

Downsizing of Labour – Forms and Their Rationale

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Abstract

Though the concept of downsizing of workers is as old as the concept of firm itself, the process gained momentum in India post 1980s, when mechanization of workforce was emphasized. Downsizing is the systematic reduction of a workforce through an intentionally instituted set of activities by which organizations aim to improve efficiency and performance (Appelbaum et al., 1987b; Cameron, 1994a; Cascio, 1993). It can take various forms, namely - closure, strikes, lock-outs, lay-offs, redundancy and retrenchment of workers. The key objective of the study is to understand the meaning and rationale for downsizing workforce in an organization or sector and identify those key variables which play an important role in the process. The concluding remarks as an afterthought briefly highlight the options or measures available to workers who have been affected by downsizing.

Keywords : Firm, Downsizing, Mechanization Workforce, Closure, Redundancy, Retrenchment, Lay Off, Lockouts, NRF, Reduction of Workforce, Efficiency)

Introduction:

India is a labour abundant economy. Labour is vast in number and hence cheap in supply. The expression 'Exit Policy' has gained much significance in India since the second half of 1991, when 'LPG (Liberalization-Privatization-Globalization) Policy was introduced in India. Implementation of a structural adjustment programme was viewed as imperative. Downsizing of labour force is considered instrumental in implementing an 'Exit Policy' to bring about structural adjustments named in the secondary and tertiary sectors of the Indian economy.

Contemporary terms such as reengineering, rightsizing, layoffs, reductions in force, organization decline, and reorganizing are regularly used as substitutes for downsizing. While they do denote to some extent a common meaning, each has its own connotation (Cameron, 1994a; de Meuse et al., 1994; Freeman, 1994). In a business enterprise, downsizing is reducing the number of employees on the operating payroll. Datta R.C (1994). Some users distinguish downsizing from a layoff, with downsizing intended to be a permanent downscaling and a layoff intended to be a temporary downscaling in which employees may later be rehired. (Wages of downsizing, Business Standards, 2nd August 2005).

Cameron (1987), defines downsizing as a positive and purposive strategy: "a set of organizational activities undertaken on the part of management of an organization and designed to improve organizational efficiency, productivity, and/or competitiveness." Downsizing can be considered thus as a reduction in the size of the workforce. Downsizing does not necessarily imply a reduction in the assets of the organization; an organization may contract out a function that was previously done by permanent employees. The elimination of the jobs of the employees constitutes downsizing. (Business Standards, 2nd August, 2005.)

Forms of Downsizing

- a) Closure
- b) Strikes
- c) Lock-outs
- d) Lay-offs
- e) Redundancy of Labour
- f) Retrenchment of Labour

a) Closure: The closure of a place such as a business or factory is the permanent ending of the work or activity there. Included among the reasons cited for plant closings were

1. low productivity
2. high wages
3. inflexible work rules

Given the nature of the reasons for plant closings and the magnitude of the problem, collective bargaining may be the most appropriate institution to solve it. However, assuming that plant closure is a mandatory topic of bargaining, it is recommended that bargaining occur in, and only in, those instances in which there is a real probability that bargaining could lead to a solution.

b) Strikes: A strike is a concerted action or combined effort by a labour union designed to exert pressure on an employer to accede to certain demands. Today, the right to strike by employees is usually governed by the National Labour Relations Act, enacted during the New Deal and often called the “Magna Carta Labor” (Rao, 2001) In professional sports, strikes have occurred with some frequency over the last three decades. In addition to the 1994 strike, baseball endured strikes in 1972 and 1981.

A strike is the primary weapon to force the management to either adhere to the employees/workers’ demands, compromise or get back to the negotiating table. In some cases, collective bargaining agreement may have a no-strike clause eliminating the option

It is important to note that in a strike for economic reasons (Rao, 2001) (which constitutes the overwhelming majority of strikes) the strikers may be replaced. Also, the longer the strike lasts, the weaker the union. A very powerful union can walk off the job and the employers may capitulate.

c) Lockouts: A lockout, on the other hand, is the employer counterpart of a strike. In a lockout, the employer prevents the players from working in an effort to gain a better bargaining position in labour negotiations. A lockout may occur upon the expiration of a collective agreement. Lockouts give the employers/management the tactical advantage because the timing is made by the league or consortium (in the case of sports), rather than the employee’s union (Rao, 2001)

d) Lay-Offs: An employee is said to have been laid-off on any way, if the employer fails, refuses or is unable to provide him employment on that day within two hours of his presenting himself for work at the normal appointed time, on account of shortage of coal, power, raw materials, or accumulation of stocks or break-down of machinery or natural calamity or for any such other reason. The expression “any other reason” should be construed to mean reason similar or analogous to the preceding reasons

A Lay-off is thus the termination of employment of an employee or (more commonly) a group of employees for business reasons, such as the decision that certain positions are no longer necessary.

