Downsizing, Rightsizing or Dumbsizing?: Quality and Human Resources, in the Management of Sustainability.

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“American management adopted quality concepts in order to cut costs and regain international competitiveness. Their adoption of quality improvement practices often paralleled organizational restructuring and employment loss. The fact that some TQM cases have occurred simultaneously with or resulted in downsizing and layoffs makes the effect of TQM a serious concern for workers and other stakeholders” Cameron and Barnett (2000 p. 298)

ABSTRACT

In recent years sustainability has become a ‘hot topic’ and something all organisations want to be seen as being identified with. The twin disciplines of quality and HRM have joined this bandwagon. In HR terms this has meant a shift in emphasis away from human management to resource management with the argument that organisations need to allow the needs and aspirations of individuals to be placed at the heart of the workplace (Gollan, 2004) However, this does not fit with our knowledge of the reality of the contemporary workplace where downsizing remains the order of the day and there are now concerns as to the effectiveness of the post-downsizing ‘anorexic organisation.’ This paper looks at the debates and raises a number of issues for academics and managers in organisations.

INTRODUCTION

The sustainability debate raises a number of issues for organisations to consider when pursuing sustainable human resource outcomes to reinforce corporate profitability and corporate survival, and also to satisfy employee aspirations and needs in the workplace. Human resource sustainability requires the organisation to recognise and place value on human capabilities which take a more holistic and integrated approach to people management. For corporate sustainability, an organisation must recognise, value and promote the capability of its people (Gollan, 2000; Wilkinson et al, 2001).
However, the cost-cutting regime associated with many organisational change strategies of recent years has resulted in the breakdown of the old employment relationship (Redman and Wilkinson 2001, 2005). Human resource sustainability has been advocated by a number of commentators (Gollan, 2000; Dunphy and Griffiths, 1998; Sennett, 1998). They argue that there is a crisis facing the management of human resources with staff turnover increasing, loyalty declining, stress levels rising and productivity growth diminishing.

In this paper the significance of organizational downsizing is discussed and its potential for causing problems for sustainability when mismanaged. We then examine the processes involved. Lastly, the costs of downsizing, in both financial and human terms are discussed.

**DOWNSIZING**

Downsizing is the 'conscious use of permanent personnel reductions in an attempt to improve efficiency and/or effectiveness' (Budros, 1999, p.70). Since the 1980s, downsizing has gained strategic legitimacy (McKinley et al., 2000; Boone, 2000; Cameron et al., 1991). Indeed, recent research on downsizing in the US (Baumol et al, 2003, see also the American Management Association annual surveys since 1990), UK (Chorely, 2002; Mason, 2002; Rogers, 2002, Sahdev et al., 1999), and Japan (Ahmakjian and Robinson, 2001; Mroczkowski and Hanaoka, 1997) suggests that downsizing is being regarded by management as one of the preferred routes to turning around declining organisations by cutting costs and improving organisational performance (Mellahi and Wilkinson, 2004a,b).

Organizational downsizing is thus now firmly established as a central aspect of management practice. However, after a study of the TQM textbooks one could be forgiven for thinking that TQM practice is largely associated with a positively virtuous image in the organization. Righteous managers in TQM organisations devise strategies, manage quality circles, involve employees and solve problems for the mutual benefit of the organization and work force. TQM books and those on change management take an upbeat tone with little reference to the more unpalatable
aspects of downsizing and redundancy. Standard TQM texts make scant reference to downsizing or redundancy (see e.g. Oakland, 2004). Evans and Lindsay’s (1996, p.552) text on TQM has more to say on redundant components than redundant people and advises downsizing to take place before implementing TQM and that management doing ‘anything they can to separate downsizing from TQM effects’ How this is to be done and whether employees are likely to be impressed by this is not elaborated. Revitalizing change is an entirely positive process to do with “rooting out inertia”, promoting efficiency and fostering innovation (Burnes 2004). Downsizing is rather more apparent in the Dilbert books (Adams, 1996), the Doonesbury cartoons (Anfuns o, 1996) and Michael Moore’s journalism (Moore, 1997). When managers do discuss downsizing it tends to be couched in very euphemistic terms (see table 1). However, an examination of managerial practice over the last decade or so also finds a darker side to TQM and management practice in organizational downsizing, with Worrell et al (2000) noting 200,000 notified redundancies in the UK each year.

