

THE STAGES OF DOWNSIZING PROJECT

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Abstract. *This paper deals with the main stages in downsizing project which should be realised in order to achieve benefits through it. There are also mentioned some causes of downsizing processes in organizations and difference with some similar terms.*

Key words: *downsizing , project, organization, difference*

1. INTRODUCTION

In developed countries the strategy of downsizing has been used widely since the 1960s as a reactive answer to economic difficulties in some enterprises. In the late 1980s the strategy of downsizing was adopted and implemented as a reactive response to "organizational bankruptcy or recession". In the 1990s, according to some opinions, downsizing has become proactive strategy of restructuring in order to achieve higher level of competitiveness and new organizational structure. The target of downsizing has been changed, also. In the 1960s and 1970s the unskilled blue-collar workers and lower-level white-collar workers have been the primary targets. Now, empirical evidence shows that white-collar workers, professionals and middle managers have become new downsizing targets.

Downsizing has almost become a way of functioning for many organizations. However, the results are mixed. In order to achieve positive results, this process should be managed and many activities should be done.

2. DIFFERENCE BETWEEN DOWNSIZING AND OTHER SIMILAR TERMS

There are many definitions of downsizing, but in summary, we may agree that downsizing is reactive and defensive or a proactive and anticipative strategy that impacts company's size, costs, work processes and culture [1,p.4].

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Downsizing has some important attributes that help clarify the difference between downsizing and other terms. These important attributes are [2, p.12]:

- downsizing is an intentional process,
- downsizing usually involves reductions in personnel,
- downsizing is usually focused on improving the efficiency or effectiveness of the organization,
- downsizing affects work processes wittingly or unwittingly.

Distinguishing downsizing from decline. Decline has been variously defined in the literature as shrinking markets, maladaptation to a changing environmental conditions, stagnation, deteriorating organizational performances, etc. So, decline happens to an organization, it is unintentional process. Decline also differs from downsizing for decline does not necessarily produce a reduction in personnel, in either relative or absolute terms. In brief, downsizing and decline are different terms. Organizations can downsize without declining, and they decline without downsizing.

Distinguishing downsizing from growth-in-reverse. Because the opposite of downsizing is growth, some authors have assumed that downsizing is synonymous with growth-in-reverse, that is, downsizing is associated with the opposite dynamics of organizational expansion (less specialization, decentralization, etc.) But, these organizational outcomes are not necessarily associated with downsizing.

Distinguishing downsizing from layoffs. A common manifestation of downsizing is the layoff of employees, that is, terminating workers with or without advance notice. Because layoffs have traditionally been the first process used for downsizing, some authors have treated layoffs and downsizing synonymously. But downsizing represents a conceptual issue manifested as proactive or reactive strategies, while layoffs and other approaches refer to the operational mechanisms used to implement a downsizing strategy.

Layoff is used generically to refer to all involuntary employee reductions for causes other than performance. Layoff in this sense does not imply that the employee may be recalled when business improves. Other common terms that convey the same meaning are reduction-in-force and termination [3, p.12].

3. FACTORS THAT INFLUENCE DOWNSIZING

There are many factors that influence downsizing. We may divide them in the four main groups, such as [4, p.3]:

1. rational organizational factors,
2. rational extra organizational factors,
3. irrational organizational factors,
4. irrational extra organizational factors.

1. The most prominent reasons to organizational downsizing have been presented by authors driven by economic/rational paradigm. Their main argument consist on the firms downsize in order to reduce costs and improve efficiency and profitability. Key assumptions underlying the economic/rational paradigm are that firms are rational, self-interest driven. Rational organizational theorists view organizations as efficiency driven systems that adapt strategies in response to complex environment and to maintain internal activities.

Some of the main rational organizational causes of downsizing are: consolidations due to mergers and acquisitions, large investments in new technologies, size of the firm, etc. Downsizing rates will be higher among firms that execute consolidations due to mergers and acquisitions because it causes the personnel redundancies. Similarly, firms that make large investments in labour-saving technologies will have higher downsizing rates than those that make smaller investments in these technologies. Finally, larger firms have higher downsizing rates than smaller ones. The logic for this suggestion is that large firms are usually inefficient, which motivates them to lay off workers.

2. Rational organizational theorists assume that firms react to environmental conditions, too, by adapting their structures in order to maintain internal efficiency. They usually focus on factors such as: shareholder values, unfriendly acquisitions deregulation and economic turbulence. These authors sustain that firms with smaller shareholder values have higher downsizing rates than those firms with larger values. Second, since unfriendly acquisitions usually cost managers their jobs, managers discourage stockholders from accepting takeover by increasing efficiency through work force reduction. Third, firms in deregulated industries have higher downsizing rates than those firms operating in regulated ones, since the first group is usually forced to increase efficiency facing with open competition.

3. According to irrational organizational theorists, firms are effective-oriented systems that adapt operations to internal or external pressures in order to obtain employees loyalty. Therefore, downsizing rates should be lower among employee-centered firms than among those that are less employee-centered. But, there are not enough empirical evidences that take organizational culture into account as a key factor of downsizing.

