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The Kinder Cut: A Macro Communication Strategy for Delivering News of Job Termination

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Executive Summary

A Voluntary Retirement Scheme (VRS) ought to be good news for employees; it gives them the freedom to retire early with a substantial sum of money, tax free, as compensation. But, in many Indian companies, VRS is retrenchment through the backdoor. Employees identified as redundant or undesirable are pressured to leave. That they have been 'selected' for VRS can be devastating news for them especially when finding alternative jobs with similar remuneration and social status is difficult. This paper explores the communication strategies that employers can adopt to deliver well the bad news of job loss.

Researchers have been studying the role of communication in softening the blow of job termination. Their discussions tend to be around *micro* communication strategies that depend largely on the verbal component of the complex communication process. This paper illustrates and recommends a *macro* communication strategy that would:

- actively deploy several mutually reinforcing non-verbal as well as verbal moves, especially a range of management actions that work down employee expectations
- help employees perceive as fair both the company's decision to downsize and the manner of downsizing.

A review of several studies of perceived fairness prompts one to conclude that perception of distributive, procedural, and interactional justice helps people accept a variety of unpleasant experiences without anger. If they perceive procedural and interactional justice, they may even overlook low distributive justice. This paper identifies employee expectations that have to be met or worked down by organizations to facilitate the perception of fairness in their job termination. These include:

- absence of viable alternatives to downsizing
- adequacy of notice of termination
- objectivity and transparency in selecting employees to be terminated
- humaneness in the way the downsizees are treated.

As culture and tradition largely determine the scope of some of these and similar expectations, this paper touches upon what Indian employees expect in the event of downsizing.

This analysis is followed by a brief discussion of the way three Indian companies of different sizes – Pennar Industries Limited, Pennar Investor Services Private Limited, and Everest Limited – downsized. In the first two cases there was no litigation, violence or strike although the compensation paid was well below the employees' original demand. In the third case there was litigation although an attractive compensation was offered to employees opting for VRS. The first two used a macro communication strategy that conveyed convincingly to the survivors and downsizees alike that

- the decision to downsize was unavoidable
- the low compensation offered was fair under the given circumstances
- the company was treating the downsizees humanely.

The third company relied largely on a micro communication strategy driven by logic and data; it did achieve its target of personnel reduction but failed to convince the employees of its fairness.

KEY WORDS

Bad news

Communication Strategy

Downsizing Communication

Fairness Perception

Pink Slip

VRS

The pink slip is generally bad news for employees because it pushes them out of an organization before they are quite ready to quit. Job loss can be devastating for those who have organized their lives around what they believe to be a permanent job, those who are unlikely to get work that pays as well as the lost one, and those who cannot meet their social obligations without a steady job. Millions of people working for different kinds of organizations in different capacities the world over have lost their jobs during the last 15 years because of downsizing[1] of organizations brought on by a host of factors including globalization, introduction of market economy in protected areas, and the scorching pace of advances in technology (Appelbaum and Lavigne-Schmidt, 1999). Although millions of new jobs have been created in the same period, such statistical equilibrium does not take away the pain and anger individuals feel about losing their jobs.

Researchers have been stressing the role of communication in softening the blow of downsizing (e.g. Thornhill and Saunders, 1998) and divestiture (Gopinath and Becker, 2000). Similarly, the US Government's (1997) Benchmarking Study Report on downsizing identifies "honest and open communication" among the best practices. There is plenty of criticism of inappropriate ways of communicating job loss (e.g., Brockner, 1992; see also cases cited in Wanberg, Bunce and Gavin, 1999). Equally available is a rich variety of advice on how to communicate job loss (e.g., Gosset, 1999; Peace, 1991; Robbins, 2001).

These discussions and recommendations tend to be around what could be called *micro* communication strategies that focus only or largely on the verbal component of the complex communication process. While they are undoubtedly useful, we shall argue for a *macro* communication strategy that would actively deploy several mutually reinforcing non-verbal as well as verbal moves, especially a range of management actions that work down expectations of employees and get them to perceive as fair both the decision to downsize and the manner of downsizing. A well-executed macro communication strategy will help employees receive the bad news of job loss without anger towards the terminating organization and the executives who deliver the news. Severance compensation helps but may not be critical; this is illustrated with two cases of downsizing where little or no compensation was paid to the downsizees.

PERCEIVED FAIRNESS: A BRIEF SURVEY OF STUDIES

According to Adams' (1965) equity theory, perception of inequity leads to a tension that, in turn, may result in anger or guilt and prompt reduction of the tension through different behaviours, mostly undesirable. Several scholars (e.g. Greenberg, 1990) have elaborated on its distributive, procedural, and interactional dimensions. Distributive justice focuses on the outcomes; procedural justice deals with the processes employed to arrive at those outcomes; and interactional justice is about the interpersonal sensitivity with which the processes are performed.

Reviewing studies on the role of explanations in employment rejection letters from the perspective of Folger and Cropanzano's (1998) fairness theory, Gilliland *et al.* (2001) conclude that explanations that reduce perceptions of unfairness are likely to increase rejected candidates' intention to apply again for positions in future and to recommend the organization to others. They find evidence for "the basic tenet that explanations that decrease the likelihood of imagining a more favorable situation (i.e., a counterfactual) increase perceptions of fairness."