Perhaps work force reduction is considered to be an isolated and unpleasant element of management practice and one that is best hurriedly carried out and quickly forgotten? The statistics for redundancy and dismissal in the modern world, however, suggest that unpleasant though it maybe work force reduction is not isolated event, rather it is a central aspect of management practice in recent years. Particularly worrying here is the numbers of organizations downsizing who are actually making healthy profits. As Cascio (2002) points out these are not ‘sick’ companies trying to save themselves but healthy companies attempting to boost earnings. Organizational size is no longer a measure of corporate success (Mellahi and Wilkinson, 2004a) and managers such as Jack Welch (known as ‘neutron Jack’) for getting rid of employees with only the buildings intact are celebrated in the management press (Welch, 2001). Downsizing and restructuring are often used interchangeably but organisations can restructure without shrinking in size and vice versa (Budros 1999).

One trigger for increasing interest and attention for downsizing, above and beyond its greater extent and scale than in the past, is that as Sennett (1998:18) notes:
“Downsizings and reengineering impose on middle class people sudden disasters which were in an earlier capitalism much more confined to the working classes.”

Effectively managing work force reduction is thus of increasing importance in management practice not least because of its greater scale and frequency but also because of the potentially serious negative effects of its mis-management. The mis-management of work force reduction can clearly cause major damage to both the organization's employment and business reputations. Damage to the former can seriously effect an organization’s attractiveness with potential future employees by producing an uncaring, hire and fire image. Similarly bad publicity over retrenchment can cause customers to worry that the firm may go out of business or give rise to problems in the continuity or quality of supplies and services and so on (Redman and Wilkinson, 2001, 2005).

There have also been increasing concerns about the organizational effectiveness of the post-downsized “anorexic organisation”. The benefits, which organizations claim to be seeking from downsizing centre on savings in labour costs, speedier decision making, better communication, reduced product development time, enhanced involvement of employees and greater responsiveness to customers (De Meuse et al, 1997, p 168). However, reports suggest that the results of downsizing are illusory. Downsizing has a negative effect on "corporate memory" (Burke, 1997), employee morale (Brockner et al, 1987), distracts social networks (Priti, 2000), causes a loss of knowledge (Cole, 1993), and disrupts learning networks (Fisher and White, 2000). As a result, downsizing could "seriously handicap and damage the learning capacity of organisations" (Fisher and White, 2000: 249). Further, given that downsizing is often associated with cutting cost, downsizing firms may provide less training for their employees, recruit less externally, and reduce the research and development (R&D) budget. Consequently, downsizing could "hollow out" the firm's skills capacity (Littler and Inns, 2003: 93). The chaos at Heathrow in the summer of 2004 was alleged to be the result of over reaction (with 13,000 posts redundant since 2001) to the downturn in the airline industry with the result being shortages on ground staff (Innan, 2004). Some writers draw attention to the 'obsessive' pursuit of downsizing to the point of self starvation marked by excessive cost cutting, organ
failure and an extreme pathological fear of becoming inefficient. Hence 'trimming' and 'tightening belts' are the order of the day (Hancock and Tyler, 2003).

Paradoxically, restructuring has also been seen as a sign of corporate virility and stock market prices boomed in the arena of such plans. However, there is some suggestion from the literature that while shares of downsizing companies have outperformed the stock market for six months there is little evidence to suggest that long run performance or stock prices are improved by job cuts (Hunter, 2000).

The potential negative impact of downsizing is not restricted to those who leave but it has also a major effect on the remaining employees. Such employees are by their very nature now much more important to the employer but are often overlooked in downsizing situations. The impact of downsizing on the remaining employees is such that commentators now talk of “the survivor syndrome” (Brockner, 1992). This is the term given to the collection of behaviours such as “decreased motivation, morale and loyalty to the organization, and increased stress levels and skepticism” that are exhibited by those who are still in employment following re-structuring.

**ALTERNATIVES TO REDUNDANCY**

Employers are often encouraged to consider alternatives to redundancies and to view compulsory redundancy especially, only as a last resort. There is a wide range of possible alternatives to redundancy. These include redeployment, freezing recruitment, disengaging contractors and other flexible workers, reducing overtime, secondments, career breaks, and introducing more flexible working patterns such as job-sharing and part-time work. For example, in the US, Delta Airlines, Lincoln Electric and Rhino Food are often cited exemplars of how adjustments can be made in the use of temporary workers, subcontracting, etc, to reduce the impact of downsizing on core staff (De Meuse et al, 1997, p 172).

Wage cuts as an alternative to job cuts tend to be sparingly used, although there have been a number of prominent examples of this, as a method of cost reduction most notably at Volkswagen in Germany (Pfeffer 1998). In the UK Thomas Cook cut
jobs by 1500 in 2001 and asked staff to take pay cuts of 10% as business collapsed in the wake of terrorist attacks in the USA. Senior executives cut their own pay by 15% and all those earning more than £10,000 had salaries cut by 3-10% (McCallister, 2001).

