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Workforce Downsizing: Alternatives and Sustainable Strategies for Survivors'

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Abstract: *Aims to review the literature pertaining to downsizing with an emphasis on the organization level, and establish the sustainable strategy of downsizing, that is, guidelines to the successful implementation of downsizing activities. Addresses these objectives by examining first, how downsizing is defined in the literature reviewed, then discusses the different ways in which or measures by which organizations carry out downsizing activities and the reasons that prompt companies to downsize. Addresses the rationale utilized by firms to downsize, the expected outcomes in terms of economic and human consequences, the approaches to downsizing (reorientation and convergence) and specific strategies such as workforce reduction, work redesign and systemic strategy. Also downsizing tactics, human resources as assets vs. costs, planning, participation, leadership, communications, and support to victims/survivors are examined. Both laboratory experiments and empirical research concerning survivors' reactions are explored. The role of trust of human resource professionals included in this process. Conclusions and recommendations complete the article.*

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I. Introduction

Downsizing activities are undertaken to improve organizational efficiency, productivity and/or competitiveness that affect the size of the firm's workforce, costs and the work processes. Synonym of downsizing includes building-down, de-hiring, de-recruitment, reduction in force, re-sizing and right-sizing. There are several reasons why organizations decide to downsize the workforce. Some of the factors most commonly mentioned include the following- declining profit, business downturn, merging with another organization, resulting in duplication of efforts, introduction of new technology, need to reduce operating cost, desire to decrease levels of management, getting rid of employee deadwood. Too often, organizations embark on a downsizing program without careful consideration of whether there are feasible alternatives to downsizing. Study after study reveals that many downsizings are not well-planned, frequently ignore the linkage between downsizing and the strategic direction of the organization and underestimate the impact of downsizing on the organization and its human resources. And the result shows that surviving employees become narrow-minded, self-absorbed and risk averse. Morale-sinks, productivity drops and survivors distrust management. Downsizing can be a costly strategy for organizations. It is desirable to investigate whether alternatives to downsizing exist. In a number of instances organizations discover that pursuing different alternatives (cutting non-personnel cost, cutting personnel cost, providing incentives for voluntary resignation or early retirement) to downsizing may eliminate the need to reduce the workforce or allow for a less severe downsizing. Companies that simply reduce headcounts, without making other changes, rarely achieve the long-term success they desire. In contrast, stable employers do everything they can to retain their employees.

Objectives:
1. To explore the alternatives of downsizing
2. To explore long-term strategies for effective downsizing
3. Explore how to retain survivors'

II. Review of Related Literature

The aim of this review is to summarize the alternatives of downsizing and successful strategies for long-term development of organization. The body of literature on downsizing is substantial, reflecting its prevalence in countries like the U.S., the UK, Canada, Europe, Australia, New Zealand, and Japan in the 1980s, 1990s, and the early days of the new millennium (Macky 2004); Littler and Gandolfi 2008; Weiss, 2008; Itami and Nishino 2010). This literature has emerged from a number of disciplines and draws upon a wide range of management and organizational theories. While downsizing has developed into a popularist term that has arisen out of managerial press usage (Lindgreen, et al, 2009), it lacks precise theoretical formulation (Mann 2009).

