

Abstract

Layoffs, frequently called downsizing, describe the process in which companies remove temporarily or indefinitely a number of employees from their payroll. The reasons why companies downsize are related to dramatic changes occurring in the environment of the organization. Globalization and the breakdown of trade barriers among nations and the emergence of technology and automation have also necessitated companies to downsize. For companies to practice effective downsizing they must follow the following steps: education, reinforcement of company goals and values, honesty and dignity at all time, planning, and communication. Besides the steps described above there are other important points to consider when conducting downsizing, including setting a clear vision and goals, managing the transition effectively, planning, insight, teamwork, compassion and skills. Following, I will use two best practices- the Japanese approach and Taiwanese company- to describe the best way to do layoffs and downsizing.

Introduction

Facing the threat of job loss and seeing others lose their jobs can be a traumatic and bitter experience. This is one reason why many excellent companies do everything possible to avoid layoffs. However, even the most employee-friendly companies may deal with difficult economic conditions by reducing their workforce. Companies therefore have to ensure that they develop appropriate and well thought-out plans before implementing the downsizing and layoff process.

Layoffs and Downsizing

Layoffs, frequently called downsizing, describe the process in which companies remove temporarily or indefinitely a number of employees from their payroll. The general purpose of this practice is to reduce the organization's burden of excess labor costs when human resources cannot be used effectively.

The reasons why the company downsizes are related to dramatic changes occurring in the environment. This may make the company lose a market share in its industry or respond to fierce competition from its rivals resulting in the need for the company to cut costs through altering its size to fit its market and customer base. Globalization and the breakdown of trade barriers among nations and the emergence of technology and automation have also necessitated the company to downsize. Thus, the overriding rationale for downsizing by the company appears to be the need for survival and the ability to compete in the new global economy (Beylerian and Kleiner, 2003).

Strategies for Layoffs and Downsizing

For the company to practice effective and successful downsizing, the following steps should be included:

- Education
- Reinforcement of the company goals and values
- Honesty/dignity at all times
- Planning
- Communication

Education – The company needs to educate its employees on the needs of the organization through regular meetings with employees in focus groups or feedback sessions. This will send a clear message to employees that the management is receptive to their needs and at the same time, it will help the management to design an effective downsizing program. Education can also take the form of training the employees to look beyond their existing roles and duties thus prepare them for taking additional tasks and roles in the event of a downsizing.

Reinforcement of the company goals and values – The company must ensure that the vision, mission, goals and values of the organization are clearly articulated and reinforced at every opportunity so that the employees embrace them. In the event of a downsizing, workers will then better relate to the rationale of the downsizing. This has to start with the leadership of the CEO and be reinforced by HR policies and practices that support these values.

Honesty and dignity at all time – Employees should be treated with honesty and dignity from the recruitment process through to eventual employment. If employees are dealt with honesty, in the event of a downsizing, they will better understand the rationale for this decision and thus develop a sense of wanting to overcome the problem with the company. Employers should also treat employees with compassion during a downsizing. In particular, HR should follow-up with each displaced employee in whatever way the company can support or assist him/her in his/her outplacement needs (Greenspan, 2002).

Planning – In order for layoffs and downsizing for be effective, successful workforce planning is crucial. For a company to develop a successful workforce management strategy, it must first understand the cost-reduction stage of characterizes its current

business position. This reveals how long the company needs to reduce expenditures and takes into account the current economy and the duration of the economic downturn.

There are stages that allow for better classification of appropriate downsizing practices.

- Stage One: Short Range Adjustments

This stage develops from a temporary slowdown in business and is identified by a decrease in short-term revenue forecasts. A company in this stage needs to implement minor cost-reduction measures to match the short-term change. Some of the best practices associated with this stage include:

- Soliciting cost reduction methods from employees
- Instituting a hiring freeze
- Instituting mandatory vacation
- Compressed workweek
- Temporary facility shutdowns
- Salary reduction

- Stage Two: Mid Range Adjustments- Secondary Cost Reduction

The need to implement this stage is when the company perceives that the expenditure adjustments will take over five to ten months. In this stage as in stage one, upper management and the HR department must clearly communicate the underlying purpose of the expenditure adjustments to the employees and state that they are trying to avoid implementing a more severe cost reduction method. Some of the best practices associated with this stage include:

- Extended Salary Reduction
- Voluntary Sabbaticals

- Employee Lending-When a company lends an employee to another company for a period of time

- Stage Three: Long-Range Adjustments

These adjustments are necessary when a company needs to institute expenditure reductions for 11 to 24 months. This stage consists of practices implemented by the HR department. The cost reduction practices should focus on minimizing the impact on employees and downsizing in a way that layoff employees have a desire to return to the company when the economy rebounds. Some of the best practices associated with this stage are:

- Maintaining communication with laid-off employees
- Providing rehiring bonuses
- Providing stock option and severance packages
- Conducting Job fairs for displaced employees

Communication – “Effective communication before, during and after the downsizing will help to foster a sense of opportunity rather than relief. Communication should include credible notice of the need for the downsizing and of the fact that it results from farsightedness rather than managerial greed or incompetence” (Bradford 1997). Effective and open communication will thus assuage the “survivor guilt” of the employees who were not laid off as they know that the laid off workers were given time to find new jobs. In the case of the displaced worker, his/her productivity will not drop as quickly as he/she had more advance notice. This will further help in gaining the commitment of the employees as they will see that downsizing is necessary for the company’s survival and that the management can be trusted and will be fair.