In his experimental study, Williams (1999) notes a significant correlation between anger and perceptions of low distributive justice. He cites several studies to show that processes and procedures may be as important as outcomes in fairness perception; if employees are allowed a role ('voice') in the decision process and given information justifying the outcomes, they are likely to perceive the outcomes as fair. Cox (2000) asserts that employees will accept a pay system as fair if they perceive procedural and interactional fairness in its design and management. She argues that letting employees participate in the process of determining the pay system (interactional justice) may be more important than distributive outcomes. When a manager uses hard influence tactics constituting unfair treatment, subordinates resist it; but when they perceive interactional justice, their resistance weakens (Tepper *et al.*, 1998). This conclusion is supported by studies in other areas too. Customers who complain about poor goods, for example, will repatronize the shop if they perceive distributive, procedural, and especially interactional justice in the seller's behaviour (Blodgett and Hill,1997).

If downsizees perceive their termination as fair, they will display "higher willingness to endorse the terminating organization and less desire to sue that organization, even after reemployment" (Wanberg *et al.*, 1999; see also Bies; 1993; Naumann *et al.*, 1998).

As Thornhill and Saunders (1998) and Grunberg, Anderson-Connolly and Greenberg (2000) observe, even survivors may feel guilt or lose commitment to their organization if they perceive unfairness in management decisions and procedures related to downsizing. Perception of procedural justice tends to reduce the negativity of both survivors and victims of layoff (Brockner *et al.*, 1994; Bies, Martin and Brockner, 1993; Bennett, *et al.*, 1995; see also Grunberg, Anderson-Connolly and Greenberg, 2000). This applies even to "short-term survivors" (employees working during the layoff notice period), as Naumann *et al.* (1998) discovered in an American manufacturing plant.

FAIR DOWNSIZING

In their review of literature on downsizing and management of redundancy, Thornhill and Saunders (1998) refer to the application by Brockner (1992) of the equity theory to downsizing. Brockner had identified the following as important determinants of survivors' perception of the fairness of layoff: the need to downsize, the lack of any alternative to downsizing, the kind of notice given by the management, the criteria used by the management to select the downsizees, and the way the downsizees are treated.

For employees to perceive downsizing as fair, the first step is that they understand and accept the need to reduce personnel. They should be satisfied that there are no other less drastic alternatives to downsizing such as attrition with a freeze on hiring, retraining and redeploying of existing workforce, job-sharing, small pay cut across the company with or without reduction in working hours, voluntary early retirement with compensation, and long leave with nominal pay or without pay but with a right to return to work after a specific date. What employees in a particular company or industry would accept as sufficient condition for downsizing depends on their expectations as we shall see in the next section.

Employees should perceive as fair not only the decision to downsize but also the selection process (procedural justice) and the treatment of downsizees (interactional justice) as Grunberg, Anderson-Connolly and Greenberg[2], (2000) and Brockner and Greenberg (1990) note. If a company has certain norms and is seen to be following them consistently in identifying the employees to be laid off, the selection process may be considered fair. The existing culture of the company shaped by practices in the region or in the particular industry will largely suggest the norms to be followed. Here are a few possibilities, each with its own advantages and disadvantages: poor performers identified through a systematic and transparent performance appraisal; all employees above a certain age; all employees who have served the company for more than or less than a certain period; all foreign or non-local employees. A random selection of downsizees (e.g., by drawing lots) or a uniform cut across all levels might not be good for an organization, but it might be considered fair where reduction in workforce is essential but no job-specific criteria can be applied.

If employees accept that their being selected for layoff is fair, they are unlikely to feel any more anger towards the management than a losing team does towards a competent and impartial match referee[3].

There are different dimensions to what downsizees consider fair treatment. One of them involves the inevitable comparison with the way other employees of the company are treated. If, for instance, a downsizing company rewards its top managers lavishly while laying off employees at lower levels, the downsizees and survivors are likely to judge it as unfair[4]. If, however, the top managers take a voluntary cut in pay and perks when the company goes through difficult times including downsizing (see Khandwalla, 2001, for several instances), it is likely to have a positive impact.

To some downsizees, fair treatment is letting them leave the company with dignity. Assault on their dignity may take different shapes, especially layoff without notice. The assumption behind the common corporate downsizing practice of giving no notice but walking employees straight to the door is that people may use notice time to undermine the organization or at least to be unproductive (Hickok, 2001). How unfair such layoff without notice is perceived depends largely on the conventions in a company. Some downsizees might take it in their stride especially in companies where unhappy downsizees are known to have wreaked havoc with critical systems or installations during the notice period. In most other situations, layoff without notice would be perceived as unfair; it might even provoke litigation.

Yet another major aspect of fair treatment during downsizing is compensation for job loss. Labour laws, agreements with unions, and any contracts with individual employees may specify what compensation should be paid on any premature termination of services. Companies that meet such legal requirements are perceived as fair. If, however, a company has been giving its downsizees a bigger severance pay than legally required, meeting the minimum requirements may not be enough for it to appear fair to downsizees. They are bound to view the severance pay they get not against what the company is legally obliged to give but against what their predecessors received.

Employees may consider career transition assistance[5] from the company as part of fair treatment although the law does not require companies to offer it. Mishra, Spreitzer, and Mishra (1998) observe that "companies that downsize through buyouts and attrition, that help their workers get new jobs, and that sometimes provide outplacement services end up much better positioned than companies which simply wield the axe."

