

## **HOW TO MANAGE DOWNSIZING MORE EFFECTIVELY?**

**H.BADER ARSLAN**

Dr.Ankara Üniversitesi, Siyasal Bilgiler Fakültesi, İşletme Bölümü

### **Abstract**

*This study aims to depict a broad view of downsizing and donate a more extensive role to outplacement in preserving employment and benefits of survivors as well as dismissed employees. It has been stressed that downsizing is not only a way to reduce costs, but rather a strategy or part of a strategy that aims ensuring competitive advantage. Views of several authors and academicians have also been cited to give different perspectives to the concept of downsizing and outplacement market's development.*

**Key Words:** Downsizing, outplacement, employment, benefits, strategy

### **Özet**

*Bu çalışma, örgütsel küçülme kavramı ve uygulamalarına genel bir yaklaşım sunma ve küçülme sonucunda işten çıkarılan ve geride kalan personele uygulanan yardımlar açısından yeniden yerleştirme destek danışmanlığına daha kapsamlı bir rol verme amacını gütmektedir. Çalışmada bazı akademisyenlerin ve uygulayıcıların görüşleriyle desteklenen bir şekilde, örgütsel küçülmenin sadece maliyetleri düşürmek amacıyla uygulanan bir çözüm değil; rekabet avantajı sağlamak amacıyla sahiplenilen bir strateji olarak uygulanması önerilmektedir.*

**Anahtar Kelimeler:** Örgütsel küçülme, yeniden yerleştirme destek danışmanlığı, istihdam, yan ödemeler, strateji

## INTRODUCTION

Declining growth rates, soaring unemployment, economic recession...By 2005, the world seems as if it has welcomed the new millennium in a gloomier economic agenda. Not only U.S. economy, but also those of European and some developing countries confront with similar bottlenecks.

Since the last quarter of 20<sup>th</sup> century, permanent employment contracts have reduced, job security has diminished (and replaced by employability), and new work styles such as part-time working, temporary employment and flexible working have been increasingly used by companies. Various management techniques and strategies (i.e. core competence, outsourcing, downsizing, rightsizing, lean organization, zero hierarchy, etc.) have been the focus of theorists.

### 1. DOWNSIZING: IT SOMETIMES TRIMS GREEN BRANCHES

Downsizing was, possibly one of the most frequent subjects of articles that have been attributed to new managerial concepts of our age. The proactively eliminating of positions, jobs and/or processes by management, downsizing, is being used for speeding up decision making by reducing hierarchical layers, alleviate the burdens of bureaucracy, attaining core competences, creating efficient communication, empowering human resources, adapting environmental changes and global competition, minimizing costs, improving productivity and profitability, gaining competitive advantage and even for pulling up the market value. However, many downsizing practices end with failure in economic and organizational aspects.

“Although it has been used as a cure to reduce costs; today, the basic motive of downsizing has shifted to gaining competitive advantage” Ipek Akyıldız says, a job development manager in Lee Hecht Harrison’s Istanbul office. As the philosophy of downsizing changes, so do its practices. Surveys reveal that not only unskilled workers, but also professionals, clerical workers, middle managers and even sometimes top managers may be laid off. Akyıldız claims two different possibilities for this paradigm shift: “It may be due to high costs of middle management, where managerial ranks create clusters. Second one is assignment of jobs to lower ranks by means of empowerment, which in

turn generated hollow positions". Taking into consideration the SHRM's (Society for Human Resource Management) 2001 Layoffs and Job Security Survey where 'obsolete positions' was cited as the fourth factor (22%) influencing the necessity of layoffs, this judgment looks more meaningful.

