



# **You *Can* Get There From Here: The Road to Downsizing in Higher Education**

**Second Edition**

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## CHAPTER 7

### Right-sizing Alternatives: A Multi-forked Road

Once a decision to restructure, right-size, down-size, or quality-size has been reached, leaders must begin the arduous task of determining how much must be conserved or eliminated and how it will impact institutional performance. Age-old questions must be answered: Can we do more with less? Can we do the right things right? Are there better ways to deliver our services more efficiently and effectively?

Administrators should have anticipated the need to right-size well before they implement any strategies. They should have solicited, developed, and implemented cost-saving measures at the operational level. If it is then determined that staff reductions are essential, they must see that those reductions are considerate of the institutional culture and allow the organization to retain its quality and vitality — no small task.

#### Getting Started

Because college and university costs for human capital typically represent as much as 80 percent of total expenses they are an essential focus for reduction. There are many alternatives for reducing the workforce. Early planning sessions will allow implementation managers to brainstorm which possibilities would work best in their units. Suggestions should be internally ranked by criteria that have been deemed important to the institution, including:

- Retention of quality staff,
- Employee engagement and commitment,
- Potential for long- and short-term savings,
- Impact on organizational capacity,
- Cost-benefit, and
- Conformity to institutional culture.

In addition to these criteria, the following recommendations are based on the results of a 1980s study of reallocation efforts at Big Ten universities,<sup>1</sup> which still hold (even two decades later):

- *Finalize and communicate policies, program priority criteria, and a formal strategy for reduction.* Faculty and staff who operate in the dark may bear unnecessary fears and frustrations that hinder their effectiveness.

- *Take a realistic approach to economic expectations and levels of demand in education, research, and service.* Ratios of clerical support staff to teaching faculty may range from 1:5 to 1:7. In complex research or laboratory situations a ratio of 1:2 or 1:3 may be more realistic.
- *Analyze the rationale for current staffing levels and plan changes in faculty/staff ratios,* ignore faculty/staff ratios on sponsored research, grants, and contracts and focus on the ratio of tenured and tenure-line faculty to regular operating staff. If your campus ratio of these faculty to staff is 1:3, ask why? If it is 1:5, ask why? How has it changed over time? What is the ratio of your finest competitor? What questions should differences in these ratios raise?
- *Identify institutional philosophy regarding centralized vs. decentralized decision-making and programmatic vs. across-the-board staff cuts.* Experience indicates that decentralized decision-making and programmatic reduction produce the best results. Centralized views of explicit cuts to be made at unit levels cannot be as accurate as the decisions that will be made by decentralized managers who are most knowledgeable about local capacity and faculty and staff needs for service. It is a matter of good business practice and respect that these managers should be asked to present their most effective reduction plans. Unit reduction plans, however, remain subject to administrative review.
- *Use long-term approaches to retain productivity, morale, and staff commitment.* While a large-scale layoff can staunch a financial drain, a strategy of attrition management can achieve the same long-term financial goal while it preserves employer-employee commitment. In times of economic downturn, voluntary turnover is often quite low, making attrition management more difficult and long term.
- *Hiring freezes are not as realistic or as effective as hiring reviews.* A hiring freeze ignores critical performers who must be replaced if they leave and is a needlessly unrefined response to an economic threat. A practice of reviewing each vacancy for its central contribution to organizational priorities should replace the freeze reaction and should be part of the normal approval and budgeting process. During downsizing, the replacement process should receive much more rigorous attention.
- *Help displaced employees by giving them early notice, offering priority consideration in posted vacancies, and sponsoring retraining and outplacement programs.* State outright the institution's commitment to its mission and people. While layoffs cannot entirely be avoided, they can be managed to the lowest possible frequency. Publicize the facts. At one private, West Coast institution, an early-retirement strategy yielded the desired number of position reductions and, at the same time, resulted in the fewest layoffs in three years.
- *Encourage creativity and flexibility in options for achieving reduction.* One private institution, for example, opened a discount store for employees that offered savings and increased satisfaction. The employees in another private institution's print shop began marketing their services and made the auxiliary business a break-even proposition, which saved their jobs. Another private institution sold its print department to its

employees, promising them two years of business. This resulted in short-term fear but long-term excitement and, eventually, several successful business owners.

