Working Paper

Downsizing: Some Aspects of Communication & Social Impact

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This paper examines several issues involved in downsizing communication and the social impact of downsizing. For a practical insight & understanding of the Indian scenario, we have studied a few cases of downsizees. The data was collected through a preliminary questionnaire and oral interaction. The paper concludes with some strategic issues to be kept in mind by the top management for downsizing communication.

Introduction

Downsizing is in fashion. It has been fashionable in the US for years now. American companies have been laying off blue- and white-collar employees in response to cheaper imports, development of labour-reducing technologies, and need to cut costs to stay competitive. A New York Times (1996) national survey found that between 1980 and 1996, one-third of all U.S. households had a family member who had been laid off. It is not surprising that in a Newsweek cover story, Sloan (1996) says that "firing people has gotten to be trendy in corporate America..." The weekly layoff updates on layoffs in the US by hrlive.com, shows that there are fifty to eighty companies announcing 20 to 1000 layoffs every week.

In India also downsizing is catching up wearing different outfits. Private companies, public sector banks and companies, even government departments are downsizing. Although reliable statistics are not currently available, a dramatic increase in reports of downsizing is evident in Indian newspapers, financial dailies and business magazines.

How do the people who stay back and the people who are asked to leave perceive downsizing? What impact does it have on society at large? There has been very little research in this area. Downsizing is, according to noted downsizing scholar Cameron (1994), "probably the most pervasive yet understudied phenomenon in the business world". Cameron's reference is to American companies; but it is equally true of Indian companies. This paper is an attempt to raise certain preliminary questions about the way downsizing is communicated to the employees and the social impact it has on them.

Different Types of Downsizing

Kozlowski et. al. (1991) draw a distinction between proactive downsizing and reactive downsizing. Proactive downsizing proceeds according to clear plans and the goals are known, but reactive downsizing aims mainly at cutting costs. Downsizing may be presented as VRS (Voluntary Retirement Scheme), early employee separation scheme, layoff, attrition, workday reduction, and job-sharing. The mildest of these is of course truly voluntary VRS. Even here what is communicated to the employees and the public at large may be unwelcome, as we shall argue below.

Downsizing Communication

By downsizing communication we refer not only to the circulars or memos that may go out to all the employees or the text of the presentations top management might make to the employees. We refer to the perceptions created – deliberately as well as unwittingly – in the downsizees, the survivors, and the public at large. We would like to argue that the culture of the company as well as the culture of the society in which the company functions shape the perceptions significantly. We would also like to argue that the vast differences between the American cultural expectations and Indian cultural expectations make it unwise for Indian companies to follow downsizing communication patterns in the US.

There is anecdotal evidence that several software companies in India laid off professionals in the last couple of years without any prior notice. They were asked to leave without even going back to their cubicles to say good bye to the people they had been working with. Those downsizees might have been offered the severance pay they were entitled to. However, what does this mode of downsizing (not termination caused by poor performance or unacceptable behaviour) communicate to them and to the survivors? The assumption seems to be that the people who have been working with the organization, and who are now going to be laid off, will use the notice period to harm it; and the company, therefore, needs to protect itself from its own employees. This assumption and the resulting downsizing process cut at the very root of the social system of mutual trust, and will, perhaps, in a manner of self-fulfilling prophecy, generate the very same behaviour that is anticipated.

Social Impact of Downsizing

Even in the US, where firing has been relatively easy and not an unexpected phenomenon, downsizing can lead to extremely negative perceptions. Hickok (1995) describes survivor illness at an Air force installation that had downsized itself through voluntary departures. Survivors are observed to experience depression, anger, and betrayal following layoffs (e.g. Noer, 1993; Brockner,1992). In many downsized companies, says Cameron (2001), "insecurity and anger dominate the corporate culture - often with devastating effects". Based on his fifteen-year long study of downsized companies, he says: "As far as the workers are concerned, these organizations have violated the trust developed between them. Downsizing, in their view, is unfair, unethical, and hurtful." If this is what survivors feel, it is not difficult to imagine what feelings would be aroused in the downsizees.