**DOWNSIZING PROCESS**

Redundancy, despite the practice that managers have had in undertaking it of late, is often badly managed with many negative consequences. In part this may stem from the rarity of formal redundancy procedures. However, there is much to be gained from a humane and strategic approach to downsizing. According to Cameron (1994, 1998), the way downsizing is implemented is more important that the fact that it is implemented. He reports on three approaches to downsizing.

**Workforce reduction strategies** are focussed primarily on reducing headcount and are usually implemented in a top-down, speedy way. However, the downside of such an approach is that it is seen as the “equivalent to throwing a grenade into a crowded room, closing the door and expecting the explosion to eliminate a certain percentage of the workforce. It is difficult to predict exactly who will be eliminated and who will remain” (Cameron, 1994, p 197), but it grabs the immediate attention of the workforce to the condition that exists. Because of the quick implementation associated with the workforce reduction strategy, management does not have time to think strategy through and communicate it properly to employees. This may result in a low "perceived distributive fairness" (Brockner et al, 1987). As a result, employees may be negatively affected by the stress and uncertainty created by this type of downsizing (Greenhalgh, 1983) and may react with reduced organisational commitment, less job involvement, and reduced work efforts (Byrne, 1994; Greenhalgh, 1983). Secondly, **work redesign strategies**, aimed at reducing work (in addition to or instead of reducing the number of workers) through redesigning tasks, reducing work hours, merging units, etc. However, these are difficult to implement swiftly and hence are seen as a medium-term strategy. Thirdly, **systematic strategies** focus more broadly on changing culture, attitude and values not just changing workforce size. This involves “redefining downsizing as an on-
going process, as a basis for continuous improvement; rather than as a programme or a target. Downsizing is also equated with simplification of all aspects of the organization - the entire system including supplies, inventories, design process, production methods, customer relations, marketing and sales support, and so on” Cameron (1994, p 199). Again, this strategy requires longer-term perspectives and is more consistent with the ideas of TQM (Hill and Wilkinson, 1995; Wilkinson et al 1998).

**Three Types of Downsizing Strategies**

<table>
<thead>
<tr>
<th>Focus Eliminate Implementation time</th>
<th>Workforce Reduction</th>
<th>Work Redesign</th>
<th>Systemic</th>
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<tbody>
<tr>
<td>Headcount People Quick</td>
<td>Jobs, levels, units Work Moderate</td>
<td>Culture Status quo Extended</td>
<td></td>
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<tr>
<td>Short-term payoff</td>
<td>Moderate-term payoff Quick payback</td>
<td>Long-term payoff</td>
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<td>Inhibits</td>
<td>Long-term adaptability</td>
<td>Short term cost savings</td>
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<td>Attrition Layoffs Early retirement Buy-out packages</td>
<td>Combine functions Merge units Redesign jobs Eliminate layers</td>
<td>Involve everyone Simplify everything Bottom-up change Target hidden costs</td>
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Source: Cameron 1994.

Cascio (2002) looks at the issue of restructuring and argues that organisations can be divided into two groups with quite different approaches to their staff. One group of firms, saw employees as costs to be cut. The other, much smaller group of firms, saw employees as assets to be developed.

- **Employees as costs to be cut** - emphasis on the minimum number of employees needed to run the company and the irreducible core numbers of employees that the business requires.
- **Employees as assets to be developed** - emphasis on changing the way business is done, so that people can be used more effectively.
As Cascio notes

"The downsizers see employees as commodities - like paper clips or light bulbs, interchangeable and substitutable one for another. This is a "plug in" mentality: plug them in when you need them; pull the plug when you not longer need them. In contrast, responsible restructurers see employees as sources of innovation and renewal. They see in employees the potential to grow their businesses" (Cascio, 2002, p. 84).

Sahdev (2003) suggest that the main focus of HR appears to be in implementing the procedural aspects of redundancy, including fair selection and provision of outplacement services for the leavers. While this is in keeping with the organisational justice approach, the contributions need to be directed towards managing the strategic aspects of decision-making processes with a view to managing survivors effectively. He suggests that HR practitioners need to be influential at both the strategic and operational levels, in order to manage survivors effectively and thereby enable the organisation to sustain competitiveness.

Chadwick et al (2004) confirm that downsizing is more likely to be effective in the longer term when accompanied by practices that reinforce the contribution of HR. e.g. extensive communication, respectful treatment of redundant employees and attention to survivors concerns over job security.

