Trust Repair and Change Management: Hbr Case Study, “After the Layoffs, What Next?”

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Abstract
Sometimes layoffs are inevitable, but if they are not managed properly, they can create havoc in an organization. This paper offers advice on how to repair trust and manage change after mismanaged layoffs; a Harvard Business Review Case Study (Wetlaufer, 1998) is taken as an example to illustrate the process, when survivors’ morale is low. Relevance of trust and change management is explained in such scenarios and Burke and Litwin Model (1992) is applied to the case study to propose interventions. Finally, recommendations are made in the light of relevant literature to stop defection of key employees, repair survivors trust and manage change after mismanaged downsizing.

Keywords: Mismanaged Layoff; Downsizing; Survivors; Trust Repair; Change Management; HBR Case

Background
Denton has successfully strengthened Delarks’s financial position (Wetlaufer, 1998). He gave Delarks a modern look by refurbishing stores where sales staff is trained in “link selling” (Wetlaufer, 1998). This affected the size of Delarks workforce, the costs, and the work processes (Cameron, 1994). Denton’s intention was to improve Delarks efficiency but his mismanaged downsizing harmed the core capabilities of the company to achieve competitiveness (Nixon et al., 2004) where rumors are that senior management might leave after Meyer’s defection (Wetlaufer, 1998). Wazinsky does not trust him and Denton is wondering if Garcia would stay (Wetlaufer, 1998)? This situation may worsen if he does not repair employees’ trust in himself and Delarks immediately as suggested by Denhart (Wetlaufer, 1998).

Introduction
Trust contributes to an organization’s overall performance (Aryee et al., 2002), therefore employees having no trust can affect the company’s performance, as survivors who think the management is not honest with them (Wetlaufer, 1998), are likely to withdraw (Mishra & Spreitzer, 1998). Delarks had a no lay off policy (Wetlaufer, 1998) and unannounced layoffs have shaken the organizational culture of trust and
predictability. Survivors are feeling job insecurity (Quinlan, 2007) and their low morale has made them narrow-minded, self-absorbed and risk averse (Casio, 1993).

Denton should have warned the employees about layoffs but “in the rush of executing the turnaround” (Wetlaufer, 1998). Denton made decisions sitting in his office on eighteenth floor, instead of “getting on ground” (Mintzberg, 2009). He forgot that the success of downsizing depends on management’s awareness of employee reactions (Hutchinson et al., 1997).

The negative reactions by survivors may decrease the benefit’s Denton wants to achieve from his turnaround strategy (Shah, 2000) but if he can bridge survivors trust deficit along with managing the change Delarks is going through, Denton may take Delarks to new heights.

Causal model of organizational performance and change by Burke and Litwin (1992) should help Delarks in identifying what to change, while looking at any likely implications of any changes on the other functionalities of Delarks (Burke & Litwin, 1992). Even though no diagnostic model is perfect of flaws (Jones & Brazzel, 2006) and can fit all situations (Shirom & Harrison, 1995), Burke and Litwin model should help Delarks in managing change (French & Bell, 1999) and help in suggesting appropriate interventions to improve Delarks (Van Tonder & Dietrichsen, 2008).

Burke and Litwin Model Explained

There are twelve organizational variables in Burke and Litwin model (see Burke & Litwin, 1992) and changes in one of them eventually change the other variables. The logic of this model is to help in assessing the link between external environment and the internal environment of the organization and how different components of internal environment influence each other and eventually the organizational and individual performance (Burke & Litwin, 1992). The higher the box in the model, the more ‘weight’ it has. The more weight a box has, the more influence it has on the overall organizational system (Burke & Litwin, 1992).

The upper half of the Burke and Litwin model comprises of transformational variables which includes external environment, mission and strategy, leadership and organizational culture where changes in environment will affect the other three variables (Burke & Litwin, 1992). The lower half of the model contains transactional variables which include structure, management practices, policies and procedures, work unit climate, tasks and skills, individual needs and values. Transactional variables are linked to short term changes among people and groups within the organization (Burke & Litwin, 1992). To make major changes in organization, variables in top transformational boxes are engaged (Burke & Litwin, 1992). Second layer of model is engaged when fine tuning of the organization is required (Burke & Litwin, 1992). Together these transformational and transactional factors influence motivation which influences the performance on individual and organizational level.

