

## Maurer's Healthcare Insight (92)

## Downsizing US Style

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"In mid afternoon my boss came into my office with a senior executive from the finance division. They read from a prepared script about the reasons why the company had to restructure and cut costs. Then I was told my position and employment was terminated, effective immediately. I was asked to collect my personal belongings and exit the building. I was not to touch the computers nor talk to anyone.

I will be paid my monthly salary until the end of the year, and in January receive a one time payment equivalent to my annual salary."

I received this telephone message in late October from a man who was scheduled to visit Japan the following week to visit companies with regard to licensing projects. His airline tickets, hotel reservations, and meetings had to be cancelled. The relationships he established in two previous visits evaporated. As of this writing there is no announcement of his replacement.

Surely this must be an isolated case, but I learned that scores of people in this company were laid off in a similar manner. And much to my surprise, the company share price increased after the public announcement of its restructuring and downsizing. The stock market applauded.

Have I been in Japan too long? But wait. During my tenure with Lilly and Merck from 1964 to 1986 this kind of thing was unheard of. People who joined a pharma company never expected to be terminated, at least not en masse. It is now the norm rather than the exception.

To be sure, Japanese companies downsize. Wholesalers going through a process of consolidation have lopped 12,000 MS off their payrolls since 1998. Every merged pharma company announced they would reduce the number of their employees, typically over a three year period. Early retirement programs were aggressively implemented. In many companies part time employees replaced full time employees.

Nevertheless, these actions took place at a snail's pace compared to downsizing in Western firms. Personnel managers at Japanese firms spend an enormous amount of time on outplacement activities.

During my entire tenure in Japan I have always tried to hire people versus fire people. Thus, I am the least qualified person to offer an opinion on US style downsizing, and compare that to the Japanese style. So,



at the end of 2007 I went out and talked to a bunch of people who know a lot more than I know. Always a quick way up the learning curve. What I learned follows.

**US Downsizing: A Positive View**

The person earlier referred to was taken care of very nicely in terms of salary. I mean 15 months of salary for doing nothing does ease

the pain of separation. Furthermore, although shocked at the abrupt notice of termination, he was already thinking ahead to his next company and next job, wherever that may be.

Termination in the US is not considered a blot on the record. Rather it is a learning experience, a kind of step up one's career path. In fact, staying with one company for a long time may reflect lack of ambition, or the inability to try new things. Keep moving is the way to succeed.

When I was at the Stanford Graduate School of Business many years ago, the Dean was fond of saying 10 years in any job is enough. Living up to his word, after 10 years as Dean he left to become Chairman of Wells Fargo Bank.

US society is mobile, very unlike Japan where people have difficulty moving to a new city and to new schools. The family stays rooted in one spot while the husband commutes home on weekends.

While some companies are downsizing, others are growing. Employees move into growth areas and create a dynamic economy where human resources gravitate to what is new.

Companies that downsize often revitalize their remaining employees to find new avenues of growth, or innovative ways to cut costs. They become more nimble and decisions get made faster. This is most likely why the stock market reacted favorably to the actions taken by the company mentioned earlier.

My US daughter-in-law is in the human resource department of a large insurance company. Her title is Director of Talent Acquisition. They have two children but she is able to work from her home. The company does lay off people, but she is constantly searching for new, qualified people. I marvel at how this company utilizes a very talented lady while allowing her to keep a balance between work and family. Japan has a long way to go in this respect.

### US Downsizing: A Negative View

Telling an employee to leave within an hour, then have a guard stand by to ensure computers are not tampered with, engenders ill will toward the company. Downsizing should not debase a person as other employees get the message and dust off their own resumes. The good ones are always first out the door.

Abrupt layoffs rob a company of its collective memory, while those left behind start from scratch. Valuable relationships are broken. Those who have no knowledge of the past are doomed to repeat it.

My company does an annual survey of 30 companies on eight categories of performance as perceived by people working in the industry, employed by wholesalers, and those providing services to the industry. The survey essentially measures each company's image or reputation on a numerical scale. No doubt a positive image is a valuable and precious resource that must be nurtured over time. There is no quick fix for a bad reputation, or a guarantee that a good reputation will last forever.

My impression of the results over the past nine years

is that a consistent mission wins positive votes from our responders. Company size is irrelevant. The biggest negative is an announcement of layoffs. Financial analysts may applaud short term cost cutting measures, but

the loss of human resources is viewed as a long term negative. The reputation of a company is not measured by the size of its wallet, but by the size of its heart.

Downsizing en masse reflects failure not success. Failure of the business model, failure of management to develop people, failure of past promises. Common sense suggests there is no reason to reward people responsible for these failures. A new beginning is an empty promise without a firm foundation of employee trust in the company.



### On Balance

My conclusion after listening to a lot of people is what works in the US will not work in Japan, or vice versa. Downsizing US style in Japan is a disaster; downsizing Japanese style in the US is uncompetitive.

*P. Reed Maurer tries to bridge East and West but sometimes the twain never meet.*