Organizational Change

NEWS

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RESTRUCTURING AMERICAN BUSINESS: THREE MAJOR COMPANIES EXPLORE THE EFFECTS AT WORK IN AMERICA CONFERENCE

1 Scarsdale, N.Y., 2 June 19, 1987 -- The critical effects of the downsizing and restructuring of American industry were addressed by representatives of three leading companies--General Electric, Exxon, and AT&T--at a symposium in New York City, Friday, June 5. The featured speakers--Frank Doyle, senior vice president of corporate relations at General Electric; T.H. Tiedemann, Jr., vice president of human resources at Exxon; and Hal W. Burlingame, senior vice president of personnel at AT&T--explored in detail the painful actions their companies had taken to slim their ranks, reduce the layers of management, and reshape their companies to face global competition more effectively. The one-day conference at the Harvard Club was sponsored by The Productivity Forum of Work in America Institute, a Scarsdale-based work research organization.

"The key issue in American industry today is not just downsizing as such but the effect downsizing has on the consolidation of the company, on the decentralization of authority, on managerial systems, and on the morale and performance of the streamlined work force," said Jerome M. Rosow, president of the Institute, keynoting the theme of the conference. He characterized the massive downsizings of the last few years as "the ripping apart of a social contract" between companies and their managers. The

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process, he said, will result in a change in management style and in a sharper, more mobile managerial work force.

Following the three presentations, the speakers sat as a panel to field questions from the audience.

General Electric Company

"Reshaping the management structure efficiently is imperative, but so is reshaping it responsibly," said GE`s Frank Doyle. Although some other firms in the eighties have opened a "window," offering special inducements to employees who wish to retire early, he described GE as unwilling to do so because (1) it places the decision on size and structure of a firm in the hands of individual employees; and (2) it lacks equity, i.e., it gives benefits to these retirees that have been unavailable to retirees in the past--or to those who will retire in the future. In addition, GE believes that adjustment plans that ease the impact of corporate restructuring on people should be routine rather than extraordinary.

"Our approach at GE in the eighties," he affirmed, "has been change before you have to; change the way you manage as well as the number of people you count; and view change as a constant process of communication and action."

For most employees prior to the current turbulent period, he pointed out, traditional loyalty provided a sort of social contract within the corporation. Some people lost jobs for a variety of reasons, but professional employees, for the most part, were almost assured of job security. In return, the company was assured of loyal employees.

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"That bond," said Doyle, "has been broken in the eighties. . . . Employers and employees may be bound by fewer ties, but they can be better ties . . . offering employees time and tools to prepare themselves for multiple employers and multiple industry work lives."

Doyle warned that if you change the structure of an enterprise, you must change the way you manage as well, and that means not operating with the same number of layers. The point of delayering, he explained, is not to impair but to enhance flexibility. With fewer employees, it is important to seek special qualities: (1) broader-gauged people, (2) more versatility, (3) more consensus management and collegial decision making, and (4) resistance by senior managers, who are now closer to the work, to dabbling in lower-level decision making.

"In the end," Doyle concluded, "we can create better companies and become better competitors if we perform our fundamental economic mission: producing goods and services at the best quality and lowest possible cost. We will perform that mission better if we take steps not only to reshape the management structure, but to extend to employees the same kind of dynamic flexibility we've begun to demonstrate as employers."

Exxon

Restructuring started early at General Electric, in response to clouds just looming on the horizon. At Exxon, change came in response to immediate circumstances.

The events which motivated Exxon to reorganize and downsize were actually set in motion in 1981, when petroleum supplies first began to catch up with demand, said T. H. Tiedemann, Exxon's vice president of human resources. In the early 1980s, Exxon faced up to the overcapacity that was prevalent in the industry and began to make a series of adjustments to the kind of business that was evolving. In the years prior to 1986, the company temporarily shelved its synthetic oil development project, closed refineries and service stations, and scaled back its non-industry enterprises. It also began to consider its human resources. There were too many layers of management, said Tiedemann, and "too many checkers checking the checkers."

Other changes were only in the blueprint stage when, in 1986, the bottom dropped out of the crude market and prices plummeted by two-thirds in a six-month period. Swift action was called for--and taken--first in terms of reorganization and then in terms of a reduction in force. A smaller and sleeker Exxon emerged as a result of the elimination of some parts of the company and the consolidation of others.