EXPECTATIONS AND FAIRNESS PERCEPTION

The notion of fairness is elastic and relative; it is dynamically linked to people's expectations of what ought to be. Employee expectations about permanent employment would, for instance, be low in companies that follow "proactive downsizing" (Kozlowski *et al.*, 1993) and therefore termination of employment may not provoke any serious disillusionment or perception of unfairness. In companies that do "reactive downsizing" there is likely to be more hurt and anger associated with it, they add. Hickok (2001) agrees with this view. He says that "organizations such as IBM and Digital Equipment which have traditionally had a policy of averting layoffs are likely to be perceived by employees as violating the psychological contract and therefore as *more unfair* (emphasis added) when they do resort to layoffs."

Morality is another significant dimension of fairness perception. Those who consider an action morally wrong are likely to find it unfair. Miller (2001) argues that, at its core, downsizing is not an issue of individuals losing their job titles but losing "the identity that provides the framework within which they make a living and relate to one another." Are employers morally right to do it? Orlando (1999) dismisses various arguments generally advanced for putting shareholder interests above those of all other parties including employees and asserts that "downsizing is often morally wrong." The employees Cameron (2001) studied agree. In their view, downsizing is "unfair, unethical, and hurtful." After subjecting layoff to different theories of morality, Gilbert (2000) finds that while it is ethical to lay off a few employees to save the whole company from closure, terminating employees to improve the profits of an already profitable company may not be morally defensible[6].

Many companies have been trying, with some success, to replace conventional expectations about permanent employment, at the root of the perception of layoff unfairness, with a new psychological contract that views employees as "self-employed entrepreneurs"(Noer, 1993; see also Hickok, 2001; Lewin and Wesley, 2000; Tichy and Sherman, 1994). Waterman, Waterman and Collard (1994) declare the old covenant "null" and talk of "a new covenant under which the employer and the employee share responsibility for maintaining – even enhancing – the individual's employability inside *and outside* (emphasis theirs) the company." The archetypal employee in this paradigm becomes "flexible" and "emotionally detached" (Rudolph, 1998); they have a new, fragile, and contingent relationship (Morrison and Robinson, 1997) with their employer. As Kanter (1995) remarks, "security no longer comes from being employed but from being employable." Along the same lines, McKinley, Mone and Barker III (1998) expect the "ideology of employee self-reliance" to help employees see downsizing as a legitimate corporate strategy rather than as a breach of contract or violation of moral principles.

One reason why many companies could alter employee expectations about job security – and perception of layoff unfairness based on it – is the increasing untenability of permanent jobs in a fast changing world of technology. Certain products, services, and skills become obsolete so quickly that in some companies (e.g., information technology), employees who do not acquire new skills and knowledge realize that they are unemployable and must go. Another reason might be the prevalence[7] of downsizing during recent years as Grunberg, Anderson-Connolly and Greenberg (2000) note. They hold that "workers may have learned to regard layoffs as a normal element of a competitive marketplace and thus no longer see them as violating the implicit reciprocal obligations of the psychological contract."

In brief, employee expectations about their employer's responsibility towards retaining them have undergone major changes in some companies. Their perception of layoff fairness also has changed in tandem.

EMPLOYEE EXPECTATIONS IN INDIA

Employees in India will obviously have many expectations in common with their counterparts in the West. They will have additional expectations too because of deep cultural differences along several dimensions (Trompenaars, 1993). We shall focus here on those different or additional expectations. Paternalistic society, collectivism that generates a wide web of social obligations, high unemployment levels, widespread poverty, grossly inadequate government welfare schemes, and socialistic labour laws in India have made depriving people of their jobs – often their only means of supporting their families – appear harsh, unacceptably selfish, almost sinful. Cameron's (2001) strong words depicting American emplo- yee perception of downsizing as "unfair, unethical, and hurtful" are even more appropriate for describing Indian employees' views. They might consider downsizing fair only when they are convinced that the alternative is closure.

The 'hire and fire' policy is alien to Indian corporate culture. Guaranteed employment until one chooses to leave 'for better prospects' is still firmly part of the expectations of the average Indian employee at all levels. Labour laws dating from 1947 and the way governments and labour courts have implemented them fortify this notion. The political pressures on government functionaries are such that they almost never formally permit companies to close down or retrench workers. According to Section 25 M of the Industrial Disputes Act, 1947, an organization that employs 100 or more workers cannot lay off workers without the government's formal permission[8]. In theory, the employer can terminate the services of non-unionized staff and managers after giving them notice. They are not entitled to any compensation for job loss. However, in practice, it is difficult to lay them off except for criminal offences.

Since the process of globalization started exposing inefficient companies in India to brutal competition from foreign and domestic players with cheaper and better products, there have been mergers, restructurings, and factory closures, all leading to massive job losses, especially in the latter half of the 90s. Up to three million jobs. have been lost during the 1990s (Jagannathan, 2002). State and central governments no longer routinely pressure loss, making companies to stay open just to save jobs.[9] There is thus greater acceptance now of the idea of inefficient and loss making companies closing down and employees losing their jobs. There is also greater fear that jobs are not safe any more and that the government may not rescue even public sector companies.

Downsizing, however, is not yet so prevalent in India that people treat it as normal corporate practice. The psychological contract between employers and employees in India firmly remains to be that of job permanence in return for loyal work. The "ideology of employee self-reliance" that McKinley, Mone and Barker III (1998) refer to is rarely found in India. Unemployment is dreaded not only for financial reasons but also for social reasons. As Maheshwari and Kulkarni (2002) observe, people who lose their jobs might have difficulty getting their children married, a crucial parental responsibility in India.