Model Applied to Case

To solve the problems Delarks is facing, some interventions are needed in leadership box. It does not mean that Denton should be removed from his position. It is only suggested that he needs to make some adjustments in the way he leads. The problem
was not with downsizing but with the way he handled layoffs, for example the way O’Donnell got her layoff letter (Wetlaufer, 1998). It is easier for employees to understand the major changes, for example layoffs, when employees are given a chance to improve their skills before they are laid off, but Denton did not give them this opportunity. This unfair dealing demoralized the entire workforce of Delarks (Beer et al., 1990). Employees took it as a breach of procedural justice. Actually Denton is not connected with the employees and the board of directors is not aware of ground realities of Delarks. Denton’s renewed contract for two years with an increased salary and more stock options (Wetlaufer, 1998) shows they are only looking at numbers and are oblivious to the cost of this success.

Below is Causal Model of Organizational Performance and Change (Burke & Litwin, 1992).
Denton has changed the pay system for sales people from salary to commission (Wetlaufer, 1998). This change in reward system affected Delarks culture (Burke & Litwin, 1992). Denton is using path goal theory by rewarding sales people who can link selling more often which will result a change in company’s culture (Dessler & Valenzi, 1977) and work unit climate. Changes in Delarks policies will change culture but it will have more influence on work unit climate because of having more weight on it (Burke & Litwin, 1992). Individual needs, like job security, are not fulfilled under the new policies. Loyalty and commitment of employees, which came from job security previously, will shift to a contract like exchange between employee and employer (Tsui & Wu, 2005). Delarks will have to think if this is the type of environment they really want.

When Garcia says that “she can’t stand working in a place where everyone hates coming to work” (Wetlaufer, 1998), she is referring to the work unit climate. Positive work unit climate can increase employee retention rates while negative work unit climate can decrease the rate of retaining employees (Martins & Coetzee, 2009). When Garcia joined, Delarks had a work unit climate of a family environment. When Denton fired workers who were like a mother to other employees (Wetlaufer, 1998), he broke the family unit. Denton did it because structure of the organization was changed but this changed the work unit climate and affected the motivation of employees. Garcia is the one who is responsible for training the sales force which is fundamental to the success of this new structure. If she defects, Denton will be in trouble, at least, for some time.

Three main challenges

1. How to stop defection of key employees?
Delarks must stop defection of key employees immediately by taking them into confidence.

2. How to repair survivors trust?
Resignations have not started to come from the star employees (Wetlaufer, 1998) which can be a sign that Denton has some time to repair trust. Employees who feel secure usually are more satisfied and satisfied employees seem to create higher levels of customer satisfaction (Wan, 2007). Unfortunately there is fear and no sense of security in survivors and even the new staff is upset (Wetlaufer, 1998). I agree with Peixotto that entire company thinks they might be fired anytime (Wetlaufer, 1998). Denton put strategy before people (Wetlaufer, 1998) but strategies do not work if people are not involved or perceive themselves to be, at least, a part of the decision making process. Denton treated human beings as human resources and undermined an atmosphere that promotes trust (Mintzberg, 2009). Now he must inculcate the feeling of job security in the survivors by repairing trust.

3. How to manage change?
Denton should manage employees’ emotion of anger and fear after downsizing and should calm and relax them in order to bring them to low activation from high activation (Huy, 2002). He can do that by involving them in attractive projects and reduce their fears, by better communication, to give them some peace of mind (Huy,
It is thought provoking that maybe, Delarks employees are simply going through the reactions to change but Denton still must manage change.

**Recommendations**

Without a lot of credible communication, it is hard to capture the hearts and minds of employees (Kotter, 1995). Denton’s action of downsizing, without communication, has broken the trust of employees and now it is his responsibility to take actions and show behavior which can repair trust (Whitener et al., 1998). If he can do that, he will be able to solve majority of the problems.

Research suggests that trust can be repaired depending on how Denton acts now (Korsgaard et al., 2002). Denton will not be able to rebuild trust if he does not communicate honestly and admit his mistake (O’Toole & Bennis, 2009). If Denton can communicate openly and demonstrate concern for employees by showing sincere regret of the consequences of his downsizing initiative, it would be a good first step to start the process of trust repair (Gillespie & Dietz, 2009).