Although it is not a must of the process, almost all downsizing practices bring reduction in force with them. AT&T, IBM, General Motors, Boeing, Delta Airlines and nowadays Opel, as a subsidiary of GM, are still fresh memories of layoffs as consequences of downsizing. 10% of DLC's staff when it was acquired by Crédit Suisse, 25% of Korfezbank's staff when it was acquired by Osmanlı Bank was laid off. 12 % of employees after the merger of Integra Financial Corp., Union National Bank and Pennbancorp were laid off. Royal Airlines of Netherlands, KLM, trimmed 4500 of its workers as a part of its restructuring program. These data and thousands more, so altered downsizing's strategic *raison d'être* to a simple reduction in force (RIF) tool that the terms RIF and layoff are being used in lieu of downsizing. In that case, how to consider downsizing? How to practice it? How to deal with employees during downsizing?

## **2. FROM JOB SECURITY TO EMPLOYABILITY**

Today, social and psychological contracts among sides of employment relationship are likely to be disregarded or not fulfilled. This belief shifts employees' concerns from job security to promotion and wages. Companies no more give employment security to workers but rather imply employability (KEISELBACH, MADER, 2002:14).

There is a tight relation between job loss and psychological well being (e.g. depression, fear), financial standing, physical health, social/familial relations (e.g. divorce, child abuse, tension in family relations) (EBY AND BUCH, 1994:69; LAABS, 1999:34; HENKOFF, 1994:59; KINICKI, PRUSSIA AND MCKEE-RYAN, 2000:90). Research shows that downsizing, as a means of change, leads anger, weakening trust to management, stress, weakening organizational commitment, resistance to change, declining productivity and motivation, loss of morale. Resistance to change, which may be up to future and job loss anxiety, may show itself in absenteeism, sabotage, theft, decreased motivation, morale, loyalty, productivity, creativity and organizational learning. SHRM Survey, in this sense, has revealed that while employee morale

(58%) and loyalty (41%) decrease, gossip (54%) and resignations (27%) increase following layoffs. Likewise, according to CIPD's (Chartered Institute of Personnel and Development) Redundancy Survey Report of 2002, layoffs lead decline in morale (52.2%), loss of trust (30.3%) and resignations (13.1%).

However, Penny Swinburne (1981:50), a consultant at Swords-Isherwood Associates, says that some research suggests that all individuals do not negatively react to job loss. Mary Gowan, an associate professor in George Washington University and Robert Gatewood, a professor in the University of Georgia underline the emancipative side of job loss by saying, in brief, that for some individuals, job loss is a liberating experience and can be recognized as an opportunity for career growth (GOWAN, GATEWOOD, 1997:281).

### **3. RETHINK BEFORE TAKING ACTION**

Even if some may find it a liberating experience, downsizing is a menace for many more and probably will continue to threat employer-employee relations if companies handle it as a layoff tool. That is why its image should be reconsidered and recrafted.

Research on financial consequences of downsizing experiences depicts that a minority of firms could attain their goals. Many of them confronted with declining profits, productivity and market share. Share prices performed a similar trend. Poor post-downsizing performance should lead entrepreneurs rethink before taking action. Indeed, this poor performance lies beneath the fact that downsizing is generally misperceived by business world. In contrast with its present view, downsizing is not a simple layoff procedure.

Defenders of downsizing see it obliging for the well-being of organizations despite they affirm the side effects for leavers and survivors. In their perspective, it renews organizations, restores the balances and increases productivity. Hence, they would generate more employment opportunities in the future and could better serve for the stability of economy.

Downsizing does not only mean cutting back employees. It also includes delayering, simplification of jobs, determination of optimal scale for firm, reshaping of organizational strategy and culture, enhancing

leadership by reviewing employee qualifications, decentralization, flexibility and empowerment. Workforce reduction is the most frequent and a short term consequence of downsizing. However, medium and long term consequences lead firms' perspective to pass beyond cost saving and deal with attainment a change in organizational culture and work systems, thus avoid new crisis.