- *Cut beyond what is necessary and shift any surplus staff to priority programs.* Real vitality and investment in the future is critical to a community sense of direction and hope.
- *Formally evaluate results for future planning purposes.* Talk about the critical need to reevaluate and continuously reallocate within a mature, stable, non-growing budget. The flat budgets that characterized higher education in the early 1990s indicate that ongoing reduction and reallocation are essential for colleges and universities. The financial growth experienced in the mid-2000s may have led to a loss of rigor in budgetary discipline.

### **Holding Course in Time of Crisis**

Altered funding patterns, potential program cuts, and possible layoffs cause competition uncharacteristic of a fully funded workplace. The resulting stress not only increases conflict, but interferes with otherwise effective administrative systems and processes.<sup>2</sup>

Effective managers will recognize the negative cycle and take early action to correct it. Planning, cooperation, and involvement allow affected individuals to contribute to the process of redirecting resources while retaining the unique qualities they believe their institution possesses.

Skills for managing a staff reduction are different from and more difficult to learn than the skills required for managing growth. Yet few leaders are prepared to plan and administer under economic stress. Although institutional right-sizing has become more prevalent over the past 50 or so years, and now appears to be cyclical or at least repetitive, little information is available about managing crises or declines in higher education. Still, a few key points are clear:

- *Managers need to recognize and accept economic reality and to plan during growth periods for possible future reductions.* To minimize financial crises, managers should measure the following factors annually against their contribution to mission: changes in the ratio of academic to administrative investment; full-time faculty staffing and salary ratios; percentage growth of salary; staffing contingency and benefits costs; and the cost of services provided.
- *The setting for crisis planning should be as nonthreatening as possible to participants.* In the early 1990s, reduction strategies illustrated that external committees and governing board or executive directives can squelch local units' confidence and sense of control.
- *Attention should be given to creating an atmosphere of openness, cooperation, and contribution.* Having all units, academic and nonacademic, share the pain reduces the chasm between protected and unprotected employees. For example, a small-percentage of across-the-board reductions supported by additional cuts that vary by unit can be effective, particularly when the units that contribute to the solution are publicly lauded.

- *Planning should concentrate on outcomes that focus on quality, innovation, real reduction, and revitalization of central programs and strengths.* Managers should avoid unrealistic plans based on overly optimistic estimates of increasing income.

### **What's Fair?**

A couple of basic strategies must be determined before work begins. One is whether cuts will be decided in a centralized or decentralized fashion; the other is whether cuts will be made across the board, or prioritized.

Experience indicates that decentralized, prioritized cuts are most effective, with some central administrative policies guiding the decision-making process. For example, reduction goals and policies should be set centrally to reduce fragmented approaches and disregard for the total effect. Assistance should be offered and a review completed by a competency-based task force with an overview of the academic and administrative campus in terms of planning, budgeting, policy, practices, culture and communications in mind.

Beyond such oversight, centralized decision-making can create an atmosphere of dissent and unrest, which makes it difficult to achieve the desired results. No single centralized body is familiar enough with unit work to downsize individual departments effectively. Decentralized decision-making led by highly respected deans, administrative directors, and department heads ensures a higher level of faculty and staff confidence in the plan.

Moreover, all programs are not created equal. Restricting growth across-the-board will sap the institution's strengths. Programs that are peripheral to the institution's mission are more expendable than are core functions.

The study of downsizing at Big Ten universities that was mentioned above elicited this advice from administrators:

- *Establish priorities based on mission.* Discussion and published declarations from the president, provost, and deans will help the college or university community focus the reduction plan on hopes for the future.
- *Gather information from deans, directors, and department heads.* A centrally designed set of questions about how to reduce will allow each area to consider equally how best to approach reduction and provide a vehicle for sharing ideas.
- *Evaluate all new and current programs for reduction.* Enlist a subset of deans, academic and executive leadership, and budget officers to review and consolidate the ideas that have been collected. Issue a comprehensive report so all the managers charged with making the cuts will begin the process with the same information and guidelines.
- *Implement early-retirement incentives and programs.* Offering reasonable opportunities for faculty and staff to choose to leave or phase down makes separation a positive

personal choice rather than a negative experience that is beyond the employee's control.