Downsizing is viewed as a planned elimination of positions, and or jobs is a relatively recent management strategy, (Spreitzer and Mishra 2000). This trend has however, become a strategic weapon of mass cleansing adopted by most troubled organisations. Since the 1980s, many organizations have fallen under as a result of several reasons such as mismanagement, bankruptcy; high levels of competition, etc, much more organizations were known to have gone under before and after the recession. Moreover, downsizing often rears its ugly head in other areas such as the times of mergers and acquisitions. These have often been blamed on the recent advent of the internet and the outcomes of living in a globalized world where organizations struggle to continually adjust their products and services, as well as prices and costs of labor to stay not just competitive but profitable. Downsizing in its most extreme form may turn into an across the-board cut in personnel (Noer 1993) or a re-focus on core businesses and a disposal of peripheral ones (Smithikrai 2007). The majority of downsizing research has been conducted in the U.S. (MacKenzie, et al., 2001). Still, the contraction of workforces has not been confined to U.S. firms, but has occurred throughout the world (Littler, and Gandolfi 2008). Empirical evidence shows that downsizing and its many related concepts has been particularly pervasive in International Journal of Research in Management, Science & Technology (E-ISSN: 2321-3264) Vol. 2, No. 1, April 2014 Available at www.ijrmst.org 2321-3264/Copyright©2014, IJRMST, April 2014 3 North America (Hopkins and Weathington 2006), Britain (Boerner, et al., 2007), Canada (Casio, 2002), Europe (Lamsa & Takala, 2000; Gandolfi, 2007), Japan (Griggs & Hyland, 2003), Australia, (Gandolfi and Hansson (2010), New Zealand (Macky, 2004), South Africa (Littler, 1998), Eastern Europe (Redman & Keithley, 1998 and China (Guo and Miller 2009). Downsizing is also prevalent in countries that have been moving from a state-dominated to a market system, such as countries in Latin America, Russia, and Eastern Europe, where privatization activities often bring about the need to reduce firms‟ headcounts (Macky, 2004). Downsizing has even become common in industrialized countries, such as Japan and Sweden, which have historically shown to have very stable employment practices (Weiss 2008). Downsizing is also affecting China which has become one of the world‟s foremost manufacturing hubs. In 2003, over 25 million Chinese lost their jobs from the transformation and privatization of state-owned-enterprises (Williamson 2010). In its most narrow sense, downsizing can be viewed as a set of activities introduced to make a firm more cost-effective. While downsizing is viewed as a complicated, multifaceted phenomenon (Gandolfi, 2006), it has generally been adopted either reactively or proactively (Macky, 2004). To put a single downsizing cause forward is problematic and underrates its inherent complexity. Each downsizing decision is likely to constitute a combination of company-specific, industry specific, and macroeconomic factors (Elstein 2008). Firms frequently justify downsizing through the emergence of deregulation, globalization, merger and acquisition (M&A) activities as it was with the Nigerian banks under review, global competition, technological innovation, and a shift in business strategies in order to achieve and retain competitive advantages (Dolan and Belout 2000).

A Case Study

Brief history of distress in the Nigerian Financial System The manifestation of distress in the banking sector was officially pointed out by the World Bank team that examined the financial sector shortly before the NDIC became operational in 1989 (Soludo 2008). Soludo (former Governor of CBN) stated that by 1993, more than 66 banks in the country were reported to be in distress while some are terminally distressed. According to NDIC report, as at 1994, some of the banks licensed between 1989 and 1991 were among those reported to be distressed (CBN 2009). The first International Journal of Research in Management, Science & Technology (E-ISSN: 2321-3264) Vol. 2, No. 1, April 2014 Available at www.ijrmst.org 2321-3264/Copyright©2014, IJRMST, April 2014 4 hammer of liquidation fell on the likes of the then Alpha Merchant Bank, Kapital Merchant Bank, Republic Bank, Financial Trust Bank and United Commercial Bank Ltd. These banks were liquidated in 1995 while CBN/NDIC took over the management of another 37 banks that same year (CBN 2009). A joint study of distress in the Nigerian Financial sector conducted by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Scheme (NDIC), confirmed the general views of experts and financial analysts that distresses in Nigerian banks was precipitated by a complex set of inter-related problems that had for long afflicted the industry (CBN 2006, 2007, 2009 and NDIC 2011). These include among others:

- Poor management accessioned by lack of experience, greed and get rich quick syndrome of the society.
- Inhibitive political environment
- Capital inadequacy
- Ownership structure and political interference in the management of government owned institutions and their indebtedness to banks
- Widespread incidence of non-performing loans arising from economic downturn, poor lending and borrowing culture and poor credit appraisals.

In January 1998, 26 banks were approved for liquidation bringing the total of liquidated banks to 31 while 10 remain distressed and under the management of CBN and NDIC (CBN 2007, NDIC 2009). As at June 1999, two out of the ten banks, that is, Commercial Bank of Africa (then Fortune International Bank), and Rims