Once a company takes a strategic decision to downsize, selecting who should leave and who should stay can be difficult. Systematic and objective performance appraisal is not common in Indian companies, especially the older manufacturing ones and most family-owned ones, for identifying the poor performers. Besides, for social and political rather than business reasons, a company may have to retain some underproductive or even troublesome employees. A company may, for example, find it difficult to lay off employees hired from the chairman's village or community. This is something employees as well as employers understand.

The social stigma of being fired is so strong that if layoff is inevitable, Indians would like to get a chance to resign and to make their friends and relations believe that they are leaving on their own. Besides, getting another job is easier if one has resigned rather than been retrenched. It is not surprising then that most Indian companies that downsize talk of VRS even when they identify certain employees and pressure them to go. Because of such social as well as economic factors, a layoff without any notice would certainly be considered cruel and unjust in India.

Here briefly are the typical Indian expectations[10] that employers need to recognize and work on. If one is loyal and committed, one should not be laid off. One should be allowed to work until one decides to leave for better prospects. If one's skills become outdated, the company should arrange for upgrading. A company should not deprive people of their jobs – their livelihood, and their place in society – except when threatened by closure. It is unfair to terminate employees merely to improve profits. The employer should announce and consistently follow the criteria for deciding who should go and who should stay. The criteria should take into account the social realities of the employees. (Those who depend exclusively on the job for their livelihood should be spared or given time to find alternative employment. After all, their salaries cannot add up to a large sum.) If a company asks people to go, it should give them a convincing explanation about the need to downsize, a reasonable compensation, and career transition assistance. The dignity of the downsizees should be protected. Employees who have to go should, for example, be given a chance to resign rather than be retrenched with or without notice. If downsizing is inevitable, the top management should also take a share of the suffering involved.

WORKING DOWN EXPECTATIONS

The expectations of Indian employees are so high that it is difficult to get them to accept downsizing as fair. Yet that is what two Indian companies have done by using a macro communication strategy to work down the expectations of their employees. Two cases that illustrate the strategy are briefly described and discussed below; they are followed by the discussion of another case where the company's management did not achieve quite the same kind of success.

The Case of Pennar Industries Limited (Pennar)[11]

Pennar, one of the top ten producers of cold rolled steel strips (CRSS) in India, had 650 workers and 630 staff (non-unionized workers, supervisors, and managers) in 1997. Although over-manned and inefficient, Pennar had been profitable in the domestic market protected by government licensing and high import tariffs. As real competition began to bite in 1998, the company reduced personnel through a generous VRS (*six* times the statutory minimum retrenchment compensation of *two* weeks' salary). The staff, not entitled to any compensation, also were given the same package.

In spite of improving productivity, Pennar ran into heavy losses by 2000 because of unprecedented competition. Banks stopped lending money to the company. Starved of orders and working capital, Pennar decided to downsize further. But, it had no money to match the 1998 severance package. The surplus workers would have to go with the statutory compensation and staff without any compensation at all.

The top management took a voluntary pay cut of 15 per cent. All parties hosted by the company were cancelled. Those who were entitled to business class travel switched to economy. Variable costs were reduced systematically throughout the company.

An international firm of consultants recommended sale of one of Pennar's two major plants. As there were no buyers, the management closed it and brought the employees to the other plant, which had already cut production by one third and had excess staff. The Personnel Manager pulled out 175 workers *at random* and put them in a large, clean, air-cooled shed, gave them newspapers and magazines, and asked them to relax. The plant worked without them. Occasionally they were rotated with workers on the shop floor.

The company applied to the Labour Commissioner for permission to retrench the surplus workers. Anticipating its routine rejection, the company also designed a new VRS for the workers. At the Chairman's instance, the compensation was fixed at twice the statutory minimum for workers. The staff would not be offered any. The management let informal channels take to the unions the news of the thin VRS. They rejected it outright. They wanted at least eight weeks' pay. Staff also wanted some compensation.

By March 2001, most workers felt that the unions would not extract a good compensation. Groups of workmen and staff met the company's Chairman; they trusted him to take care of their interests. He listened to them but expressed his helplessness. While this was going on, each Head of Department drew up a list of workers and staff to be retrenched. Poor performance and unacceptable attitudes were the criteria but they were not publicized.

Then, the Head of Personnel and each Head of Department together called the redundant staff one by one and told them to resign without expecting any compensation. Some resigned immediately; some took longer. Some used abusive language. A few refused to resign. They were given termination letters; eventually they also came forward and offered to resign. Their termination letters were withdrawn and resignations accepted.

On April 20, 2001, the VRS for workers was formally announced. The supervisors told the identified workers to take the compensation package and leave. None came forward. They demanded eight weeks' pay. But they were firmly told that the company's condition was so precarious that, if they did not leave, the company would close down; then they would get no compensation at all. Some workers who resisted the VRS were threatened with dismissal for other acts of indiscipline.

At this stage, the Executive Director bypassed the unions and communicated directly with the workmen.

First he wrote to them an open letter in the local language. Then he called them all to a meeting with the three General Managers. They explained the reasons for the downsizing. The letter and the meeting had a profound impact on the workers. Their resistance weakened; they realized that the company was unable to improve the offer. They also realized that there was a risk of the company closing down. Some loss-making companies in the neighbourhood had closed down leaving nothing for the workers.