In summary, all potential risks and possible negative outcomes of downsizing should be elaborated, including:

- Employee dismissals would lead a sense of penalization within the organization
- Working with less personnel does not guarantee cost saving
- Net gains may be zero due to financial incentives paid to departing employees and the loss of expertise
- Extra workload to survivors may increase stress and harm productivity
- Downsizing may not be the proper cure for problems peculiar to the organization

#### **4. FIRING: LAST RESORT**

Most downsizing companies use workforce reduction as a first resort. However that does not guarantee the success of the process (CAMERON, FREEMAN, MISHRA, 1991:61). Although there are alternatives, many employers prefer reducing their workforce in case of crisis, restructuring. "Dismissals may damage psychological employment contracts between employees and the employer, if used as a first choice, in case of financial bottlenecks, restructuring, etc." says Ipek Akyıldız. "Alternatives to layoffs should be considered zealously before cutting loose. Today, early retirement, salary cuts and vacation use are usual ways to keep employment steady" she adds.

If RIFs are unavoidable, alternatives such as natural attrition, voluntary separations, encouraged separations, redeployment should be evaluated diligently and involuntary separations should be regarded as a last resort. Natural attrition, which probably causes the least amount of pain for employees, includes freezing of hiring and not appointing new staff to empty positions evacuated by retirement, redeployment, resignation and death. Voluntary separations include resignations and early retirements. Companies may generate cost savings and welcome new ideas by substituting new skills for those who have high seniority.

In order to hasten separations and to suppress performance deterioration within organization, management may encourage employees to resign while promising to remit severance pays. Volunteers can be transferred to other departments or outside companies. Under severe conditions, management may unavoidably stipulate leave without pay, diminish work hours, curtail wages, and transfer employees to other departments or companies. Since involuntary transfers may have adverse effects on employees, companies would better arrange working hours, wages and leaves.

If none of the above choices solves the problem, companies may appeal the last alternative and take on the life jacket. As long as there are not enough jackets many employees would be left in the ship to sink. Nevertheless, there may be some lifeguards or lifebuoys for those left in the ship, which will be mentioned in the forthcoming title. Involuntary separations should be the last solution since they have the most detrimental effects. Not only for those left on board but also for survivors, are layoffs wounding operations.

## **5. TAKE CARE OF STAFF**

Past decades witnessed a tendency that surviving employees would raise their productivity after downsizing since they still have jobs; so that they do not need special care. Even today, firms still do not recognize the importance of survivors. However, special cautions should be implemented for those who stay as well, since aimed achievements are up to performance of survivors and an important reason for failure of downsizing is lack of care to human factor. "Perhaps the most detrimental effect of layoffs on survivors is ambiguity" utters Miss Akyildiz from Lee Hecht Harrison. "This, in turn, influences workers' professional and social life by confusing future plans" she adds.

That is why both laid off employees should be supported in the post downsizing process. Severance pay above legal requirements, career counseling, extended benefits, and outplacement assistance can be offered to laid off employees.

Survivors should be guarded as well. In order to keep key talent in the organization, to preserve organizational productivity and morale some actions can be helpful. First, employees who will be laid off must be selected fairly. Organizational justice is a critical factor in managing

survivors' reactions to layoffs. Secondly, top management should be in open communication with survivors. This would hinder ambiguity and ensure organizational trust. Thirdly, soaring workload should be accompanied by more authority and skills. That is, survivors should be empowered not only with a broader decision making span, but also with necessary technical and managerial skills.

## **6. OUTPLACEMENT DISREGARDED?**

Downsizing and outplacement have been examined by various researches. The strategy that a downsizing company adopts entirely affects the success of the transition process (CAMERON, FREEMAN, MISHRA, 1991: 59); and outplacement can play a strong role in managing downsizing.

Outplacement, a consulting first offered by Bernard Haldane in 1960, is one of the most well-known post-layoff assistance packages. The positive impact on survivors that it produces, public image for the employer organization and factors related to social responsibility render outplacement more attractive tool in employers' point of view. Nevertheless, it has been criticized for disregarding middle managers workers and focusing on top managers. "However today, outplacement has a wider range. Middle managers and bottom line workers are being included in frontiers of the consulting" says Ipek Akyıldız. Indeed, a great majority of companies in United States, Canada and United Kingdom offers outplacement to displaced employees (WOODGER, 1992:31). An answer from outplacement firms for another criticized aspect of consulting is that "it is not guaranteed reemployment assistance; but rather a strenuous effort for speeding up reemployment by donating necessary skills".