- *Use less-than-12-month appointments.* This approach reduces salary and benefits commitments and, at the same time, satisfies the needs and preferences of individuals with different schedules.
- *Limit benefit participation and growth.* The first priority must be to retain competitive, basic benefits for full-time employees committed to their careers. Beyond that, benefits may have to be contained or stabilized. Benefits costs can easily outpace institutional guidelines that hold staff size and salary increases to two percent to four percent annually.
- *Retrain and move staff to other positions.* An observable commitment to retraining, mobility, and transferable skills will help maintain the institution's silent contract of trust. Use internal training and tuition reimbursement to retain skilled and knowledgeable staff.
- *Consider short-term strategies to extend opportunities resulting from long-term attrition.* Using furloughs or voluntary, short unpaid time off retains job permanency and offers employees more attractive alternatives. Such short-term strategies will give the institution the opportunity to take advantage of natural attrition that occurs over longer time periods.
- *Establish an outplacement service.* Offering internal resume and search advice and paying for an external outplacement service will help convey the institution's commitment to affected staff.
- *Plan for permanent reductions at the department level.* Decisions about layoffs or position reductions should be made by local managers. They know best where reductions can be made without creating major disruptions.
- *Allow unit freedom within campus guidelines.* Do not oversee the day-to-day management of the staff reduction. Instead, measure progress quarterly, look at budget balances, and do not manage how the bottom line is attained. Managers must be able to manage while being held accountable.
- *Consolidate.* Gather similar services or units together and broaden a manager's scope. This approach reduces supervisory costs and increases accountability.
- *Automate and maximize technology.* Enterprise-wide information systems standardize data definitions, clarify data ownership and tend to have a positive impact on data integrity. They allow employee self-service and portals for managers and students that can reduce staff work load and increase self-control. Investments in these systems, though, can often offset the financial benefit if they are not carefully controlled. Think "standard" not "customized." Look for unrewarding, repetitive functions that can be systematized. This will reduce unrewarding effort and increase the potential for employees to make a greater contribution.

The Big Ten administrators reemphasized the dangers of:

- *Totally centralized decision-making.* It discourages, devalues, and results in unaccountable line management.
- *Continuation of unaffordable benefits.* Priorities must be set in favor of full-time and part-time continuous, career-oriented faculty and staff.
- *Short-term closure.* Closure does not contribute to the mission. The exception might be holiday closure, where employees are part of the recommending process.
- *Widespread layoffs.* The silent employment contract is broken and the mission may not be effectively served.
- *Layoff only by seniority.* Last-in, first-out does not serve the purposes of retained high performance, wholesale retention, or diversity.
- *Reduction in hours.* The work that needs to be done must be the deciding factor.
- *Overloading positions.* Eliminating positions by freezing, attrition that has not been reallocated, or raw percentage reductions applied without prioritizing decisions often results in overload for more senior, high-performing employees. This can lead to burnout among the very people most critical to the organization.
- *Increased overtime for non-exempt support staff.* Reducing support staff positions to the degree that they must increase the amount of overtime worked is like over-inflating a car's tires. It works them hard and wears out the tread. The result is a frustrated and fatigued work force, expensive wear and tear, and high production and replacement costs.
- *Reduction in salaries.* Salary cuts will tempt competitors to raid an institution's most talented faculty and staff. Salary competitiveness will be lost and the employment "contract" will be perceived as broken. In instances where this approach has been tried, it has been effective for only one year. A subsequent year of salary reduction or increase deferral has resulted in brain drain and injury to the institution's reputation.<sup>3</sup> A better approach is to replace salary increases for one year with a lump sum non-base addition.

There may, however, be a useful detour to every route: In the 2008-2009 academic year, Brandies University faculty and staff decided to take a one percent cut in salaries in order to avoid widespread layoffs. Action like this often draws an organization together on behalf of the whole.