The Labour Commissioner announced to the union representatives that he had turned down the company's request for retrenching workers; but he advised the workers to take what they had been offered and leave. The situation was so bad, he added, that if the company closed down, they would get nothing. Its assets would go to the banks that had lent it money. The workers ignored the unions' continued opposition and signed up. Meanwhile, the company arranged for financial and career counseling as well as re-skilling and entrepreneurship training programmes for staff and workers in collaboration with a reputable national training institution in the same city.

By the end of April 2001, all the surplus workers accepted the VRS and left. There was neither strike nor any litigation although both were expected in the initial stages.

Discussion

The employees who were asked to leave Pennar in 2001 received no compensation at all or a much smaller compensation than their counterparts in 1998. Nevertheless there was neither litigation nor even threat of litigation over the layoff. There was no strike either. One reason they did not go to court individually or through the unions might be that the legal system in India is notoriously slow. Absence of litigation could also be a sign that the downsizees accepted the company's decision as fair, the best under the circumstances (Goldman, 2001;Wanberg, Bunce and Gavin, 1999), and not worth contesting in a law court.

Between August 2000 and April 2001, there was a remarkable change in the employees' perception of acceptable compensation. This is largely because, over a nine-month period, the company successfully deployed a macro communication strategy to gradually work down their expectations about job retention and retrenchment compensation. The verbal part of the communication strategy consisted of the management's repeated warnings of a bleak future and explanations of why downsizing was unavoidable. The Executive Director's plain letter in the workers' language and the General Managers' direct talk with the workers contributed to the overall effect.

Such verbal strategies often fail when the management lacks credibility. The employees might suspect that the management rigged financial reports to wriggle out of paying a fair compensation. This is where a macro communication strategy that combines a range of mutually reinforcing verbal and non-verbal moves is needed. And Pennar had it in place.

First, the recommendation to sell one of the two plants came from a team of international consultants, not local or in-house ones. Second, the cut in pay and perquisites the top management imposed on themselves sent out a strong signal that the reports of the company doing badly were authentic. Third, putting together workers from two plants and letting the surplus workers relax in an air-cooled shed while work went on in the plant heightened the air of redundancy in a humane, though roundabout and dramatic, way. Fourth, workers could see and verify the substantial reduction in the number of trucks bringing raw materials into the plant and taking finished goods away. All these were coherent and powerful non-verbal signals that reinforced the verbal message that the company could not keep paying them wages or offer a good compensation.

The company disguised the retrenchment as voluntary retirement or resignation to help the employees save face as well as find jobs elsewhere. Even the few employees who were initially issued termination letters were later allowed to return them and to submit their resignation. When Pennar allowed it, the clear message that went out was that the company did not want to stand on prestige or spoil their chances of getting jobs elsewhere; it merely wanted them out because it had no other option.

All this helped the employees perceive interactional justice in the management's behaviour in a way verbal strategies, however well packaged, would not have achieved on their own. The message that the management was receptive and caring but unable to do anything to save their jobs or offer higher compensation was further buttressed by Pennar Chairman's willingness to receive groups of employees. As he listened to them, they realized that he was aware of their problems but unable to do anything about them. The employees were convinced that they could rely on him to tell the truth and to look after their interests. He had built a reputation for being caring and generous (Biswas and Nag, 2003). All these fortified the credibility of the verbal message tremendously.

The Labour Commissioner's expected refusal to permit retrenchment at Pennar followed by his unexpected advice to the workers to opt for the VRS supported the company's stand. This of course is something that the company could not have planned or expected; it came without the company's asking. All these helped the workers accept that the company was unable to pay them anything more than what had been offered. The employee expectations slid to the level where they matched the company's position.

The management did not rush into downsizing anticipating losses or at the first sign of actual losses. They allowed the situation to deteriorate; they followed what Lawrence Bossidy calls the 'burning platform'[12] approach when they downsized. The 'burning platform' Pennar created within the company was a powerful part of their macro communication strategy that amply supported the grim verbal message. The delay of several months in announcing the VRS cost the company money in wages paid to employees who were not doing any work. The delay and apparent indecisiveness affected the stock price adversely and hurt the shareholders. However, because it helped the employees accept the downsizing as fair, it was an investment in goodwill both of the downsizees and of the survivors. Any quick downsizing would perhaps have resulted in a crippling strike or other forms of equally damaging protest. Several studies (e.g., Khandwalla, 2001) show that quick and harsh downsizings do not necessarily lead to successful turnarounds. A humane downsizing has a better chance of success at least in the Indian cultural context.[13]

Inspired grapevine was part of the macro communication strategy at Pennar. Senior managers involved in the planning of the VRS, for example, shared informally with staff and workers who met them socially (generally hired from the same village or community, they had fairly close social links in spite of big differences in the hierarchy at the workplace) information about it before it was formally announced. These senior managers encouraged those staff and workers to take voluntary retirement. Grapevine spread this message. This lent credibility to the scheme when it was formally announced by the company. Absolute secrecy about the scheme until the announcement would probably have been counterproductive.

It is not clear whether the downsizees at Pennar perceived procedural justice and accepted as fair the norms, if any, used for identifying the redundant staff and workers. There were no open and verifiable criteria for selection. Some of the downsizees probably felt that they should have been retained and some others sent away in their place. Perhaps they knew among themselves who were good performers and who were poor, whatever their public posture. They possibly felt there was no point in contesting the selection.