Do the survivors and downsizees feel that the company has been fair? Brockner et. al. (1994) found a link between commitment of survivors to the organization and their perception of how fair the process was. What is fair is determined largely by the culture of the company and of the society around it. For instance, layoff in a company that has traditionally not resorted to it might be perceived as cruel and unfair because of the unwritten "psychological contract" (Rousseau 1995, Morrison & Robinson 1997) between employees and the company. If employees feel that they can work till they retire or till when they leave for better prospects, any layoff will be felt to be unfair.

In Japanese companies with lifetime employment etched into their culture and Indian companies where even contract workers expect to be made permanent and often successfully go to court over this

issue, US style layoff will communicate cruelty and may not be sustainable. This may be the reason why many Indian companies implement their layoff plan under the name of Voluntary Retirement Scheme (VRS) thereby making it look as though the decision to leave is that of the employees and not one that is forced on them by the management.

Some companies (AT&T, USA) are known to have announced layoffs of thousands of workers while the top management gave itself a hefty pay raise. In the December 24, 2001 issue of the "Time" it is reported that while laying off 4000 employees Enron paid $55 million to 500 of its "critical" executives to persuade them to stay. Such behaviour can also raise the question of fairness in the minds of the survivors and downsizees. Are the top managers fattening themselves by cutting the workers to the bone?

Downsizing : Indian Perspective

Economic liberalisation introduced in the Indian economy in the early nineties has brought in an era of fierce competition where survival of the organisation would essentially depend on its efficiency and effectiveness. This has completely transformed the Indian workplace. The legacy of surplus manpower at various levels is no longer sustainable. Indian organisations have started carefully assessing the viability of their workforce in the context of the required levels of efficiency and skills vis-à-vis the demands of a competitive market place. As a result, more and more Indian organisations have now started formulating and implementing downsizing strategies. It is only in the post liberalisation era that downsizing has emerged as an important element of organizational

strategy. It is not surprising, therefore, that not much research has so far been done in the field of downsizing and its social impact in India.

We have made an initial attempt to understand the downsizing communication and the social impact of downsizing in the Indian context. •We have carried out a preliminary survey of a few downsizees from various types of organisations to get a broad idea of their experience and perceptions. The questionnaire designed for this survey is given in the annexure. The findings of this preliminary survey are given below.

Since the overall downsizing strategy as well as the downsizing communication could vary from organisation to organisation depending on the nature of the organisation and the organizational culture, we decided to follow the case study approach while conducting our preliminary survey. From the initial list of organisations around Ahmedabad, which have recently implemented downsizing, we identified the following three broad categories of organisations :
1. Nationalized Banks
2. Public Sector Undertakings
3. Private Sector Enterprises

Several organisations in each of these categories have introduced the Voluntary Retirement Scheme during 2000-2001. We approached some of the downsizees in each category of enterprises based on the available information. We could succeed in eliciting responses to our questionnaire from sixteen of the downsizees we approached. A broad profile of the sample downsizees is presented in Tables 1 and 2 followed by a detailed summary of the main findings of the survey.

Table 1	
Organizational Mix of Downsizees Surveyed	
Name of the Organisation	**No. of Respondents**
1. Bank of Baroda	3
2. Dena Bank	3
3. Bank of India	1
4. Indian Overseas Bank	1
5. Syndicate Bank	1
Sub-Total : Nationalized Banks	**9**
6. Gujarat State Agri. Mktg. Board	1
7. Gujarat Ind. Inv. Corporation	1
8. Central Reserve Police Force (CRPF)	3
Sub-Total : Public Sector Undertakings	**5**
9. Arvind Mills Limited	1
10. Jansatta	1
Sub-Total : Private Sector Enterprises	**2**
GRAND TOTAL	**16**

Table 2	
Profile of Sample Downsizees	
Characteristics	**No. of Respondents**
1. **Sex :** Males Females	14 2
2. **Average Age**	52 years
3. **Average Work Experience**	29 years
4. **Educational Qualifications :** Under Graduate Graduate Post Graduate	2 8 6

Main Findings of the Sample survey

- Of the 16 downsizees surveyed, 14 were the employees who had opted for VRS while 2 were cases of retrenchment. However, from our oral interaction with the VRS cases, it was apparent that some of them had opted for VRS under some kind of pressure which they were not willing to admit or discuss.