Despite the benefits it provides, outplacement is still not very popular in continental Europe, regarding US. "It is said to have one billion USD market worldwide however, it should already have reached some billions" voices Ozlem Ozkanlı, professor of management at Ankara University. Limited expansion in Europe may be due to rigid legal arrangements that restrict mass layoffs and preserve employee rights. The French attitude towards job security and employee dismissals, would present reasonable grounds for the situation. Like some other European governments, the French government plays an active role in safeguarding jobs. Before all, legislation is so strict that, laying

employees off necessitates a bulk of bureaucracy. On the other hand, the enterprise committees have been donated with responsibility to search for alternatives to workforce reduction. Moreover, labor unions have significant weight in influencing employer-employee relations. Last but not the least, an official replacement system in France, known, up to 2002, as the 'social plan' (plan social) which is replaced by 'plan for safeguarding the job' (plan de sauvegarde de l'emploi), is an efficient organization that alleviates the need for private-sector outplacement agencies. Practice shows us, some other European countries like Belgium, the Netherlands, Denmark and Germany have similar official systems.

As for the situation in Turkey, it stands somewhere between the continental Europe and the Anglo-Saxon practices. Neither the legislative background is strict as in France, nor is it liberal as in the U.S that re-employment assistance is primarily given by outplacement companies. We witness the silenced struggle of protectivists and liberals in the labor arena. "The case in Turkey is somewhat different" Akyıldız articulates, "Laws are quite similar to those of Europe but outplacement market has a great potential here since the labor market is dynamic and companies strive for innovating their management styles by importing new tools", she adds. There are about ten consulting firms in the country which offer outplacement assistance, but those whose core competence is outplacement are only three and they are members of Association of Career Management Consulting Firms (AOCFI).

To bolster the demand for outplacement, outplacement firms and legal authorities may undertake some initiatives. Ipek Akyıldız says: "Outplacement is not as distant as it was years ago. Many firms offer it as layoff assistance; however the majority is unfamiliar with the concept. There is still a need for introducing the assistance and promoting its use as a HR tool." There is no doubt that the victims of layoffs need more aid to survive in the job market and outplacement seems to offer the necessary life support tools to those left in the ship.



## CONCLUSION

This paper comes up with three remarks. Firstly, it is a modest way of approach to the present downsizing perception. It has put forward the basic lines of the picture. That's why it does not assert radical solutions to the question. However, it donates the reader with relevant information.

Secondly, supported by the views of practitioners and academicians, the paper attempts to defend that downsizing, theoretically, is not a cost-reduction strategy but one that intends a better-operating organization that will reduce costs in the long run. In line with this, layoff decisions are not directly related with, and must of downsizing. Apart from these, downsizing may not be the solution in request, for sufferings in peculiar with the organization. That's why it may not come up with the desired results.

Thirdly, outplacement is somewhat disregarded in managing layoffs. If downsizing necessitates reductions in workforce, vitalizing some employee protecting arrangements would be helpful both for the employer and the employees. Outplacement is one of the most famous post-layoff packages, and has a three-dimension framework, as regards to its consequences: separated employees (psychological assistance, job search assistance), survivors (comfort, secure future position, loyalty to employer) and the employer (image, social responsibility). Whether the name is outplacement, social plan, or etc., measures towards safeguarding employees' rights and re-employment possibilities would reinforce employment in national and global labor markets.

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Private Discussion(May 2004): Özlem Özkanlı, Associate Professor of Management in Ankara University, Faculty of Political Sciences [ozkanli@politics.ankara.edu.tr](mailto:ozkanli@politics.ankara.edu.tr)

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