The Case of Pennar Investor Services Private Limited (PISPL)[14]

PISPL was a tiny (17 employees) share registry (manual) services company. Each client company gave it a flat annual fee for maintaining its folios; every transaction involving those shares – buying or selling– brought it a transaction fee. Thus, it ran little risk whether the share prices of its clients moved up or down.

PISPL was set up by the Pennar Group in South India primarily to serve its shareholders. By 1997, A B Bhushan, Managing Director, realized that his sole clients – Pennar Group companies – were turning sick. The trade in those shares almost stopped. No one could predict how many of those companies would survive for how long. PISPL could not find other clients partly because the general share market was down and partly because the regulators had made trading in shares electronic. Without expensive investment, PISPL would not be able to deal with de-materialized shares.

Bhushan realized that he would have to downsize for the company to survive. With an assured base income from folio maintenance, he relied on the attrition route to get the employees out. From time to time he informally told them that the business was dying and that he could not guarantee continued operations beyond the end of the year. In effect, he gave them a whole year to look for an alternative. He supported their job search too. Most of them started looking out for jobs; several resigned and left once they found suitable jobs. Whenever anyone left, no compensation was paid.

Those staying back were asked to share the work that was steadily coming down. Bhushan encouraged them to cash any unused leave entitlements they had accumulated. He said he was not sure whether there would be enough money later. He encouraged the more enterprising ones among them to take up a 'side business' such as insurance company agency. He wanted them to be able to support themselves by the time PISPL's inevitable end came. The thin workload in the office helped him let the employees take time off for such extra work.

Bhushan launched an austerity drive beginning with himself. He would travel by train rather than by air whenever feasible. He would check into a guest house or a YMCA Hostel rather than a five-star hotel when he travelled on business. Official entertainment was curtailed. None of this escaped the notice of his small group of employees.

In October 2001, there were just five employees. Bhushan announced that he himself was leaving by the end of March 2002. He asked three employees to stay on until the company was wound up formally. He gave the other two employees three months more to find an alternative job; but they could not find any. But they – the only ones at PISPL who were asked to leave by a specific date – invited Bhushan for lunch just two days before they left the company for good.

Discussion

None of the employees who left PISPL received any severance pay. Neither did they demand it. They appeared to be convinced that the company could not pay them any. The success is most probably due to the Managing Director's macro communication strategy. He maintained transparency about the working of the company. Everyone knew how much the company was making under what head and how much it was spending on what. The company being tiny, operating from just one floor of a building, it was easy in any case for everyone to see the steep reduction in work and income. The collapse of the client companies in the same city was common knowledge. Bhushan's self-imposed cuts in perquisites and basic entitlements strengthened the credibility of his assertion that there was little money and that he could not guarantee PISPL's survival for more than a year at a time. Every time he travelled by train on company business or checked into a guest house instead of a hotel, he was reinforcing his message non-verbally.

The procedure of sending away the redundant employees also appears to have been perceived as fair at PISPL because the Managing Director depended essentially on induced attrition rather than time-bound reduction in force. Exploiting the low but steady income available to him, Bhushan gave the employees almost a whole year with their regular salary to look for an alternative job. In terms of interactional fairness, this was an excellent move because it gave the employees ideal conditions for finding an alternative job. They could choose when to leave. When they found jobs, often with his active help, they could resign with their dignity intact. The extended period also gave the employees a chance to observe for themselves and be convinced about the steady deterioration in the company's revenue. It was not surprising that there was no demand for compensation. That the only two employees who were given a specific date by which to leave invited the Managing Director for lunch a couple of days before their last day with the company is proof that in spite of their not getting a job elsewhere, they were leaving with goodwill towards him enhanced.

The Case of Everest Limited (Everest)[15]

In 1997, Everest (sales turnover: Rs 14,462.0 million) declared a loss, the first in its 43-year history. The company had grown into various unprofitable non-core areas and the employee cost (Rs 1,11,000 per person per annum) was comparatively high. So, it decided to sell or close down unprofitable operations. The employees (about 3,000 out of the total of 10,700) of the businesses sold moved fairly smoothly to the new owners. Closing down businesses, however, was hard because of labour laws.

The employees found redundant were members of a strong internal union that had, during the preceding complacent decades, tied the management down with several agreements such as hiring at least three for every four employees leaving the company for whatever reason, supplying food at nominal rates in the canteens, and working to a five-day week.

The management suggested to the union several cost-cutting measures including introduction of six-day week, reduction in paid leave and holidays, abolition of 'helpers' on the shop floor, and reduction in the heavy subsidy in the canteen. The union did not accept any of these.

In April 1999, the company offered its staff and workers a VRS with up to Rs 6,00,000 in compensation. The scheme was widely publicized through the company notice boards. The response was very poor – only 400 employees signed up. Besides, the union approached the Industrial Court and had it stayed saying that this scheme violated the management's agreement about hiring. It took the company six months to get the stay order vacated and to re-notify the VRS. The union continued to strongly discourage its members from taking VRS.

Realizing that the surplus workers would not take voluntary retirement if they felt that their jobs were safe, the company organized informal communication meetings on the shop floor. At these meetings, managers discussed with union representatives on their floor the hostile business environment Everest was working in and the problems it was facing. They tried to impress upon the workers that the very high employee cost at Everest made its products very expensive and uncompetitive. The company might not survive if it did not reduce its head count. Many companies just closed down leaving the workers in the lurch. Everest was trying to be considerate and offering a decent compensation now; if the workers declined it and hung on, there might be no compensation at all later.