4. Institutional theorists take into account the influence that the external environment may have on the adoption of downsizing project. There are few propositions that encompass the impact those external irrational factors on downsizing.

According to them, downsizing rates will be higher among firms with many interlocks with past downsizers than among ones with less interlocks with downsizing firms. Second, as the percentage of downsizers with elite economic standards rises, the downsizing rate will rise too. Finally, downsizing rates will be higher in industries that are highly competition oriented than in industries that are less competition oriented.

4. DOWNSIZING PROJECT

According to many studies, the expected benefits of downsizing are not always achieved. One of the most prominent reason for that is unwell preparations for this process. A successful downsizing process require planning that begins long before the formal announcement.

Downsizing project consists of four stages. These are [5, p.83-95]:

1. making the decision to downsize,
2. planning the downsizing,
3. making the announcement,
4. implementing the downsizing.

Each of those stages, consists of many activities, which will be explained.

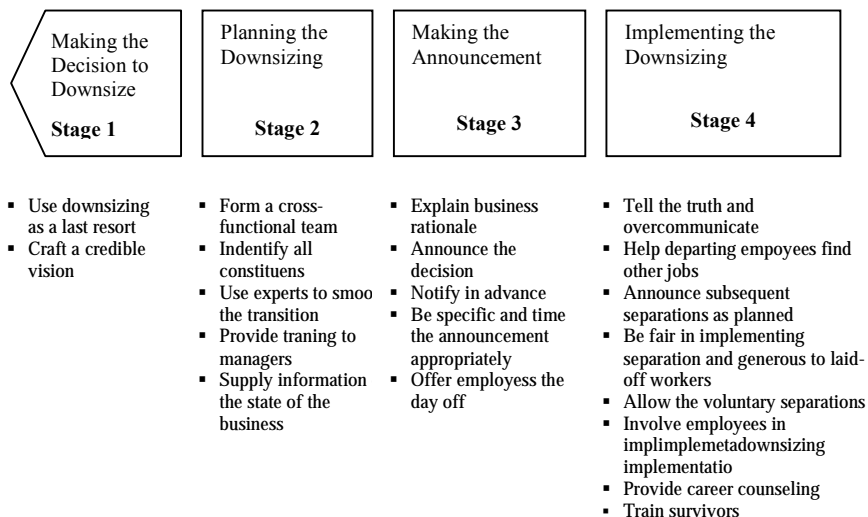


Fig. 1. The stages in downsizing process

Source: Mishra K., Spreitzer G., Mishra A.: "Preserving Employee Morale during Downsizing", *Sloan Management Review*, Winter 1998., p. 89.

4.1 Making the decision to downsize

The first step in downsizing project is the decision to downsize. But, before making that hard decision, it is important to investigate all possible alternatives and **use downsizing as a last resort**. Empirical evidences show that some companies have successfully implemented various alternatives, such as: freezing hiring, overtime restriction, freezing salary, pay cuts, elimination of bonuses, shortening workweeks, unpaid vacations, etc.

By *freezing hiring* the workforce stops growing and began to decrease as employees voluntarily leave, retire or die. This practise may be too slow for some companies, but it causes the least amount of dissatisfaction for employees. But, if some key employees leave, some selective hiring may be necessary to maintain needed skills.

Reducing or eliminating overtime is one of the first methods used by many companies to avoid layoffs. Reducing overtime has at least two benefits:

1. It brings lower cost to company because working during overtime work is more expensive,
2. Reducing overtime work may allow spreading some of the work among more workers who might otherwise be laid off.

Freezing or reducing pay or benefits is another practice for cutting costs and avoiding layoffs. For many firms in Japan one of the first option is cutting bonuses and layoffs are the last option.

Encouraging employees to take unpaid vacations or unpaid voluntary leave or absence is practice used by many companies to avoid layoffs. The work of those who are on vacation is done by other employees who might otherwise be laid off. According to survey of 1,204 firms by Right Associates (management consulting firm), 82 per cent com-

panies had used vacation leaves without pay as a way to prevent layoffs. 67 % of these 82% reported better competitive position because they used vacation without pay [6, p.576-597].

Encouraging voluntary leave by providing inducement of various types is common method of downsizing without layoffs. Usually inducements include cash payment. For some employees this is an attractive opportunity. For example, people who are close to retirement, or who wish to pursue other careers (self-employment), are some of the employees who could be interested to end their employment voluntarily. The bad side of this method is that it could be very costly for the company. Also, employees who agree to leave may be the ones the company must not lose.

If the company considers all possible alternatives and find that they could not help to achieve company's goals, it should consider forced layoffs and make **the decision to downsize**.

The reasons for downsizing need to be clearly defined by management. Also, the decision to downsize should never be a short-term solution. It must be integrated into company's vision that makes clear how downsizing will create a competitive advantage. The vision will help employees to understand why downsizing is necessary. It also helps employees to see a real future for themselves in the company.