Best Practices

The Japanese Approach

As the Japanese economy faces one of its worst financial crises in decades, it is faced with a downturn to a decrease in their workforce. Unlike American companies, the concept of “lifetime employment” is important to the Japanese and has shaped their approach to downsizing. Downsizing is planned as a series of stages aimed at lowering cost by at the same time trying to maximize and preserve the highest number of jobs possible. This is done through what is known as “*koyochosei*” meaning the “adjustment of employment levels. The different stages in the Japanese way are:

- “*Koyochosei*” which means a reduction in the number of hours worked through overtime; reduction in the hours/days worked and the practice and internal transfers through job rotation (to develop the skills of the worker) or transfers due to a vacancy.
- Employment freeze, non-renewal of contracts of part-time workers and the use of temporary leave. The objective of the temporary leave is to cut labor costs as the leave will be accompanied by a wage cut.
- Transferring workers to other companies (suppliers and subsidiaries). The transfer takes two forms, “*zaiseki shukko*” where the workers are temporarily transferred by are still considered part of the original company and “*iseki shukko*” where the workers are released to be employed by other companies. The latter is basically considered a form of early retirement from the original company. Only after the other alternatives have been used to adjust employment levels will

voluntary and compulsory redundancies be used. This approach is equivalent to layoffs and downsizing. As voluntary redundancy does not involve coercion, it is widely used in Japan through compulsory redundancies are not uncommon (Mroczkowski and Hanaoka, 2000).

The salient features of the Japanese way to downsizing involve careful planning and a gradual and systematic approach. Employees are consulted at all stages and communication is open. Layoffs are considered as a last resort after all other alternatives have been employed. Policies and programs are in place to minimize the effects of negative downsizing. Training and retraining is also provided.

Inventec Corporation

Established in 1975, Inventec Corporation, a Taiwanese company, began its operations with production of calculators. For other 24 years, it has evolved into a large environmentally friendly enterprise with ISO certifications and is currently one of three largest producers of laptops in Taiwan. Its workforce is composed of approximately 4,000 dedicated employees, and its revenues are in excess of NT\$46 billion, which is equivalent to US\$1.34 billion.

In 2002, Inventec Corp. was forced to close one of the factories located in Linkou, Taiwan. The reasons that forced Inventec Corp. to make this tough decision are the following:

- Higher direct payroll costs than those of its major competitor-Quanta Computer, as well as low sale revenues.
- Manufacturing cost in Taiwan is six times as much as that of China.

In order to maintain financial balance and competitive advantages, the company decided to reduce personnel cost by laying off employees who worked on the assembly lines.

Inventec Corp. executed its downsizing plan by way of voluntary terminations. They prepared very generous compensation packages, which included severance pay based on years of service. For instance, employees who have worked over one year in the company are eligible to receive at least ten months payment as compensation. The longer their length of employment, the higher the compensation they can receive. Currently, Inventec Corp is the only company that has offered this type of compensation package in Taiwan. In addition, Inventec Corp. also surveyed employees' opinions and discussed it with them before announcing the layoff to obtain employees' reaction to the change. The company encouraged the employees to leave voluntarily and if they wanted to transfer to other factories, management offered the necessary training and development needed to successfully perform the new job. The most important purpose of offering this assistance was to provide employees with opportunities that will promote their competencies and thus become more marketable (Shui, 2002).

With the global economic depression in recent years, Inventec Corp. is following the global step of downsizing. Therefore, restructuring the organization and reducing personnel and manufacturing costs are inevitable. Without properly controlling cost and developing the proper action plans for this situation, the organization would have been bankrupt. Inventec Corp. has chosen to reduce personnel costs by transferring their assembly lines from Taiwan to China in order to stay competitive. With the careful

planning, Inventec Corp. received little complaints and protests when downsizing and layoff.

Conclusions

With the current global economic crisis, companies are increasingly turning to downsizing and layoffs to maintain their survival and ability to compete in the global economy. This has resulted in decrease of morale, productivity, loyalty and commitment of employees. Both the “survivors” and the displaced workers also experience tremendous emotional and psychological trauma. Companies therefore have to ensure that they develop appropriate and well thought-out plans before implementing the downsizing process and even more importantly after the downsizing process has been completed to meet these challenges.