While the communication meetings were on, the workers were also pressured to accept the VRS. Redundant workers reluctant to leave were threatened with disciplinary action if there was the slightest ground. If that was not possible, rules were strictly followed in their case. Some employees were dismissed for chronic absenteeism and some transferred to unpopular sections. About 100 redundant workers were paid their full salary but asked to stay home. They found it humiliating and went to court through the union. The court upheld the company's action but the litigation cost the company valuable time.

In November 1999, when the VRS was re-notified, 1,305 workers (against the target of 1,000) applied. Meanwhile, the company provided extensive financial and personal counselling to the redundant workers. Through an NGO, it offered a rehabilitation package also. In May 2000, Everest launched an Employee Separation Scheme (ESS) in which employees who quit would get a pension. This was mainly to avoid raising a large sum of money at once for compensation. But, in spite of persuasion and pressure tactics, only 146 workers (target: 600) came forward. Many workers found the scheme attractive but were not sure that the company would keep paying the pension for years. In November 2000, a new VRS was floated with some success. A year later, yet another VRS was offered to workers and clerical staff. With different separation schemes, the total head count in the company came down from 10,711 in December 1997 to 4,175 on December 31, 2002.

The successive downsizings made many fear that they would be targeted next. The union had so dominated the shop floor before the downsizings that many managers were unaware of their own rights or afraid to exercise them. Gradually, the managers became bolder in dealing with unionized employees. The company also tightened governance. The workers toed the management's line.

Discussion

Everest's management achieved its goal of reducing the workforce substantially and managed a small profit (according to the published annual reports) by the end of the third year. It also managed to rein in the union. So one could conclude that the downsizing was successful. One is not sure, however, whether the company retained the employees' goodwill.

Although Everest paid the downsizees the severance compensation prescribed by law and offered them counselling and rehabilitation advice, the downsizees and survivors do not appear to have perceived distributive, procedural or interactional justice. The union went to court twice; obviously they were not convinced of the reason for downsizing. While the union lost the cases, the company also lost valuable time, money, and most importantly, the goodwill of those who left and those who stayed back.

The first ever loss in the 43-year history of the company jolted the management, although the loss was very small (just 1.2% of turnover). The employees, however, might not have observed any obvious developments such as drying up of orders, accumulation of unsold stock or management's difficulty in getting loans from banks. They would be the last to take the figures in an annual report seriously in the absence of a "burning platform."

The company's initial communication strategy in response to the first ever loss consisted of generally pointing the loss out to the workers and stressing the need to cut costs. Although there were several wasteful practices on the shop floor, the union rejected all the cost-cutting measures most probably because they were not yet convinced of the need to curb them and because all the measures were targeted at workers. They did not find the top management making any sacrifices or admitting to any fault in their planning. The corporate office continued to work to a five-day week while the workers were asked to adopt a six-day week without extra pay. That most other Indian companies always worked to a six-day week did not make any difference to their perception. The exclusively verbal micro communication strategy could not pull off a change of heart.

The company did not work down the employee expectations to the level where the employees would treat the downsizing as fair. Most of those who left were responding to pressure rather than persuasion. It is interesting that similar pressure tactics were used by Pennar Industries (case 1) also; but the resentment levels there were much lower than at Everest.

Here are two representative reflections, one by a former employee (a) and another by a current employee (b) of Everest (Monippally, 2003):

(a) We are convinced that the management was ruthless in achieving their target of cutting our numbers down. The managers have been telling us that the high wages in the company, overstaffing, low productivity, the difficult economic situation in the country, and severe competition are the reasons for cutting down our numbers. We disagree totally. We believe that incompetent leadership, mindless outsourcing, and the anti-worker mentality among managers who joined the company around 1996 are the main reasons for the series of schemes aimed at reducing our strength.

(b) I have been with Everest for more than 25 years now. What I fail to understand is this: Can a company really cut flab by just throwing out the workers who don't cost much? Why are the managers' allowances and perks increasing every year? Forget about reducing the number of officers. Why are they recruiting more officers now?

Interestingly, it is after the failure of the first VRS announced through notice boards that the management thought of face-to-face communication meetings on the shop floor. They had misread the employees. They had expected that the susbstantial compensation alone would be enough to attract a large number of employees to the VRS. Even when they started communication meetings, the communication strategy was largely verbal. The company did not employ a coherent macro communication strategy to sell to the workers the need to reduce staff.

Many employees found the ESS attractive and wanted to go out under that scheme; but few opted for it because they did not trust the company to continue paying the pension for years. Lack of trust in such a big, diversified, and old company points to the failure of the management to communicate well with them.

CONCLUSION

The adoption of a macro communication strategy consisting of mutually reinforcing verbal and non-verbal moves helped both Pennar and PISPL convey convincingly to the survivors and downsizees alike that the decision to downsize was inevitable and that the compensation offered was fair under the given circumstances. In other words, both the companies sold the pink slip. Everest, however, had difficulty. The company relied on a micro communication strategy that relied on logic and data and failed to convince the employees.

It is significant that while the first two companies allowed the situation to become worse before making the downsizing move, Everest tried to downsize within months of the first, minor loss. It did not save any time; the downsizing process there also took three to four years mainly because of litigation. Giving employees a little time to experience the problem could have been the base of a successful macro communication strategy.