[*Editor's note:* While the first part of Chapter 7 is based on research studies and articles, the rest of the chapter is comprised of case studies that offer insights into what various colleges and universities have done to conduct a successful downsizing program.]

### **The Road Less Traveled: Programmatic Redesign Reduction or Elimination**

One of the best-known community college systems in the country recently held a series of retreats that involved representatives from all their campuses and several of the central administrative staff. Their goal was to identify programs across the campuses that, if addressed collaboratively, could improve services and reduce costs. Their approach was first to clarify the important, mission-critical or core values that had to be served and then match potential programmatic improvement and cost-reduction possibilities to those values. The method used to evaluate a program's potential to provide savings and improve service was simple and straightforward. In the end, the institution identified opportunities with a positive financial impact of more than \$15 million dollars. All this was accomplished in four days.

On one axis they listed such items as:

- 1) Operating as a single, fully integrated, quality organization,
- 2) Ensuring service to community and the success of the students,
- 3) Public stewardship,
- 4) Efficiency, and
- 5) Effectiveness.

On the other axis, they named the programs under consideration, including:

- 1) On-line education to be supported and provided through a single campus on behalf of the whole rather than by every campus with redundant resources and academic programs,
- 2) International education, again provided through one campus on behalf of the whole,
- 3) Dual enrollment through standardized forms and processes to aid participating high schools, supported by simplified systems and a unified college brand that covers all the campuses, and
- 4) Centralized marketing to establish the common brand, advertise academic programming, and consolidate the recruitment of students, faculty, and staff.

The discussion included ranking each program numerically (*i.e.*, those with a high positive impact to the value served were given a five while those with a low positive impact were given a one). Every program under consideration was also rated as either short-term in its implementation (one-to-three years) or longer-term (four-to-five-or-more years) and as either easy or difficult to implement.

### **Speeding Attrition to Achieve the Target: Retiring Early**

If layoffs are the least attractive option to reduce payroll, early-retirement packages may be the ticket to placing both employers and employees in the "win" column.

Many institutions fail to recognize that retirement incentives can be targeted to specific organizational units where reduction is needed. This targeting is enabled by a thoughtful, formalized strategic, and

business planning process that decides which units will be de-emphasized over time and which will be expanded or created as part of the longer-term direction and priorities of the college or university.

Estimating the cost of offering an early-retirement program is a complex procedure because of the number of variables and the assumptions that must be made. In addition to estimating what proportion of eligible employees will take advantage of the program, it is wise to try to determine what type of faculty and staff will be most likely to subscribe. Will they be higher-paid or lower-paid, replaced or not replaced? If the early-retirement program is offered institution-wide and represents one times annual salary, the author has observed (but not researched) that 10 to 15 percent of the eligible employees will accept. Increasing the program to one-and-one-half times annual salary seems to raise the acceptance rate to about 20 percent, and two times annual salary can boost it to 30 percent or more.

The initial costs of an early-retirement program or "buy-out" can often be recovered over time, either by refraining from filling a vacancy or by replacing a retiree with an employee with lower immediate salary potential. A new teaching employee might be hired for only the nine-month academic year to replace a retiree who worked year-round. Similar seasonal arrangements are also possible in academic support areas.

### **Other Lanes to Filling Faculty Roles**

If the full strategy for quality-sizing of academic programs has not been formally completed, consider inviting retirees to fill roles in teaching, mentoring and advising. A large community college system in the Southwest that used this approach to augment its faculty gained the unanticipated advantage of helping its retirees feel respected and valued for being asked to remain an important cohort of the colleges. Many colleges and universities either increase their employment of adjunct faculty and lecturers on a one-year-only or one-semester-only basis. An opposite reaction to economic pressure is to eliminate these non-tenure track positions because they are not protected by policy. While this may be expedient, the inadvertent result is an increase in instructional cost unless courses are eliminated or credit hour production and class size are increased.