Many problems relate to a low level of trust between those making decisions and those receiving them. A convincing rationale for downsizing is essential as is a degree planning. Having said that the process needs to be dynamic to take account of consultation with employees (Hunter, 2000, p3).

As Hunter notes

"Clarity of purpose, credible, two way communication and attention to the psychological and economic well being of employees are hallmarks of effective downsizing. This should not be a surprise: these characteristics reflect good strategic and human resource management. Organisations that downsize skillfully are likely to be well-managed and it would be surprising if those that are badly managed could master such a process" (Hunter, 2000, p4).
Indeed, the threat of further downsizing may create difficulties in that the most able seek alternative employment.

A number of downsized companies have recognized such problems and have set up training courses for managers in how to deal with downsizing effects, and by providing counseling programmes and help lines. One study found that the response of survivors is closely linked to the treatment received by those laid off (Brockner et al, 1987). Survivors react most negatively when they perceive their colleagues to have been badly treated and poorly recompensed. The implications are clear here for managers; humane treatment of redundant employees has double pay off.

CONCLUSION

We are more aware today that downsizing is not the route to corporate nirvana. As Pfeffer puts it: “downsizing may cut labour costs in the short run, but it can erode both employee and eventually customer loyalty in the long run” (1998, p 192). Research has shown that downsizing has mixed effects on performance. For instance, Cascio et al’s (1997) study of the impact of downsizing over a period of 15 years on performance found that, in all firms studied, reduction in employment was not translated into improvement in performance. There is thus little evidence that downsizing improves long-run profitability and financial performance (Cascio, 2002).

Employment security is often seen as a precondition for the practice of HRM (Pfeffer, 1998) yet as discussed above the trend as been away from secure tenured employment to the slimmed down anorexic organization form of today. But as Cappelli et al note that for new work arrangements to pay off, employment needs to be reasonably stable:

“The investment in learning required to make employees completely competent in new works systems is costly for employers, who recoup the investment only when the systems settle down and start performing well. If employees are continuing moving in and out of these systems, the cost of the investments in learning goes through the roof and cannot be recouped…the work system in which these employees sit while they are
learning are constantly disrupted and never perform well. Downsizings and other restructuring that move employees around inside organizations also disrupt these work systems and seem incompatible with them.” (Cappelli et al, 1997, pp 210-211.)

In the jargon, it appears that to achieve economic effectiveness, downsizing is far from always ‘rightsizing’. Strategic decision makers seem to have forgotten the benefits of growth strategies. Downsizing itself will not fix a strategy that is flawed (Cascio 2002).

Why then do managers persist with downsizing? A number of explanations have been put forward. Firstly, it is increasingly argued that managers have simply become addicted to downsizing because being lean and mean is now fashionable in itself. Downsizing, according to Brunning (1996) has become the “cocaine of the boardroom”. Secondly, rather than a more ‘acceptable’ and appropriate use of downsizing because firms are now more productive or better organized or too bureaucratic and over-staffed, managers are often forced to do so by the markets demands for short-term boosts in profits. Downsizing, even if it does not deliver on profitability over the long term, it seems that the very fact of announcing it can give short term stock gains as investors and market makers respond favourably to such announcements (Worrell et al, 1991). Depressingly, it seems downsizing acts a reassuring signal to markets that managers are ‘in control’ and acting to put things right.

Farell and Marondon (2004:396) suggest that

"managers resort to downsizing because it is simple, generates considerable "noise and attention" in the organisation, and may be viewed by some managers as tangible evidence of their "strong leadership." However, managers that pursue a reorientation strategy, must necessarily engage in the much more difficult intellectual task of deciding how to reorient the organisation, combined with the associated challenges of building support, generating commitment and developing a shared vision."

It seems that the claim of HR and TQM writers that people are an organizations most valuable resource is difficult to sustain in light of how such resources are so wantonly discarded.
THE SANITISATION OF DISMISSAL

Redundancy and dismissal are one area of management practice that particularly suffers from euphemistic jargon. Some of the terms managers use include:

building down
career alternative enhancement program
career re-appraisal
compressing
decruiting
de-hiring
dejobbing
delayering
demassing
deselction
disemploying
downscoping
downsizing
involuntary quit.
lay-off
letting-go
non-retaining
outplacing
payroll adjustment
previously unrecognized recruitment errors
rationalizing
rebalancing
re-engineering
releasing
resizing
re-structuring
retrenchment
rightsizing
separation program
severance
slimming
streamlining
termination
volume-related production schedule adjustment
wastage

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