

Downsizing: Making a bitter recipe sweeter

Aarti Ramaswami, Professor of Management and Deputy Dean of ESSEC Business School Asia-Pacific draws on her research into why downsizing is viewed as justified or unethical to provide an at-a-glance toolkit for organisations, leaders, managers, and the HR function.

From the paper
Ethics Trumps Culture?
A Cross-National study of
Business Leader
Responsibility for Downsizing
and CSR Perceptions:
C. Lakshman,
Aarti Ramaswami,
Ruth Atlas, Jean F. Kabongo,
J. Rajendran Pandian.



An alliance with a purpose

THE 3 Ps IN A CoBS POD



PERCEIVE

with a set of key takeaways



PROJECT

with food for thought: on yourself, your organisation and the wider context



PERFORM

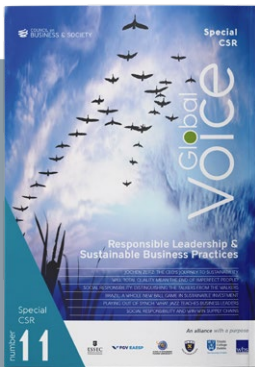
by putting it all into practice using action tips





● PERCEIVE with a set of key takeaways

- Downsizing – the conscious, planned effort to reduce employee numbers to achieve objectives – has been used since the 1980s to cope with the tough demands of a rapidly globalizing and increasingly technological economy.
- Downsizing a firm's workforce is sometimes necessary. But it can be a bitter pill to swallow – not only for employees but also for communities and, paradoxically, for the very leaders who make the decision to cut the workforce.
- Research has shown a positive relationship between the equity portfolio incentives of CEOs and their layoff decisions and positive stock returns. Though this is short-term in nature and only effective in periods of economic non-recession.
- Downsizing also generates negative effects: It creates victims, survivors, and perceived persecutors among a firm's employees and management and also the wider community of stakeholders and the firm's shareholders. If the firm's downsizing is perceived as unjust, then share price can plummet.
- Public opinion is important. It is crucial for management to show their internal and external stakeholders that the decision to downsize is justified. Moreover, it is necessary to be seen as ethical for it to be also seen as socially responsible.
- If employees are measured by level of performance, commitment, and skills, then the downsizing decision is likely to be seen as ethical and pragmatic.
- Use of improper procedures and lack of employee involvement leave the decision-makers wide open to claims of being unethical. Supervisory support, clearly defined lay off criteria, good procedure, and the possibility for employees to express themselves are key.
- Leadership clarity and communication are capital in shaping stakeholder acceptance of downsizing.
- Naming the responsible cause – be it difficult times or fierce competition – means that both victims and survivors will consider downsizing as socially responsible and inevitable in order to save the firm. In contrast, when downsizing is due to management failures, workers do not see things in the same eye.
- As such, top management needs to be wary of culture when planning and rolling out their downsizing strategy.
- Research among employees in the USA, France, India and Estonia showed that they are equally sensitive to fairness in the selection criteria for lay-offs, the equity of procedures, and the opportunity for employees to communicate.
- But when the question of responsibility for the downsizing decision arises, differences in culture have the edge over universal ethics. Survivors – those keeping their jobs – in low power distance cultures (USA and Estonia) reacted more negatively to downsizing than those in high power distance cultures (France and India) when downsizing was due to poor management.



Download the full article on Prof. Arti Ramaswami's research into downsizing and ethics in: Global Voice magazine #11: Responsible leadership & sustainable business practices.

www.council-business-society.org/downloads



PROJECT with food for thought



- To what extent does the CSR dimension influence your organisation's strategic decisions?
- In the context of downsizing, who would be impacted internally and externally?
- What nationalities and cultures are employed in your organisation? What universal ethics or values make them tick?
- What cultural norms, behaviours and values among your workforce have an impact on their way of working and how they view management and the organisation?
- Are there existing mechanisms or bodies set up for communicating to employees and external stakeholders (the press, the community, shareholders, local authorities, etc.)? Is there a clear procedure for communication with them?
- Have you yourself experienced, or been victim to, a downsizing decision? What emotional and psychological impact did this experience have on you? How could you have been better prepared? What support system could be set up in your company to help employees through a possible downsizing process?

Thoughts



● PERFORM

by putting it all into practice

CHECKLIST

- 1. Ensure that the CSR dimension is considered in your downsizing strategy:** It is crucial for management to show their internal and external stakeholders that the decision to downsize is justified. Moreover, it is necessary to be seen as ethical for it to be also seen as socially responsible.
- 2. Use clearly specified lay-off selection criteria:** Level of work performance, employee commitment and employee skills sets. Organisations that do not are seen by employees as socially irresponsible and the selection process is seen as biased and unfair.
- 3. Use proper procedures and involve employees (and/or their representatives):** Failing to do this leaves the decision-makers open to claims of being unethical. Give clear dates and timelines.
- 4. Set up supervisory support and coaching:** Losing one's job is a shock and a stress-producer, with many additional repercussions for the employee on both professional and personal levels. Take this into account and help both victims and survivors through the process. Provide both with an action plan for the future.
- 5. Provide the possibility for employees to express themselves:** This will help foster trust and reduce the psychological pressures the workforce will have to bear. Let emotions be expressed. Learn from employees.
- 6. Name the responsible cause of the downsizing decision:** Be it difficult times or fierce competition, both victims and survivors will consider downsizing as socially responsible and inevitable in order to save the firm. Be clear, transparent and provide hard facts to justify this.
- 7. Postpone, scrap or modify the downsizing decision if necessary:** Downsizing due to management failures or incompetence will be seen by internal and external stakeholders as unjustified. Leadership is meant to inspire and take just decisions. Research has shown that downsizing to increase share price is short-term in impact and only effective in periods of non-recession.
- 8. Take into account universal ethics:** Research points to employees in the USA, France, India and Estonia being equally sensitive to fairness in the selection criteria for lay-offs, the equity of procedures, and the opportunity for employees to communicate.
- 9. Take into account culture:** Survivors – those keeping their jobs – in low power distance cultures (USA and Estonia) seem to react more negatively to downsizing than those in high power distance cultures (France and India) when downsizing is due to poor management.
- 10. Prepare a checklist:** Is the decision justified? Have I/the company measured the potential impact on employees and the wider community? Have I/the company taken into account universal ethics and the cultural dimension of the workforce? Has a clear process been set up? Have clear, and fair, selection criteria been established? Has a mechanism for employees to express themselves been set up? Have supervisory support and coaching mechanisms been included in the process?



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