Merchant bank Ltd, then Asset Plus Bank Ltd) were restructured and recapitalized (NDIC 2010). In the light of these developments, one can assess the effectiveness of the Nigerian Deposit Insurance Corporation in ensuring the maintenance of sound and safe banking practices in the country, as well as maintaining customers‟ confidence and creation of a level playing field for the practitioners (CBN 2009). Effect of distress of banks in the Nigerian Financial System Following the Structural Adjustment Programme (SAP) of the then Military President, General Ibrahim Babangida‟s administration and the financial liberalization policies, private individuals floated several banks (NDIC 2009); a crucial economic function which was hitherto left for the government and foreigners. According to the NDIC Annual Reports and Accounts (NDIC 2010), by December 31, 1993, the country had 66 commercial banks with 2270 branches. And 54 merchant banks with 137 branches operating in Nigeria, employing more than thirty-five thousand graduates and professionals – this was the banking boom of the Babangida‟s administration and the second in the history of the country. Ayo (2006), Okpara (2009) and Adesina and Ayo (2010) stressed that the first experience of the banking boom was in the early 1930s when most of the banks collapsed before 1960 except four. The role of banks in financial matters received a boost within this era. People became more aware of the activities of banks and the opportunity for economic growth arising from patronizing them (CBN 2005). According to the Annual Reports and Accounts of NDIC for the year ended December 31, 1998, cited in NDIC (2009) the number of banks as at that date has reduced to 51 commercial banks with 2007 branches and 38 Merchant banks with 113 branches and 31 of them are already in liquidation; meaning that the Nigerian economy had the unfortunate privilege of passing through the trauma of bank failures for the second time. It was however reported that so many bank customers lost all their savings and many small businesses folded up (Okpara 2009). The deduction from these may have accounted for the reasons for the huge loss of interest in the banks and many Nigerians are not interested in putting their hard earned money in the banks. Before the creation of the NDIC, customers are often left with nothing when a bank becomes distressed, thereby losing all they had saved (Okpara 2009). D. Changes in Nigerian Banking Industry Banks all over the world are witnessing changes that have resulted from globalization and technological innovations. Nigeria banks, according to Oke, (2006) and Okpara (2009) like their counterparts in other parts of the world, are known to operate multiple branching systems that are commercially oriented. However, the most noticeable changes in the Nigerian banking industry occurred in 2001 when there was a drastic decline in the value of the naira from N113 which was equivalent to a dollar to N126 (Okpara (2009). The decline in the naira value caused Nigerian foreign exchange reserves to fall from 10.27 billion dollars to 8.29 billion dollars (Oke 2006). However, the Nigerian banking sector was dominated by the large four banks - First Bank of Nigeria Plc, United Bank for Africa Plc, Union Bank of Nigeria Plc, and Afribank Plc; each bank including the new entrants were required to maintain a minimum holding at CBN of N2 billion from 2001 (Ezeoha, 2006a, NDIC 2009). Okpara (2009) stressed that this decision did not last long because it led to the creation of many weak banks, making it difficult for these financial institutions to finance major investments in the economy and lending was also poor. It was also a difficult task for the regulatory authorities as it made regulation more difficult and allowed corrupt businessmen to set up bogus banks with no solid financial base and little or no financial management experiences. This undoubtedly tainted the Nigerian banking industry; resulting in the greatest criticism of the Nigerian banking sector from the international community due to increased number of weak banks operating in the country (Ford, 2006). As a result, the government took steps to International Journal of Research in Management, Science & Technology (E-ISSN: 2321-3264) Vol. 2, No. 1, April 2014 Available at www.ijrmst.org 2321-3264/Copyright©2014, IJRMST, April 2014 5 consolidate the banks and instituted laws whereby no individual or group of individuals could establish a bank without an initial deposit of N25 billion with the Central Bank of Nigeria (Oke, 2006; Soludo, 2008; CBN 2010). The minimum deposit was subsequently raised to =N=25 billion in 2005. Okpara (2009) stressed that the capital adequacy standard was designed to address and checkmate the intentions of the business moguls who intend to open a bank in one year and fold the next year. As Oke (2006) emphasized, to support the newly instituted laws, these measures were rigorously pursued. This is because a very important function of capital in a bank is to serve as a means of absorbing loses (Soludo (2008), thereby, providing the capital protection for the depositors and creditors during the period of failures. Therefore, the capital requirement for banks with CBN may help to restore customers‟ confidence in the banking system; furthermore, CBN‟s action of raising the minimum financial holding from N2 billion in 2001 to N25 billion in 2005 was widely accepted and it was hoped that it will result in stronger banks in Nigeria (Soludo 2008; CBN 2009; Agwu and Carter 2014). According to Central Bank of Nigeria, (2010) report, the action has resulted in strengthening the lending ability of banks in terms of financing major projects in various sectors of the economy, especially the oil and gas industries as well as infrastructures and other sectors such as telecommunications, as well as helping the banks in diversifying their service delivery channels. However, with the minimum financial holding requirements of =N=25 billion, the number of banks in Nigeria was reduced from 89 to 25, and the banks are now able to maintain 93.5% of the deposit liabilities of the banking system (Central Bank of Nigeria, 2007, 2009). The reforms assisted in putting the banks in a better position to develop new technologies that will assist them to improve the ways they do business as well as the banking environment (Agwu and Carter 2014). Okereke (2007) and Okpara (2009) argued that foreign investors will be more prepared to do business in Nigeria with banks that is solid and managed by banking experts – this is because, the soundness of the banks determines the economic progress of a country.