- Main factors influencing the decision to opt for VRS :
  - Financial Benefits : 38%
  - Domestic Responsibilities : 31%
  - Health Grounds : 6%
  - Feeling of Dissatisfaction : 31%
  - To take up own business : 38%
  - Other Reasons : 31%
    (pursue spiritual activities, enjoy leisure/rest,
    - explore the opportunity to go abroad, etc.)

- Average Members in the Family : 5

- Average No. of Earning Members : 2

- Main reasons behind downsizing in the organisation :
  - Inadequate Financial Performance: 25%
  - Need to reduce wage bill : 38%
  - Skills & Tasks Mismatch : 25%
  - Downsizing by Competitors : 13%
  - To improve staff productivity : 25%
  - Government Policy : 44%

- **Nature** of Downsizing Communication :
  - ➤ Oral – Group Meeting : 13%
  - ➤ Oral – Personal Meeting : 13%
  - ➤ Written – Circular/Notice : 69%
  - ➤ Written – Personal Letter : 13%

- 31% respondents felt that the downsizing communication could have been handled in a more appropriate manner, 44% felt that the communication was "okay", while 25% had no specific opinion on this matter.

- 38% respondents said that they would handle the downsizing communication differently (if they were in-charge). Regarding what they would do differently, they responded as follows :
  - ➤ Avoid communication that amounts to pressurizing.
  - ➤ Provide help in getting other work.
  - ➤ Distinguish between the cases of VRS applications of the efficient/skilled employees versus the inefficient/less skilled employees and negotiate with them accordingly.
  - ➤ Recourse to personal counseling
  - ➤ Special treatment/ promotion to the employees with required skills
  - ➤ Resorting to transfers etc. for those having low productivity and who lack mobility.
  - ➤ Avoid depicting exaggerated benefits of VRS.
  - ➤ Ensure that the actual scheme that is to be implemented is properly communicated in the circular without giving any false indications.

- The downsizing represented on an average, approximately 16% of the staff strength in the local offices of the sample

organisations and approximately 13% of the entire organisation.

- More than 80% of the downsizees were above 50 years of age.

- All the respondents had their friends still working at their respective organisations. 56% of the respondents felt that their friends who continued working were not happy.

- 69% of the respondents felt that the compensation package offered to them was fair, while 25% felt otherwise.

- None of the organisations offered any other form of support or assistance to the downsizees.

- 13% of the downsizees felt that the financial impact on their family was positive, while 18% felt that impact was negative. 69% felt that their leaving the job did not have any significant impact on the financial position of their family.

- 25% of the downsizees felt that the social impact on their family was positive, while 25% felt that impact was negative. 50% felt that their leaving the job did not have any significant social impact on their family.

56% of the downsizees felt that their friends and relatives perceived their leaving the job positively, while 38% felt that it was perceived negatively. 6% felt that their friends and relatives were indifferent.

- 44% of the downsizees felt that their family was better off after they left the job, while 6% felt that impact was negative. 50% felt that their leaving the job did not have any significant impact on the overall position of their family.

- 50% of the downsizees felt that the downsizing exercise was inevitable in their respective organisations, while 13% felt that it could have been avoided. The remaining 37% were not sure.

- 63% of the downsizees felt that their respective organisations benefited from the downsizing exercise, while 13% felt otherwise. The remaining 24% were not sure.

- 31% of the downsizees said that given a chance they would like to rejoin the same organisation, while 69% said that they would never join the same organisation.

It is evident from the above findings that there is considerable scope for improving the downsizing communication as reflected by the perception of the downsizee cases studied. Since most of the sample downsizees received VRS benefits, it helped in reducing the overall negative social impact of downsizing.