Survivors are insecure because they do not trust if their jobs are safe. In this situation, it is recommended to share the reasons for downsizing (Feldman & Leana, 1994). The idea is to show genuine care towards the employees and explain why there were layoffs and why layoffs had been necessary. While doing so, Denton should acknowledge survivors concern for example their anger on the layoff of several hundred longtime saleswomen (Wetlaufer, 1998). But while acknowledging and explaining that, he should also share what might have happened if there were no layoffs. There is a possibility of Delarks getting bankrupt as company was facing severe financial crisis when Denton took over.

Denton should not apologize for downsizing but he should sincerely apologize for the way he handled it (Kim et al., 2004). His apology should include a simple explanation which can help in repairing trust (Kramer & Lewicki, 2010). Sincere apology means that Denton cares for survivors, is sensitive to the issue and wants to repair trust. This gesture of sensitivity to treatment is a major component of organizational justice. Failure to do so might mean that he is not empathetic towards his employees.

Denton needs to deal with survivors concerns and fears to win their trust back. For example as they face job insecurity, he should make it clear to his employees that layoffs will be the last option from now. To gain survivors trust, he should think of ways to make jobs more enjoyable for survivors. This will increase their organization commitment (Brockner et al., 1993). Trust literature indicates that committed employees tend to trust the organization more. To broaden his knowledge of how to make jobs more interesting and enjoyable, he can ask employees questions about what they like most about their jobs and what changes could be mutually beneficial.

Employees’ trustworthiness is the sum total of their perception of Delarks systems, processes, culture and management practices (Gillespie & Dietz, 2009). Denton thinks that he has been honest with the employees but employees do not trust him (Wetlaufer, 1998). If Denton can follow previously stated recommendation, he should be able to influence his employees’ perception of trust in him as they suggest behavioral consistency, integrity, openness to communication and show of sincere concern. According to Whitener et al. (1998), these aspects will influence employees' perceptions of Denton’s trustworthiness and help him repair trust.
It is important to minimize the negative reactions (distrust) and maximize the positive reactions (trust) from “opinion leaders” among survivors, as survivors take cues from each other on how to respond after downsizing (Brockner et al., 1997). Denton should find people in the organization who have good image with the employees. Wazinsky can be one as he is keyed to the people in organization (Wetlaufer, 1998). To repair trust, Denton should admit his mistake of not taking Wazinsky in confidence about Madison store closing (Wetlaufer, 1998). Then he should ask for his help in maximizing the positive reaction (trust) in employees as he is in a position to be an “opinion leader”.

Denton should note that where there is a negative reaction from survivors when a friend is laid off, there is also a positive reaction if the co-worker was in similar structural position. Therefore layoffs are not all too bad as they also create new opportunities for survivors (Shah, 2000). Denton should explore the possible opportunities (promotions) with employees to keep them interested in the job by making them see what Delarks can offer.

Literature indicates that high performers with more education and skills are most likely to leave if not happy after layoffs. Denton needs to meet with such high performers for example Garcia to repair trust and take them into confidence. To stop Garcia’s possible defection, Denton should discuss her possible opportunities in Delarks; before that, he should apologize and explain why he did what he did. Delarks is financially strong at the moment so this is the time to spend money in the training of employees who have the potential to create value for Delarks in the future after doing stakeholder analysis. When employees have developed skills, they fear change less.

Change management is also important as people feel uninvolved and they are not excited about the change Delarks is going through. If Denton can get people excited about the change, they will help him in leading the change (Tabrizi, 2007). According to Mintzberg (2009), top down (Kotter, 1995) approach might be useful but it has flaws for example what will happen if Denton is out of Delarks? Therefore Denton should rebuild Delarks from middle out with the help of middle managers for sustained changes (Mintzberg, 2009).

Jick noted that “No organisation can institute change if its employees will not, at the very least, accept the change. No change will “work” if employees don’t help in the effort... Any organisation that believes change can take hold without considering how people will react to it is in deep delusion.” (Jick & Peiperl, 2003). Denton overlooked this point but “opinion leaders” can help him in forming survivors’ positive opinion now.

Denton needs to come out of his office and start building personal connection with the staff. Denton’s focus is structure when people in structure are as important as the structure. Denton is stressed but so are the employees. He needs to show employees interactional justice by being calm while dealing with them especially answering questions. The situation calls him to be empathetic. His objective should be to come closer to the employees, not alienate himself further. Denton made downsizing decisions without any input from his management team. In the future, Denton should try to trust other stakeholders and involve them in decision making process to make better decisions. He will have to trust them to get their trust. To some extent at least!
References


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