Perceived fairness is a highly elastic notion; it varies widely across companies and cultures. It can be worked on and altered. A macro communication strategy that comprehensively works on employee expectations and brings them in alignment with what the company can offer appears to be a very useful approach to delivering bad news related to job loss. How well employees receive the pink slip depends on how fair they perceive the decision and manner of downsizing. When a company downsizes without considering this, it may lose considerable goodwill and revenue however slickly the message is packaged verbally.

FURTHER RESEARCH

A major limitation of this study is that employee perceptions of layoff fairness have been inferred largely from employee behaviour such as the presence or absence of litigation and strike. Some downsizees and survivors were interviewed in all the three cases but most of the interviews took place more than a year after the events. Passage of time might have altered people's recollections, especially of feelings, substantially. More research is needed in different types of organizations to identify the expectations of employees about fair termination of employment while they are still in employment and how their expectations and perceptions change with the kind of communication strategy adopted by the employer. Further research is also needed to identify best practices in downsizing communication in different cultures and different trades.

ENDNOTES

1. Downsizing can be defined as "a deliberate organizational decision to reduce the workforce that is intended to improve organizational performance" (Shaw and Barrett-Power, 1997). In this paper, downsizing has been used interchangeably with layoff and job termination at all levels. Layoff used to mean temporary withdrawal of work; but now it is widely used as a soft term to refer to retrenchment or permanent termination of employment.

2. The authors refer to the perceptions of survivors of downsizing rather than downsizees. But their arguments are relevant to perceptions of downsizees also.

3. Lenhart (1998) narrates the story of Joe Morris. Early 1997, he resigned his job as director of sales and marketing for Disney Business Productions in Orlando and moved to Nike's headquarters, on the other side of the country, to be its national director for travel and events. Within 11 months, he was given the pink slip along with 1,600 others because of a restructuring brought on by the Asian economic crisis. Nike merged two departments – one of them Morris' – to form a new department. Morris was asked to leave and sports marketing director Mark Pielkenton, who had been with Nike for nearly 20 years, was made the head of the new department.

   Says Morris, reflecting on the event: "There were too many people, and [Nike] tried to be fair. Mark had a lot more seniority and was the obvious choice to head the department. Still, it was a major blow, and I wish we'd had more warning."

   There is disappointment, especially about lack of warning; but, Morris accepts the pink slip without feeling bitter. He thinks it was fair that if there was only one chair it should go to his senior, Mark.

4. *Time* (Asian edition, December 24, 2001) reported that there were angry outbursts from the laid off Enron employees when news broke that while laying off 4,000 employees, Enron paid $55 million to 500 of its "critical" executives to persuade them to stay. Fairhurst, Cooren, and Cahill (2002) refer to protests at an American Department of Energy (DoE) facility when the laid off employees found that their counterparts at another DoE site were given higher compensation.

5. The US Government (1997) report identifies "relocation assistance, outplacement assistance, resume-writing assistance, access to office equipment, paid time off, child care, financial counseling, and access to job fairs and to Internet job placement sites" among the best practices in good downsizing companies.

6. The Bank of America laid off 28,930 workers and then proudly announced the highest profit for any banking institution in history – $1.5 billion. Then the CEO, Richard Rosenberg, recipient of more than $18 million over the previous five years, announced that 8,000 of the bank's white-collar employees would be reduced to part time status saving the bank an additional $760 million (Downs, 1995). Employees who are laid off or reduced to part-time status in such situations might find it an unfair display of greed.

7. The weekly layoff updates on layoffs in the US by hrlive.com, shows 50 to 80 companies of all sizes and in different fields announcing 20 to 1,000 layoffs every week. The total may come to about three million a year. According to Downs (1995), "shedding workers has become fashionably strategic in almost every sector of American business." In a *Newsweek* cover story, Sloan (1996) says, "firing people has gotten to be trendy in corporate America..."

8. See Srivastava (1994) for various stringent restrictions related to layoff and retrenchment in India.

9. *The Economic Times* (Ahmedabad Edition) of August 12, 2003 reports on its front page that the government of Maharashtra allowed a few manufacturing companies in Mumbai to close their loss-making divisions "in recent months." That this is front-page news shows that it goes against expectations. The newspaper goes on to remind the reader that the government used to "routinely reject all applications for closure.''

10. These, by no means exhaustive, are based on both literature survey and the researcher's interviews with scores of employees.

11. For a full description of the case, see Monippally (2002a).

12. Lawrence Bossidy, CEO of Allied Signal, said: "I believe in the 'burning platform' theory of change. When the roustabouts are standing on the offshore oilrig and the foreman yells, 'Jump into the water,' not only won't they jump but they also won't feel too kindly toward the foreman. There may be sharks in the water. They'll jump only when they themselves see the flames shooting up from the platform... The leader's job is to help everyone see that the platform is burning, whether the flames are apparent or not." (cited by Khandwalla, 2001).

13. In a personal communication dated July 15, 2003, the Chairman confirmed to the researcher that the employees have become "possessive" about the company in a welcome sense; they look upon the company as their own and are determined to make it succeed. There are now signs of recovery and growth.

14. See Monippally (2002b) for the full case.

15. See Monippally (2003) for the full case. Names have been disguised.

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When the warriors came out first from their master's hall, where had they hid their power? Where were their armour and their arms?

They looked poor and helpless, and the arrows were showered upon them on the day they came out from their master's hall.

When the warriors marched back again to their master's hall where did they hide their power?

They had dropped the sword and dropped the bow and the arrow; peace was on their foreheads, and they had left the fruits of their life behind them on the day they marched back again to their master's hall.

Gitanjali, Rabindranath Tagore