During the course of our interaction, several downsizees complained about the long-term negative fall-out of their leaving the job. Some of them actually wondered whether their decision to opt for VRS was guided by shortsightedness, which resulted partly from the lopsided communication and partly from their own failure to assess the long-term consequences of their decision. They were now facing a gloomy future mainly on account of declining interest

rates on fixed deposits, increase in the unemployment rate resulting from the current recessionary conditions and the possibilities of a decline in their social status in the long run.

Given the nature of VRS as it is implemented in nationalized banks and public sector undertakings, the employees in the age group of 55 plus, who are even otherwise close to the retirement age, are given priority in the implementation of the downsizing schemes. Issues of re-employment and mid-life crisis become less relevant for this age group. This phenomenon is reflected in the findings summarized above. Based on our interaction with the relatively small sample of downsizees, we feel that the psychological, financial and societal pressures faced by the downsizees could have been significantly higher if the age profile of the downsizees had been different. However, this would require a more detailed study of a larger number of downsizees from a wider range of organisations.

Downsizing Communication: Implications

Can downsizing be communicated in a way that the downsizees and the survivors do not have a negative perception of the process? The American giant GE (General Electric) which, under Jack Welch, laid off over 170,000 employees (Tichy and Sherman, 1994) offers us an interesting example of an attempt at creating a new cultural frame for its massive layoffs. GE created a culture that did not retain the practice of lifetime employment; instead it offered employees the best training and development opportunities in exchange for 'conditional employment'. It is as though a person does not join the company, but gives it the best service he is capable of for as long as it is needed. So when he is told that his services are no longer needed, no promises are broken, no trust is

violated. In other words, Jack Welch tried to communicate layoff as a natural and mutually agreeable termination of a contract rather than as denial of employment.

We do not know how successful Welch was. We do not know if it will work in other societies such as Asian. But there is an important lesson here for companies that want to downsize. The way downsizing is communicated is all-important. They have to ensure that the employees do not perceive a violation of the psychological contract between them and the company.

A psychological contract consists of unwritten, unarticulated mutual expectations. These expectations might stem from convictions that make up the culture of a company. Managements that decide to downsize should examine the related communication from this perspective. Perhaps they need to work in advance to change the contours of the psychological contract and then deliver the news of downsizing. The change in the psychological contract will not dissolve the pain of loss of employment, but at least the downsizees will leave without feeling disturbed about the management not fulfilling their part of the contract.

Fair, regular and systematic performance appraisal coupled with high levels of transparency may help managements alter the psychological contract in such a way that the employees will not perceive any violation of the psychological contract when some of them are asked to leave.

Exploring whether forgiveness can help rebuild corporate culture in the wake of layoffs Cameron (2001) suggests that top managements of companies that downsize ask for, and receive, forgiveness from the employees they have laid off and from those

who remain with the firm. Coming as it does from an American scholar this is significant. A company is not a money-minting machine; it is a family of people brought together to serve a common purpose. Just as a disabled member of a family is not disowned and allowed to die the less productive members of a corporate family cannot be merely cut off. This appears to be more in line with the typical Indian approach to people who live or work with them.

What Cameron suggests is also an attempt at altering the psychological contract. The difference is that instead of gradually working on the employee expectations, the top management would lay people off, but try to neutralize the resentment through seeking forgiveness for the deed already done. The aim is the same – manage the downsizing communication in such a way that neither survivors nor the downsizees feel bitter about the management.

Conclusion

Downsizing is an inevitable consequence of the freeing of the Indian economy from the 'license raj' prevalent till 1990. Introduction of domestic and international competition has forced Indian companies to cut costs, especially manpower costs, to stay in the game. But the Indian mindset does not appear to have changed. Many employees still look upon lifetime employment as a matter of right. Any termination of employment is still perceived as a major social and financial blow. This is not surprising in a country where unemployment is high, social welfare grossly inadequate and social obligations overpowering. Companies have to be sensitive to this and design their downsizing communications in such a way that the employees do not feel that their psychological contract with them has been violated unilaterally.