Another positive alternative for faculty reduction is a phase down. Recent meetings with faculty from a New England university revealed that one reason they do not take incented retirement is that it represents a cliff decision – abruptly ending their active employment with the university. They recommend offering phased retirement as an alternative, supporting a reduction in teaching over a three-year period, thus softening the loss of more formal relationship to the organization. Potential retirees look forward to being invited back, when needed, to teach and advise. Also important is *emeriti* status, a central meeting place with office equipment, and some engagement with their former departments. Potential retirees with ongoing research grants want to find ways to complete their research, which is to the mutual advantage of the institution and may require some continuing commitment to laboratory facilities.

### **Formalizing the Agreed Route: Release of Claims**

Most general counsels, whether internal or external to the organization, will insist that any agreement for separation from the institution that results in recognizable advantage or compensation must be accompanied by a written recognition of that advantage and release of current and past claims against the college or university. Claims based on organizational actions or conditions in the future may not be protected. It is recommended that Human Resources not construct such agreements without legal assistance or specialized training in negotiations and execution of the written documents and their related rescission periods. Typical rescission periods include seven-to-eight-day delivery (with proof of receipt) of written documentation followed by 21 days of time for employees to consider and accept or reject the agreement.

### **Training for the Task**

When Stanford University faced substantial budget cuts in 1991, its managers were trained for the task, and given a salary and benefit cost-reduction management guide that had been compiled by a committee of unit managers and representatives of the Office of Human Resources.

The guide started with several assumptions: that cost-reduction actions be consistent with Stanford's academic mission and goals; that reductions of staff or work hours be achieved by prioritizing programs and services and eliminating redundancies; that management and staff be included in the process; that personnel practices be fair and consistent across the university; that attention be given to preserving the institution's ethnic diversity; and that managers analyze cost-reduction actions for potential employee-relations and legal consequences.

The guide outlined the pros and cons, in table format, of various cost-reduction actions that ranged from eliminating entire service areas to early-retirement packages, hiring freezes, layoffs, and work-hour reductions.

These materials helped managers who were unfamiliar with downsizing policies and procedures review the many alternatives at their disposal and evaluate which might work best in their units. Management orientation seminars encouraged flexibility and creativity in the streamlining effort and offered central support when questions or concerns arose.

Defining institutional commitments and assumptions at the beginning gives unit managers a clear idea of what is expected of them, even if they have not been through a staff-reduction process. Cost-cutting alternatives should be shared and ranked for effectiveness and managers trained to implement the resulting, agreed-upon approaches as appropriate to their units. Finally, a centralized system of support that includes training, reporting, and evaluation will ensure a smooth and thoughtful process that will serve the institution well for the long term.

### **Smith College: A Case Study in Staff Reduction**

In the 1990s, Smith College looked at the possibility of 90 layoffs in administrative, clerical, and service jobs. Working with its board of trustees, the college devised a generous voluntary separation plan

financed by unrestricted endowment funds to entice employees to vacate their positions. Its primary purpose was to avoid layoffs. Though expensive, the plan was expected to pay for itself in just three years through savings from eliminated positions. Smith offered the plan to non-faculty staff who were at least 40 years old and had at least 10 years of service.

At the same time, a less generous plan was constructed for involuntary separation, with the hope that employees, whether facing possible termination or not, would choose the former, thus minimizing the need for layoffs, diminishing damage to morale, and limiting personal anguish. While few of those notified that they were in positions targeted for elimination were eligible for the voluntary plan, managers hoped that others would subscribe, creating vacancies to which layoff candidates could be transferred.