Reasons for Lay-Offs

1. In the first case, the goal is to decrease a company’s labour cost. Typically the reasoning is that the company will be able to generate the same gross revenues in the future with a smaller number of workers: if company’s revenues do indeed stay constant while labour costs go down, then profits will rise. Additionally, some lay-offs occur when the management believes that revenue is forecast to go down: by reducing labour costs, companies can maintain profitability despite reduced sales.

2. In the second case, lay-offs are driven by macroeconomic forces. A company determines that its workers can no longer profitably produce products at current market prices. A company will only employ workers when the per-hour value of their output (marginal productivity of labour) exceeds the cost to employ those workers.

When a part of a section or demand is laid-off, the management shall define the basis for laying off individuals. The basis for lay-off may be merit or seniority. If merit is the basis, employees with unsatisfactory performance are laid-off first. If seniority is the basis of laying employees off, then those with the shortest period of service to their credit

are laid-off first and the other employees are retained as long as the conditions permit.

The Following Is A Loss Of Some Of The Top Technology Companies, India And Abroad, That Announced Job Cuts, In 2018.

Company Name	Employees Laid Off	Reasons Cited
1. Jabong.com	200	Merger of Jabong and Myntra led to restructuring
2. Cognizant India	200	Eliminating senior-level jobs in the company
3. AT & T	4,600	No official reason stated
4. Broadcom	1100	Broadcom acquired network gear maker Brocade
5. Xerox	350	No official reason stated
6. Cisco Systems	460	No official reason stated
7. Telstra	1200	Cost cutting
8. Aircel	5000	Bankruptcy reported
9. Amazon India	60	Global restructuring
10. HP Inc	5000	Ongoing restructuring plan
11. BT	13000	No official reason stated
12. Verizon India	1,000	No official reason stated
13. Uber	100	No official reason stated
14. Deutsche Telekom	10,000	No official reason stated
15. Erikson	10,000	No official reason stated

e) Redundancy

Most of the market economies suffer from redundancy and labour hoarding. Redundancy emerges when enterprises adjust their manpower due to changes in productivity caused by technological change, restructuring of enterprise, redesigning of jobs and division of labour and rationalization. The gains in productivity make certain units of labour redundancy, which needs labour shedding (Seth and Aggarwal, 2001)

Conceptual Basis for Redundancy A Concept Different From Unemployment

Unemployment and redundancy are conceptually and analytical distinct phenomenon. Unlike unemployment, redundancy is more recent term (Ashton, 1986 and Garraty, 1978). While the problem unemployment emerged during the Great Depression, the problem of redundancy emerged in post-war era of relative full employment, where there was general absence of joblessness (Kahn, 1964.) this distinction is essential to know that redundancies are caused by automation, mechanization, rationalization and fall in demand for a product. Sources of redundancy in the organized sector:

Redundancy in the organized sector is arising not only due to the sick units shedding workforce through early separation schemes, due to legal or illegal closure of sick industrial units, but also due to many other factors including (Datta, 1994)

1. New Technologies : In the new model of competition-oriented integration as part of international markets, firms are introducing new technologies and workplace innovation with the objective of not only increasing the speed of operations, accuracy, reliability and but also product quality and customization. Though, overall profitability and efficiency and productivity, major undesirable side effects of new technology are related to its negative impact on employment and skills. The fact is that new technology is capable of totally replacing the human element in performing work. The worker along with the stages of production process, is removed. Workers are devalued, their power and skills made redundant and ultimately displaced from their jobs (Datta, 1994).

2. New work practices and Labour Redundancy: One of the new workplace practices is ‘multitasking’, which many a times is named as ‘multiskilling’. In modern management literature, this is known as ‘functional flexibility’. Since the practice has generated labour redundancy and the ones becoming redundant are likely to opt for under ‘voluntary’ retirement schemes, the ‘numerical flexibility’ is also achieved by management. ‘Numerical flexibility’ is in fact built in ‘functional flexibility’ and either of these results into job losses.

3. Other sources of Redundancy include:

- a) Outsourcing manpower
- b) Off-loading production
- c) Regular downsizing of healthy industrial units to develop adequate workforce
- d) To increase the market value of public sector units to facilitate privatization
- e) Retrenchment

Retrenchment is a government a government-initiated policy, ministry-wide to cut down the number of employees and subsequently, reduce costs incurred by government.

Implementation of Retrenchment

According to Behn (1988) says that managers should maintain productivity. Retrenchment is dependent on leadership and management. Behn (1980) says leaders must explain the reality, take a long term view, develop a corporate strategy, develop measures of performance, and be passionate or considerate. Burke (1988) suggests that the manager or consultant should the following: set goals. Participate in decision-making, redesign jobs to improve person-environment fit, and orientation programs and programs to manage staff reductions.

Costs and Benefits of Retrenchment

Retrenchment has attracted different interpretations and effects (Standing and Tolkman, 1991). It has costs and benefits depending on how it is managed. The conceptual model shows that need for retrenchment; its planning, implementation and impact are related. It also shows that the need for retrenchment leads to planning and then implementation of the exercise. Implementation may result in positive or negative consequences and this has implications for employees who are retrenched and those who stay on their jobs. Retrenchment has implications for both organizations, and the country. Feedback about retrenchment effects is necessary whether the effects are positive or negative. Particularly, corrective feedback on consequences is necessary to improve subsequent steps and future retrenchment exercises.