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<u>Annexure</u>

A study on downsizing in Indian organisations
a preliminary inquiry

Respondent's Name & Address	
Phone No.	
Sex	
Age	
Educational Qualifications	

Details of Work Experience		
Name of Organization	**Period of Service**	
	Year of Joining	Year of Leaving

1. Reasons for leaving the last organisation you worked for :
    ❑ opted for VRS   *(if so, go to Ques. 2)*
    ❑ you were asked to leave   *(if so, go to Ques. 4)*
    ❑ other reasons (specify) :

2. Why did you opt for VRS ?
    ❑ your own personal choice   *(if so, go to Ques. 3)*
    ❑ under pressure from organisation *(if so, go to Ques. 4)*

3. What were the main factors that influenced your decision to opt for VRS?   *(tick more than one if applicable)*
    ❑ financial benefits
    ❑ domestic responsibilities
    ❑ on health grounds
    ❑ a feeling of dissatisfaction with work/organisation
    ❑ to take-up your own business / another job
    ❑ other reasons (specify) :

4.   On what grounds did the organisation ask you to leave ?

5.   How many members are there in your family ?

6.   How many **earning** members are there in your family ?

Before you left the last organisation :   _____
After you left the last organisation   :   _____

7.   What were the main reasons behind the downsizing exercise in your organisation ?
❏ inadequate financial performance
❏ need to reduce overall wage bill
❏ mismatch between skills of staff and required tasks
❏ competitors implemented downsizing
❏ need to improve staff productivity
❏ other reasons (specify) :

8.   How did you learn about the downsizing exercise in your organisation and the reasons for the same ?

9.   What was the nature of the communication regarding downsizing issued by the organisation ?

(Tick the appropriate box or boxes below)		
Nature of Comm. → ↓	General	Individual
Oral	❏ Group Meeting	❏ Personal Meeting
Written	❏ Circular/Notice	❏ Personal Letter

10. How did you find the communication regarding downsizing issued by your organisation ?
❏ Good / Sensitive
❏ Appropriate
❏ Bad / Insensitive

11. Do you think that the way downsizing was communicated could have been handled in a more appropriate manner ?
❏ Yes
❏ No

12. If you were in charge of your company's downsizing communication, what would you do differently ?

13. Approximately how many people left the organisation ?
    From the local office :
    Number -   In % terms -
    From the whole organisation :
    Number -   In % terms –

14. Age profile of those who left the organisation :
    (tick more than one if applicable)
    ❑ below 30   ❑ 30 – 40   ❑ 40 – 50   ❑ above 50

15. In your opinion, what proportion of those who left the organisation were asked to leave by the management ?
    ❑ below 20%   ❑ 20 – 40%   ❑ 40 – 60%   ❑ above 60%

16. Are any of your friends still working there ?
    ❑ Yes
    ❑ No

    Are they happy ?
    ❑ Yes
    ❑ No

17. Did the organisation offer any compensation to those who left ?
    ❑ Yes
    ❑ No

    Was it fair ?
    ❑ Yes
    ❑ No

18. Did the organisation offer any other support/assistance ?
    ❑ Yes
    ❑ No
    If Yes, give details :

19. How did your leaving the job affect your family from the financial point of view ?
    ❑ Positively
    ❑ Negatively
    ❑ No impact

20. How did your leaving the job affect your family from the social point of view ?
   ❑ Positively
   ❑ Negatively
   ❑ No impact

21. How did your friends/relatives perceive your leaving the job ?
   ❑ Positively
   ❑ Negatively
   ❑ Indifferent

22. Is your family better off after your leaving the job ?
   ❑ Yes
   ❑ No
   ❑ No impact

23. In your opinion, was the downsizing inevitable in your organisation ?
   ❑ Yes
   ❑ No
   ❑ Not sure

24. Has your organisation benefited from the downsizing ?
   ❑ Yes
   ❑ No
   ❑ Not sure

25. Given a chance would you like to rejoin the same organisation ?
   ❑ Yes
   ❑ No

* * *