A reduction in force took place one month later when a window was opened to 40,000 domestic employees, which offered them various inducements to leave the company. As a result, the work force was reduced by 7,000 employees, 90 percent of them voluntary.

Exxon learned from the experience that:

- o Leavers adapt more quickly than the people who stay.
- o In executing reorganization, it is possible and important to act boldly and quickly. It is a bad idea to chip away slowly and thus keep up the unrest.
- o Management style has to change. Exxon used to have a "bubble up" structure. Now centralized strategy is decided in New York.
- o New ways of working have evolved. "That's the way we always did

it" is no longer acceptable. Decisions are made very quickly and with more clarity, purpose, and direction.

"The key to reorganization," said Tiedemann, "is not to be bound by old strictures and mores and the old organization culture, but to get out and look at this thing from a new viewpoint and say 'We've got to get on with it, we've got to move.'"

American Telephone and Telegraph

AT&T was also forced to radically downsize its organization to meet extraordinary conditions--and is in the process of altering its approach to human resources as it focuses on new markets.

"For many of our people--most of whom came out of the Bell System with its cradle-to-grave careers--three downsizings in as many years represented a huge culture shock," said H.W. Burlingame, senior vice president of personnel of AT&T, in describing the birth pangs of the new AT&T.

Contrary to popular belief, divestiture was only one of the profound changes that were taking place at AT&T at roughly the same time. The others--equally significant--were: (1) the shift from a regulated monopoly environment to a sharply competitive one; (2) the shift from what are mainly voice-oriented technologies to a highly integrated information movement and management world; (3) the ongoing transformation of AT&T from a domestic enterprise to a global one; and (4) the reduction of the work force from over a million people to about one-third that size.

The first downsizing took place in 1984 at divestiture. When the 22 Bell operating companies were separated from AT&T, the jobs of a large number of people who were responsible for supporting these companies became surplus.

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Another reduction took place in 1985 when the company was trying to reshape the business and at the same time to deal with the other changes taking place in the industry. In 1986, under the direction of a new CEO, a third painful downsizing took place, this time in a different manner.

"The business that built itself into an institution by creating universal service for telephone customers tried to create a universal approach to its people," said Burlingame, "and that mindset strongly influenced some of our decisions in the early days of downsizing. We began to realize that our concept of fairness and equity . . . where everyone was treated the same and we had no formal means of differentiating effectively between individuals or skills when we made cuts in the work force, was not always the most fair for the business or its people. Nor was it appropriate in terms of the markets we were addressing.

"As we became more market-focused, we realized that we had to devise ways of holding onto the critical skills people--both management and occupational--who would serve us in the future."

Thus, the last downsizing was no longer a "blanket approach to targeting employees." This time, said Burlingame, people who were "keepers" were told that they had been selected to stay. And people who were at risk knew they were at risk.

"Another important lesson we learned," said Burlingame, "is that we must look at the management of human resources in strategic terms. This requires us to place very strong 'people managers' in charge of different segments of the business."

"And that is the most effective way to build a new relationship between AT&T and the people who comprise it--a new partnership and a new commitment to make it flourish for every stakeholder."

Work in America Institute

Work in America Institute, Inc., a nonprofit, nonpartisan work-research organization, founded in 1975 to advance productivity and the quality of working life, has a broad base of support from business, unions, government agencies, universities, and sponsoring organizations. Through a series of policy studies, education and training programs, an extensive information resource, and a broad range of publications, the Institute has sought to influence the direction of public policy and bring to public attention the critical workplace issues of the day.

The Productivity Forum, a division of the Institute, has some 40 members, including government agencies and some of America's largest corporations and unions. These organizations employ or represent 22 million working Americans. Participation in The Productivity Forum provides members with an opportunity to exchange information on quality of working life and productivity programs with other members at frequent meetings, such as this one. Site visits to organizations with innovative programs both in the U.S. and abroad broaden members' understandings, as do the publications and information services of Work in America Institute.

This symposium on "Reshaping the Management Structure" will be repeated in Chicago on December 9, 1987. In addition, the Institute has just announced a problem-solving service. For further information on this service, the December symposium, and other Productivity Forum activities, call Joan Sickler at the Institute, 914 472-9600, or write to Work in America Institute, 700 White Plains Road, Scarsdale, New York 10583.

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