Disadvantages of Retrenchment

Levine (1984) found that retrenchment resulted in fiscal stress and human resource shrinkage, that caused many difficult problems for governments for government managers. These problems are caused by methods used by managers to cope with the need to retrench and decrementalism (decrease in budget without loss of visible operating effectiveness).

Biller (1976) is of the view that organizational costs increase as a result of retrenchment due to the package granted on retrenchment and catering for the needs of re-training those retained by the organization. Cascio (1986) supports this view.

Retrenchment may create demoralization, dampen organizational productivity and increase voluntary retrenchment, discourage the organizations' most talented and productive members who will end up leaving the organizations Behn, 1980) and Standing and Tolkman (1991) warn that the introduction of voluntary retrenchment arrangements may impose considerable financial burdens on the organization.

Factors for Effective Retrenchment

- a) Morale and Productivity

It is evident that retrenchment will have a substantial impact on the workers involved. However, the effect can be much more widespread. Those employees who are left behind and managers who deal with the retrenchment can be affected by the process, especially if it is badly handled or created unnecessary conflict. While it will always be difficult to maintain employee morale during a retrenchment exercise, there is likely to be a better response to the process of retrenchment that appears to be based on minimizing the negative impact on the morale and productivity

of the affected workers and on clear grounds that employees and their representatives can understand and contribute towards (Baguma, 2002).

b) Avoiding misinformation: Sound retrenchment practices should be as transparent as possible. A sound communication strategy and clear information will both enable the consultation process to run smoothly and make it much more likely that employees, their representatives and other stakeholders will be able to come up with alternatives to job losses or indicate ways in which the effects of job losses can be mitigated. Full and frank disclosure of information helps to avoid rumors and misinformation, which can fuel low morale and lack of productivity in the workplace. A transparent process that engages key stakeholders early on decreases the likelihood of resistance to changes in the longer run.

c) Efficiency: It is much easier for a company to manage a retrenchment program that has clear rules and boundaries than one that is open to subjective manipulation. If the process is fair and objective, challenges to the process are also much less likely. (Baguma, 2002)

The General Downsizing Of The Workforce May Rest On The Following Factors:

(a) Changed product mix and the rapid disappearance of the requirement for traditional skills

(b) Changing location of production and obstructed mobility of workers

(c) Non-renewal of previously acquired specialization by workers

(d) Abrupt efforts by the owners of non-labour resources to accommodate the entry of traditional capital in the firm

(e) Managerial inefficiency in diversification of products to compensate the probable contraction in market faced by the firm

(f) Managerial apathy towards Research and Development and training for skill formation of workers

(g) Application of capital deepening technical process

(h) Downsizing of less efficient workers on the basis of intra-efficiency parameters accepted by the owners of non-labour resources.

Conclusion

The problem of downsizing of labour in India seems to be quite serious. In a labour surplus country like India, undertaking downsizing of workforce will certainly have adverse consequences on the labour market and subsequent policies should not only look to cushion the workforce from these adverse effects but also provide a long term solution in terms of growth and opportunities. All forms of downsizing of workforce lead to terminating the judicial relationship between the employer and employee. However, irrespective of the various forms of downsizing, the fact remains, that the workers rendered invalid, either voluntarily or involuntarily, has both – micro and macroeconomic implications. Prolonged downsizing of workforce can be at the cost of industrial growth of the economy. There are various options available to workers who have been affected by downsizing, such as 'The Voluntary Exchange Scheme', where, in its attempt to realize maximum output benefits from 'learning effect', the enterprises may plan rationalization of its workforce by offering VRS (Ratnam, 2001). According to Narula (2004) "VRS signifies the termination of employer-employee relationship voluntarily by worker in exchange of retirement benefits".

Also, the National Renewal Fund (NRF) is mainly being used to finance bankrupt government enterprises in paying up workers dues in the form of lump sum compensation. About 83,000 workers (mostly from the N.T.C mills) were financed by the NRF. Trade unions can play an important role in minimizing unproductive strikes and lock-outs by having their priorities set right and communicated to the management on an on-going basis.

Even if there are alternatives available for workers affected by organizational or industrial downsizing, there are

limitations with regard to the extent workers can make use of them. For example: Implementing Voluntary Retirement Scheme by an organization requires a thorough understanding by the management and the outgoing worker, of the legal issues associated with the process. Any misunderstanding or lack of information on the same can lead to a sub optimal scenario and can even lead to exploitation of the workers. Similarly, instead of a lump sum payment, which kills the initiative of the worker and encourages his permanent withdrawal from the labour force, the National Renewal Fund should focus on providing a stream of tapering off unemployment benefits up to 2 or 3 years. It should operate as a Skill Development Fund to provide quality educational training to those sections of the labour force that have not undergone formal education.

References

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