added processes and promote a more nimble, risk-taking, and entrepreneurial style of solving problems?
- Will the local government "grow" a new generation of leaders to replace its soon-to-retire baby-boomer management team?

To ensure that there is adequate talent to make the new organizational story come true, the chief executive must keep both "stars" and up-and-coming talent. These generalists and critical specialists are the "free exiters" who have the skills and confidence to leave the organization at will. To retain the free exiters, the leadership team needs first to identify its star, or high-potential, talent. Second, executive leadership needs to figure out what motivates these stars.

Entrepreneurial ventures . . . generate a sense of new possibilities, positive energy, and forward momentum for a downsizing organization at precisely the point when they are most needed.

Typically, they want to grow, learn, take on new responsibilities, and be more engaged in challenging or meaningful work. Free exiters want to feel like partners in the enterprise. They also may want more flexibility, a new title, a promotion, a lateral move, more visibility, or the chance to go to conferences and get more professionally involved. Leaders must ask free exiters what they want, then try to give it to them. In many small and large ways, leaders must demonstrate that free exiters are appreciated. The chief executive cannot succeed in creating a new future without them.

#### **4. Reshape expectations of the organization.**

With fewer resources, it is critical to define the core responsibilities of the local government and reduce the always-growing expectations of the governing board and key external stakeholders, like the business community or neighborhood groups. The leadership team must continually reduce expectations and new demands, or at least insist that any new demand must mean elimination of an existing obligation.

#### **5. Subtract, subtract, subtract.**

The organization cannot build new capacity to fulfill its new story unless it can "accelerate through subtraction." The only way to keep up with and respond to an ever-changing environment (especially after downsizing) is to cut less important or outdated programs. It is critical to eliminate whole programs, thus freeing up staff resources. Given that every program tends to have a constituency, the temptation is to reduce the scope of the program but keep it alive. This may cut budget but not free up needed capacity for other endeavors. At the same time, the leadership team must engage employees to cut "ritualistic," non-value-added rules, procedures, and adminis-trivia of all kinds. The city or county manager may hold a Bureaucracy-Busting or This Seems Stupid to Me! contest, with prizes for the best suggestions to cut red tape.

The key is not only having some fun in tough times, but also creating some slack resources.

## **6. Free up management time.**

Resourceful, astute downsizers look to flatten organizational structures, consolidate administrative positions wherever possible, and widen spans of control. To succeed in producing a vital new future for a downsizing organization, however, these now-fewer managerial resources must be freed up to work on visible and high-touch leadership initiatives, streamlining, learning, coaching, other productivity improvements, and new strategic investments.

The only way to free up management time is to change the typical way in which managers supervise line and support staff. Over-the-shoulder and regulatory supervision must be replaced by managing through values and goals.

If managers focus on program goals and set mutually agreed-upon end-results that are well developed, tangible, and verifiable, then managers can grant resources and authority and unleash those employees who are held accountable for achieving results. While, certainly, some employees need more support and attention than others, a preferred goal-driven management style can free up capacity at the middle and upper levels of the organization and make employees ultimately more productive and satisfied.

## **7. Make new strategic investments.**

Even a downsizing organization needs to grow in certain areas, those in which there is a high potential payoff for the organization. To make strategic investments, it is critical to cut more than is minimally required or otherwise to create slack resources through streamlining, productivity improvements, and/or revenue enhancements. What are some possible strategic investments?

- Upgrades in technology to enhance productivity.
- Economic development initiatives to generate jobs for residents and revenue for local government.
- Facility renovations or new physical infrastructure.
- New service initiatives for underserved or vulnerable populations.
- Entrepreneurial ventures or service collaborations, to raise revenue or cut costs.

This last area—entrepreneurial government—is a key one for strategic investment. It is worth investing money, staffing, time, and attention in selling services, expertise, facilities, and/or equipment to other public entities, if the local government can generate net revenue to subsidize its own services or at least its overhead. Cost centers like police, fire, ambulance transport, and information technology can all become profit centers.