It was not easy for managers trained in cost control to design a dream package, and task force members had to remind themselves to be generous. But in the end, they came up with a liberal and attractive package composed of:

- *Basic payment.* Twenty-six weeks of pay under the voluntary separation plan; 13 weeks under layoff.
- *Years of service pay.* In addition to the basic payment, two weeks of pay for each year of service under the voluntary plan and one week for each year of service under layoff conditions.
- *Maximum payment.* By law, the basic payment and years-of-service pay combined could not exceed 104 weeks of pay. Several employees with 39 or more years of service received the maximum under the voluntary plan. A typical employee with 13 years of service received 52 weeks of pay under the voluntary plan or 26 weeks under layoff conditions. A minimum of 10 years of service was required for eligibility in the voluntary plan, which produced a minimum payment of 46 weeks of pay. The minimum under layoff conditions was 13 weeks of pay for an employee with less than one year of service.
- *Other pay.* Employees were paid for accumulated vacation, sick leave, and compensatory time.
- *Retirement plan contributions.* The college made its normal contribution to the defined-contribution retirement plan on all payments, a minimum of nine percent.
- *Health and dental insurance.* Under both plans, continued participation for one year after separation was offered, with the college contributing 100 percent of its normal premium payment. Those under the voluntary plan who were at least age 55 and those under layoff conditions who were at least age 62 were given further coverage until Medicare eligibility, with the college paying half its usual contribution. Younger employees were eligible for up to 18 months coverage after the first year, at their own cost. *Many employees, especially those 55 and older, confirmed that extended coverage was a major factor in their decision to elect voluntary separation.*

- *Tuition benefits.* Tuition-assistance benefits continued for one semester under layoff conditions. The voluntary plan offered at least one year and allowed the completion of educational programs for employees, children, and spouses already enrolled at Smith.
- *Counseling.* The Career Development Office offered extensive counseling, resume preparation, and job-search services. Those who accepted voluntary separation were granted up to \$100 in reimbursement for tax and financial counseling by a qualified independent adviser.
- *Other benefits.* Those participating in the college's second mortgage plan or living in college housing were given a year to pay off or vacate. Those age 62 or older were offered retiree identification cards and all were encouraged to continue participating in college events.
- *Taxation.* All payments were subject to withholding under IRS regulations.

The administration was able to provide full and accurate information to the staff before any announcement appeared in the media. Packets were mailed to employee homes on a Monday, duplicate sets were distributed in the office on Tuesday, and the same material was published in the campus newspaper on Wednesday.

Department heads were briefed on the particulars of the plan and given a question-and-answer sheet prepared by the college's labor lawyer. In addition, the college sponsored two all-day informational workshops for employees and their spouses considering voluntary separation. Almost half the staff eligible for voluntary separation attended a workshop, and 59 percent of those (105) elected voluntary separation. Another 25 employees subscribed to the program without attending a workshop.

The eight-week window in which employees had to make a career-changing decision was charged with emotion. Some eligible staff in departments targeted to lose positions reported subtle and not-so-subtle pressure from colleagues to take the package so jobs could be saved for others. Some who elected to take the program became less rigorous about their work before their departure. Many of those who were not eligible worried that they would have to take on added work and mourned the impending loss of old friends.

Reactions of eligible employees varied, too, from those who felt forced to make a decision they were not ready to face to those who said they felt like they had won the lottery.

In the end 130 employees elected voluntary separation at a cost of \$5.7 million to Smith College – almost \$44,000 per participant. Savings on the positions eliminated were expected to compensate for the cost in just over two years.<sup>4</sup>

## **Notes**

1. Butterfield, Barbara. *Reduction of Academic Support Staff in Selected Major Midwestern Universities, 1978-1983* (Ann Arbor, MI: University Microfilms. 1986).
2. Levine, Charles H., "More on Cutback Management: Hard Questions for Hard Times," *Public Administration Review* 39, (Mar.-Apr. 1979): 179-83.
3. Butterfield, Barbara, "*Reduction of Academic Support Staff.*"
4. The material for this case study was drawn from the article "Right Size. Right Way," by Jonathan B. Lovell and Janice A. Keefe of Smith College. The article was first published in the June 1992 issue of *The Business Officer*, the monthly magazine of the National Association of College and University Business Officers.
5. Use the following link to CUPA-HR's Knowledge Center Economic Crisis Survey addressing options planned for use in downsizing by more than 300 respondents:  
[http://www.cupahr.org/knowledgecenter/files/StafComp\\_Plng\\_Srvy\\_Rslts\\_021209.pdf](http://www.cupahr.org/knowledgecenter/files/StafComp_Plng_Srvy_Rslts_021209.pdf)