Job-shedding: myths and folly

Phil Teece

Manager, personnel & industrial relations

This column has often been critical of industry's persisting passion for 'downsizing': the planned elimination of jobs. In 1994 (volume 15/2) and 1996 (volume 17/8) *inCite* carried my articles outlining research findings from the USA and the concerns of leading commentators about their social implications. The topic is of such importance, both to managers and their staff, that I make no apologies for discussing it again.

Australian research is now starting to appear. It is every bit as disturbing as that from overseas.

For example, in a major study supported by the Australian Human Resources Institute, University of Southern Queensland Professor Craig Littler and a research team have studied downsizing in a wide range of Australian and New Zealand organisations. Their conclusions are clear: more than half of Australian enterprises in the survey have deliberately shed staff since 1993, many on several occasions; a majority have suffered negative outcomes by doing so; the frequency of downsizing has produced a severe incidence of 'survivor syndrome', in which employee performance and commitment has collapsed; and Australia's experience is similar to that identified in earlier American studies. What then are we to make of the survey's other dominant finding: that most Australian managers expect downsizing to continue in the immediate future? Perhaps only that fashion remains a far more powerful driver of managerial policy than fact.

So-called 'survivor syndrome' is a critical issue in organisational restructuring. Fundamentally, it is about the emotions and behaviour exhibited by those staff who remain in an organisation after downsizing has occurred. It was American academic Joe Brockner who carried out the pioneering research on the topic, beginning in the mid-1980s. His work showed that lay-offs generated a variety of psychological responses in survivors, all of which had negative effects on organisational performance. The Australian study now confirms those findings. Using six measures, the researchers find that job dissatisfaction has increased, staff motivation has declined, perceived promotion opportunities have narrowed, staff commitment has been reduced, workforce morale is down and concerns about job security continue to grow. It is particularly interesting that these Australian findings are based on judgements by chief executives and personnel managers, which could reasonably be expected to understate negative employee reactions to policies for which they are primarily responsible. The real outcomes could be even worse than they seem.

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If a major residual effect of downsizing is declining staff performance, then any short term cost-saving from shedding jobs will be quickly overtaken by poorer output from the workforce which remains. And, indeed, it can be argued that even when there is an appearance of gains from downsizing it is often an illusion. In particular, there is persuasive evidence that apparent efficiency improvement from labour reductions frequently results from little more than a manipulation of sales to employee ratios, rather than any real boost to overall organisational performance.

In his ground-breaking work at the University of Colorado, Professor Wayne Cascio has compared downsizing organisations against all enterprises in their sector over fifteen years from the early 1980s. He does so by measurement against five indicators: cost of goods sold, general and administrative expenses, before-tax return on assets, dividend appreciation and sales per employee. His results are a revelation. Downsizing enterprises gained no noticeable improvements in cost-of-goods-sold ratios. They had markedly higher expense ratios, especially immediately after downsizing. Downsizers achieve significantly lower returns on assets than non-downsizing competitors and their total returns on common stock are notably worse than those achieved by organisations which retain stable workforces. Only on the ratio of sales/service volume per employee do downsizing companies gain an advantage. But this is of little real value if overall performance is not improved.

The implications are obvious. There is mounting evidence to show that quick fix efforts to cut business costs by shedding large numbers of jobs over a short period will produce few long term savings or improvements. They may in fact increase the costs of doing business and simultaneously damage broader organisational performance.

The many ALIA members who have seen their workplaces affected by wholesale sacking of staff and organisational 'delayering', 'reshaping', 're-engineering', or whatever dreadful euphemism is chosen this particular week, will wholeheartedly agree with Cascio that there must be a better way to change organisations. They may even see his *Guide to responsible restructuring* (US Government Printing Office, ISBN 0-16-048025-6), which he produced for the US Department of Labor's Office of the American Workplace, as a beacon of hope. Without doubt they will strongly endorse his plea for organisations — instead of seeking the rock-bottom number of people who can keep the business afloat — to adopt his prescription for responsible restructuring by asking: 'how can we change the way we do business, so that we use the people we currently have most effectively?' Now that would be real workplace reform. ■