4.2. Planning the downsizing

Before making the announcement of downsizing it is very important to make implementation plan. The research shows that almost 50 percent of the effort to implement downsizing should be done before the downsizing announcement [5, p.87]. Some of the issues which have to be considered within planning the downsizing include [7, p.40]:

- What is the focus of the downsizing strategy?
- Who should implement the downsizing process?
- How should the leavers be identified?
- What compensation will leavers receive and when will they receive it?
- How and when will the stayers' jobs be reorganized?
- What training will be necessary?

It is obvious that planning the downsizing requires many activities to be realized. In order to do this stage successfully, it is necessary to do activities such as:

- a) form a cross- functional team,
- b) identify all constituents,
- c) use expert if it is needed,
- d) provide training for managers,
- e) supply information about the business, etc.

a) The team which will plan and implement the downsizing project should consist of many specialists who come from many functions: human resource, operations, finance, public relation, etc. The team should represent the interests of all members. Also, the team members should divide up the responsibility for communication to stakeholders.

b) One of the first tasks of the team is to identify constituents who are affected by downsizing and to include their interests in implementation plan. The constituencies include: employees who will be laid off, survivors, shareholders, the community, etc.

c) If there are some areas about which the team does not have enough information or knowledge (job retraining, financial counseling, etc.) it will be necessary to engage experts from the outside. Outplacement companies can help employees to find new job quickly. Other firms can do financial counseling to laid off workers. Using outside experts may also increase survivors' trust, because the management is honest and admits that it does not know all the answers.

d) By providing training for managers, they become able to communicate the downsizing convincingly, gain skills to deal with emotions of laid off workers, etc.

e) By sharing information about the business employees will have full knowledge of the company's finance and its activity and downsizing will become less a crisis and more an expected solution [5, p.88]. Also, sharing sensitive financial or competitive data ensures employees that they can trust the management to be open and honest.

4.3. Making the announcement

The main activities at this stage are: explaining business rationale, announcing the decision and notifying benefits.

First, the management should explain the reasons for downsizing and the implementation process. By explaining the necessity of downsizing (caused by market changes or unanticipated decrease in product demand or technological changes), management can help employees see that downsizing is not caused by their contribution.

The company should make the announcement simultaneously to all constituencies. It is not good if employees hear about their company's downsize from other sources (newspaper, television, etc.). Announcement should give information about downsizing benefits, separation process and the benefits and services for those who will be laid off. Also, at this stage it is important to communicate the company's vision so that the employees who stay will know how downsizing will help the recovery of the company and to see themselves in companies' future.

4.4. Implementing the downsizing

The first three stages are very important for the effective downsizing, but the fourth stage is where former preparation and promises are to be realized.

The key areas in the implementation stage are communication and employee involvement. [7, p.44].

At this stage it is important to tell the employees the truth about all their concerns and needs. The best is face-to-face communication. By honest answering, the management builds trust and the sense of necessity.

A well implemented downsizing process requires the employees involvement, too. Remaining employees often have good ideas about restructuring their jobs and improving internal processes, so they should be involved in implementation phase. »A well-implemented downsizing focuses not only on removing employees but also on changes in work design" [5, p.92]. By involving in work redesign, survivors feel that they control their future.

At this stage it would be good to provide career counseling for laid off employees. This is important for survivors, too. Survivors will judge a company's future interaction with them on how fairly it treats laid off employees. If the company treats the laid off

workers well, the loyalty, productivity and commitment of the remaining employees will raise.

Many companies have good practice in supporting laid off employees. For example, Minnesota Mining and Manufacturing has the practice to put on the special list the people whose jobs are eliminated. If any job for which they are qualified appears, it will be given to them. During 10 years period more than 70% of the employees whose jobs were eliminated, have found work within the company [6, p.576-597]. Also, AT&A established an internal staffing service to fill management and technical positions with employees whose jobs were planned for elimination because of downsizing.

There are some opinions that many companies spend too much money and time in helping those who are laid off and relatively little attention to those who remain (survivors). But those who remain are very important for the company's future.

To avoid negative phenomena which are usually connected with survivors («survivors` syndrome»), companies should organize survivor programs. It will help employees to deal with the change and to accept responsibility in the restructured organization.

If the company uses new technology, it might be necessary to organize training for remaining employees too. Training should make them more competent, empowered and secure.

5. CONCLUSION

The downsizing has become the usual form of restructuring organizations. But the empirical evidence shows that the downsizing outcomes are mixed. They might be positive and negative. It seems that downsizing is not always the appropriate approach. So, before making the decision to downsize, other alternatives should be considered. However, if the downsizing is necessary, in order to avoid or minimize negative consequences, this process should be managed appropriately through all stages.

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FAZE PROJEKTA DOWNSIZING-A**Radenko Milojević, Biljana Đorđević**

U ovom radu se govori o fazama projekta downsizing-a koje treba realizovati, kako bi se ostvarili određeni efekti. Takođe se razmatraju neki uzroci downsizing procesa u organizacijama i razlike između nekih sličnih termina.

Ključne reči: *downsizing, projekat, organizacija, razlika*