References

Beylerian, Marc & Kleiner, Brian H. (2003). The downsized workplace. *Management Research News*, Retrieved from Rutgers University ABI/INFORM Global database Web site: http://www.libraries.rutgers.edu/rul/indexes/search_guides/abi_inform.shtml

Downsizing has become a watchword as company layoffs, mergers and acquisitions capture the headlines. Downsizing and mass layoffs are a plague afflicting not only US companies but also organizations in the entire industrial world. In addition to ruining employee morale, layoffs corrode loyalty and cause tremendous pain to employees, who, through no fault of their own, find themselves out of work. The subject of layoffs is controversial. On one side, critics paint a picture of layoffs as nothing but the abandonment of American workers by greedy corporate executives in their quest for profit, while those on the other side believe that massive layoffs are a necessary response to economic realities.

Bradford (1997). Planning for a leaner, fitter company. *Management Development Review*, Retrieved from Rutgers University ABI/INFORM Global database Web site: http://www.libraries.rutgers.edu/rul/indexes/search_guides/abi_inform.shtml

Like layoffs, downsizing results in a company having fewer employees and, usually, a lower wage bill. But there are significant differences in the two processes, such as: 1. downsizing offers strategic opportunities, whereas layoffs often have negative long-term effects. and 2. strategic downsizing can happen during growth as well as decline, whereas layoffs are a function decline. Downsizing should aim to raise and maintain overall productivity per employee, and so position the company for the long term. Downsizing cannot be driven by short-term cost-cutting needs, unless the company's existence is threatened. In this case, the firm is in survival mode and the most likely outcome will be expensive layoffs. Proper planning for the future, which may involve downsizing, should help a company to avoid having to make layoffs.

Greenspan, David S. (2002). Downsizing with dignity. *Employment Relations Today*, Retrieved from Rutgers University ABI/INFORM Global database Web site: http://www.libraries.rutgers.edu/rul/indexes/search_guides/abi_inform.shtml

Downsizing has become a part of everyday life. It is one of the most important tools used by US companies to achieve profitability. With each new announcement of layoffs, companies must challenge themselves to make the right who, how and why decisions as they evaluate their human capital. Employees who are laid-off as well as who remain in the organization must feel that the company has acted wisely, justly, sensitively and honestly, otherwise the short-term financial win produced by the downsizing will quickly dissipate. Once a company decides that a downsizing is necessary, it must also determine what is necessary to implement it with dignity.

Mroczkowski, Tomasz & Hanaoka, Masao (2000). Effective rightsizing strategies in Japan and America: Is there a convergence of employment practices? *Readings and cases international human resource management* (3rd ed., pp 271-281) Canada: South Western.

Japan's spiraling economic deterioration has put pay to their concept of "lifetime employment" and the preservation of jobs as Japanese companies have found it increasing necessary to cut employment costs and overstaffing. Japanese companies need to study the best practices of American companies that have successful strategies in the employment restructuring which includes programs of assistance and training for the laid-off. American and Japanese companies should develop downsizing activities that are well thought out and planning that involves both the downsizing process and a plan after the downsizing has been completed. Both American and Japanese companies should nevertheless develop these strategies tailored to their own (American or Japanese) conditions.

Shui, Betty (2002, November) Layoff—Inventec, [electric version], ET Today News, Retrieved from: www.ettoday.com/2002/11/09/811-137660.htm

With the global economic depression in recent years, Inventec Corp. seems to follow the global step of downsizing. Therefore, restructuring the organization and reducing personnel and manufacturing costs are inevitable. Without controlling cost properly and developing the proper reactions for this situation, the organization would be bankrupt before long so Inventec Corp. chooses reducing personnel costs and transferring their production line from Taiwan to China in order to confront with this situation. Inventec Corp. offered very general compensation packages and severance pays that exceed the regulations in Employee Laws. Unlike other companies, Inventec Corp. receive little complains and protests when downsizing and layoff. Moreover, Inventec Corp. also discusses with employees about what challenges the company encounters, surveys their opinions, holds training activities to promote their professional abilities, and help them transfer to other factories or to find another job. Because of this humane plan and its related measures, the first day when Inventec Corp. announced this policy, more than one hundred employees applied for leaving the job, and five hundred employees in Linkou factory who are directly influenced by this policy accepted the layoff decision and does not protest against the company.

Susan E. Jackson & Randall S. Schuler. *Managing Human Resources-Through Strategies partnerships* (8th ED), Thomson

Managers from the very largest multinational firms to the smallest domestic firms claim that managing people effectively is vital to success in today's highly competitive marketplace. The challenge of effectively managing human resources is recognized throughout the world. According to Flors Maljers of the British-Dutch company Unilever, "Limited human resources, not unreliable capital, are the biggest constraint when companies globalize." The leaders know that people are the core of any organization. To succeed, they must have the best people available working productively throughout the companies.