Even if two or three local government partners are sharing the cost of a joint service (employee training, animal services, police and fire dispatch), the strategic investment can pay big dividends. Besides, the payoffs are not just

financial. Entrepreneurial ventures afford new learning and growth opportunities for staff and bring a sense of new possibilities, positive energy, and forward momentum to a downsizing organization at precisely the point when they are most needed.

Finally, any of the above strategic investments would be a key theme in an organization's new story.

### **8. Invest in learning to build capacity.**

To devise a new organizational story (whatever it is) and to develop added capacity as resources dwindle, an organization needs to invest in learning. While classroom training provides concepts, perspectives, and context for new ways of behaving and doing business, on-the-job learning is the most powerful way to acquire new skills, roles, and behaviors. As the downsizing organization is reshaped, employee competencies must begin to match new roles and assignments.

Direct-service staff, for instance, may need to learn contract management skills, if outsourcing some functions is required. New entrepreneurial ventures require business planning and marketing skills. As spans of control become larger and management positions are consolidated, over-the-shoulder supervision must be replaced by goal-driven management. These new competencies are learned by doing and through experience. Typical on-the-job learning occurs through:

- Interim, or acting, positions.
- Job rotation.
- Special assignments.
- On-the-job coaching and mentoring.
- Team or project leadership.
- Ad hoc multidepartmental project teams.
- Other "action learning" assignments.

The good news is that these typical learning initiatives are relatively cheap investments.

To promote a learning culture, executives must furnish opportunities for employees to "stretch," incorporate learning goals into employees' annual workplans and performance reviews, and reward and recognize employees, as well as their managers, for learning achievements. Most important, executives must promote an organizational and political environment in which risks are taken and mistakes are seen and used as learning object lessons.

As organizations confront accelerating change and technical skills become obsolete, learn-how becomes more important than know-how.

### **9. Show optimism, and give encouragement.**

While executive leaders must provide the unadulterated truth in tough times, it is equally essential to embody optimism about the future of the organization and to encourage employees as they take on new roles, assignments, and challenges. This is difficult. Senior managers must overcome their own negative emotions and their inclination to become disengaged and "hunker down." It is essential that leaders proactively manage the mood in difficult times.

The psychological impacts of downsizing seriously exacerbate the actual reductions in resources.

### **10. Model new attitudes and behaviors.**

Employees will take their cues from their leaders. The most powerful way that adults (as well as children) learn is through modeling. Therefore, the leaders of the organization need to consciously model new behaviors (risk taking, entrepreneurial initiative, learning) and attitudes (optimism, faith in the future, openness to change, confidence). Modeling is the essence of leadership.

### **11. Align all organizational systems.**

As the local government is downsized and restructured, all organizational systems must be consciously retooled and realigned over time to support the preferred future. Values, strategic planning, administrative processes for purchasing and contracting, hiring and promotion practices, learning and training, performance evaluation, rewards, and recognition systems all need to support the efforts to create additional capacity and organizational vitality.

### **12. Party with a purpose.**

To maintain momentum, executives need to celebrate small, as well as large, achievements. Leaders must show their appreciation for the risks taken by the employees, their new learning, and their commitment to the organization.

Some balloons, banners, "photos with the chief," playful awards (for example, a Turtle Award for sticking one's neck out, and of course food and drink can all make these celebratory events fun and help accentuate new attitudes, behaviors, and organizational momentum. We might call it "party with a purpose."

## **Making the New Story Come True**

To help fashion the vital new future for a downsized and restructured local government, executives must understand that the psychological impacts of downsizing seriously exacerbate the actual reductions in resources. Employees typically feel victimized, pessimistic, overwhelmed, and resistant to any change or opportunities. An executive cannot manage an organization's way to a new, more vital future.

Rather, an executive must spend a lot of "face time" with employees, exerting visible, confident, and optimistic leadership and then engaging employees in envisioning a new story and fulfilling it. Employees need to see that someone is in charge, someone cares, and someone has a new story and a credible game plan. Then, of course, the leadership team must create organizational capacity through "subtraction" efforts, the management of expectations, employee learning initiatives, and other strategic investments.

Even in a downsizing local government, most of an organization's resources will be in people. People resources are the only expandable resource. People resources can be expanded by leadership—the ability to bring out the best in others through one's interpersonal, moral, and even spiritual attributes.

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