A Conceptual Framework of Sustainable Strategy for Survivors'

Downsizing Strategies
• An expressed higher commitment to the job security
• An ideology based on progressive decision making
• An entrepreneurial spirit within the organization
• Investment in training, new technology and a quality management/ customer/ client focus
• The manner in which the workforce reduction was carried out

Organizational Outcome
• Trustworthy management
• Psychological contract between employer and employee
• Higher organizational productivity

Survivors' Outcome
• Positive attitude and behavior
• Increase performance capabilities

Alternatives to Downsizing

- Cutting non-personnel cost (through energy conservation, planned capital expenditures, leasing of capital equipment, reduction in travel or club membership)
- Cutting Personnel cost (through hiring freeze, job sharing, a reduction in work hours, reduced benefits, wages concessions)
- Providing incentives for voluntary resignation or early retirement

Summary of Best Practices

- Downsizing should be initiated from the top but requires hands-on involvement from all employees
- Workforce reduction must be selective in application and long-term in emphasis
- Special attention should be paid both to those who lose their jobs and to the survivors who remain with the organization
- Decision makers should identify precisely where redundancies, excess cost and inefficiencies exist and attack those specific areas
- Downsizing should result in the formation of small, semi-autonomous organizations within the broader organization
- Downsizing must be a proactive strategy focused on increasing performance

Downsizing strategies

Within the downsizing literature, there are three common strategies that firms adopt to downsize: workforce eduction, work rede-sign, and systemic strategy. Each will be examined:

1 Workforce reduction strategy. Workforce reduction, often the first choice of strate-gies for firms that downsize, is generally thought of as a quick fix, short-term ``grenade'' type solution and includes transfers, outplacements, retirement in-centives, buyout packages, layoffs, and attrition (Cameron, 1994a; Cascio, 1993; Feldman and Leana, 1994; de Meuse et al., 1994). Attrition, induced redeployment, involuntary redeployment, layoffs with outplacement assistance, and layoffs without redeployment assistance are the five ways in which to implement work-force reduction (Greenhalgh et al., 1988; Wagar, 1997). Each method provides the Downsizing strategies Within the downsizing literature, there are three common strategies that firms adopt to downsize: workforce reduction, work rede-sign, and systemic strategy. Each will be examined:

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III. Discussion and Conclusion

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- the downsize was necessary for survival;
- personal employment was guaranteed for a certain period of time; and
- managers could be trusted and would be fair,

Employees were the most adept at finding ways to eliminate the fat and improve efficiency and would plan ways to implement the necessary changes. In New Zealand, the CEO of Coverbolt had shopfloor employees asking him what took so long to make the workforce reductions in non- productive areas. The employees were actively involved in advocating the staff reductions. By considering all the influencing factors on the decision and plan to downsize, management should formed a framework for its implementation which complements the corporate strategy. In evaluating after the downsize, management must ask: "Have we achieved the structure required? Has the required structure changed since we started?" If the answer to the second question is "yes", then: "Are we flexible enough to cope with the change?" If not, then management needs to review the implementation and adapt the strategy. Downsizing is not, however, a reiterative business operation. If it has not achieved a radical change in the way a business operates, then it was not well constructed or was unnecessary in the first place. Alternatively, it may not have been radical enough. An attempt to make a downsizing process effective through a "second bite" is almost certainly doomed to failure.

Conclusion

The objective of downsizing should be to raise productivity per head. Strategic downsizing can achieve this – layoffs cannot. It is possible to plan to reduce a workforce. In the absence of severe financial and environmental factors, which usually dictate an immediate layoff, downsizing can be carried out with the full commitment of the workforce to the long- term benefit of the company. The key areas in the implementation are communication, employee involvement and proper preparation. If the downsize is to be successful and strengthen the company′s competitive position, it must succeed first time in order to gain credibility with customers, suppliers, investors and, most importantly with the survivors'.

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