COVID-19 IMPACT IS DOWNSIZING THE NEED OF THE HOUR? IDENTIFYING YOUR BEST EMPLOYEES WHILE DOWNSIZING

Joel Chacko Roy, Bharata Mata College
Gimson D Parambil, St. Xavier's College & Mahatma Gandhi University

ABSTRACT

As Covid-19 has hit the economy very badly across the globe, revenues have fallen down and it has forced companies to start thinking about downsizing their workforce. The major problem a manager would face while downsizing is to choose which employee should stay rather than which employee should not. This situation arises when a saturation point is reached as a manager has already terminated his less performing employees and then still has to downsize. There comes the question of choosing between his best employees. How can a manager face this challenge and bring out the right output? Or can he make them all stay there? Can he reduce their salaries and keep them all in the lot? Will this affect them mentally and emotionally to bring down their morale? Should the manager right away terminate some so that the rest could draw the same paycheck? This paper discusses the answers to these questions from the literature.

Keywords: Covid-19, Downsizing, Employee Morale, Employee Performance, Workforce, Attrition, Termination, Human Resources

JEL Classification: *M50, M51, M54*

INTRODUCTION

The whole world is entangled with fear and anguish of how the world is going to be in the very next moment. These days while the world is all ears to the spreading of viruses, proclamations of wars, heated debates across continents, killing of people in the top ranks, and much more of that sort. People have lost their peace and are afraid if they will be able to make it to the next meal. And if they are alive till the next meal; lockdowns, economic downfalls, downsizing and much more makes them worried about how to get the next meal. Will there be money in their pockets to enjoy the essentials of life is the question which haunts the minds of many. The fear of losing jobs is more evident now than ever before. 86% of Indians are in fear of losing their jobs due to the Covid-19 pandemic. A rise in the percentage of fear of losing jobs has increased all over the world (Press Trust of India, 2020). Economic downfall due to the outbreak of Covid-19 is the primary reason behind all these. Another recession is on its brink. Nations across the globe are making desperate efforts to boost their economy. Many countries have gone almost into a recession due to Covid-19. As the sale of medical equipment has grown exponentially, countries which make medical equipment have boosted their economy due to the outbreak of Covid-19. As consumption of oil also went down due to lockdowns across the world, the economy of the countries producing oil have also been hit. As always, countries which manufacture weapons try to create tension between countries so that the sales of these weapons will go up which will in-turn help in boosting their economy. Rest of the world is the poor prey for their inhumane activities. Due to economic downfalls and upcoming tensions, companies across the globe are seen downsizing in huge numbers in order to reduce the effect of recession on its bottom-line. The permanent reduction of an organization's workforce by eliminating employees or departments which are not productive can be termed as downsizing. Downsizing happens when a company makes a huge number of its employees redundant. This happens when the company feels that they need to cut their costs and these employees are no longer needed for its functioning. The major reasons for downsizing to happen are poor economic conditions, mergers and outdated technologies or skills. The first ones to be eliminated while downsizing are those employees whose skills are obsolete and are not required for the company in its future endeavors. The conduct of an employee can be influential while choosing which employee to terminate though the primary reason for downsizing to happen in a company is not due to the conduct of its employees. It is never an easy task to fire someone who was part of your organization for a while. How does the manager do that? After all, managers are employed to manage situations like these. Though it is their duty to perform, it is a very difficult task. Downsizing can be cruel to many but it is often justified when it is done for the survival of the company. At the same time downsizing can be damaging to the organization in certain ways. Let us look down to the literature to see what steps a manager should take during this crisis.

LITERATURE REVIEW

A manager should be able to distinguish between his/her best employees and other employees. He/she can find out if an employee is meant to stay by checking a few things. The manager should get to know if the employee is ready to learn new skills. Some employees are reluctant to learn new skills through techniques like Cross-training. Cross-training is a tool or a technique which is applied by employers to help their employees learn how to perform another job or a skill well and safely (Ninan et al., 2019). Employees who are ready to learn new skills without complaining are more probable to be retained during downsizing. Employees who refuse to learn new skills are more likely to be terminated while downsizing. Managers can also have a check on the bottom-line impact of different departments. There are cases where certain departments have been slashed down as they cost you more than the revenue they bring in. A manager should make a deep analysis onto the different departments to know the areas that could be cut without affecting the day to day functioning of departments. Managers can also look into the employees who take home bigger paychecks and check whether they are worth that money. Chances for downsizing increases when the economy is in the recession phase. Though one might feel that the employees who have less experience in the company are the first ones to be laid off, that is not the actual case. What employers actually analyze are their performance at individual level and also the paycheck drawn by them.

Downsizing can be dangerous to the life of the company if it is not implemented with care. Studies show that downsizing can have long term repercussions from which companies can never recuperate. If downsizing is not done with utmost care, the company is most likely to move into insolvency as a result of poor productivity, low morale and unsatisfied customers. Reduction in innovation and novel ideas can be seen if employees with valuable institutional knowledge are eliminated while downsizing. Therefore, a manager should be prudent while making decisions regarding downsizing so that the employees who are key to the functioning of the organization do not get laid off. The manager should keep a track on the employees who are cross-trained as they can be utilized in performing multiple functions of the organization during a crisis. Organizations should also take note of the fact that studies have proven that downsizing increases the chance of their employees getting sick (Kivimäki et al., 2000).

Can downsizing bring forth the desired results? An organization which simply making its employees redundant and not taking other steps can rarely bring success in the long term. The implementation of downsizing is usually made as a reactive or tactical step during economic downfalls. Downsizing should be considered just as a tool among a pool of alternatives which can be implemented while the economy is in recession. It should never be your *"first to use"* tool rather it should be used as a last resort. As a group, companies who have downsized have never outperformed the companies who have not downsized. However many successful companies have used downsizing as a strategy as part of their overall human resource strategy (Cascio, 2010). Downsizing can be dangerous to the organization due to the following reasons:

a) Dearth of novel ideas as a result of fewer R & D team members.
b) Loss of business due to inadequate number of salespeople.
c) High performers start leaving the organization owing to low morale, affecting the productivity of the organization.
d) As it lowers the morale, it also affects the commitment of employees in a negative manner and increases their stress significantly.

The impact of these can cost organizations a huge fortune. Studies have shown that it impacts the bottom line in an adverse way as most of the downsized companies have underperformed in the market by at least eight percentage in the following three years (Cascio & Wynn, 2004; Lavelle, 2002).

The reason why companies still go for layoffs even after studies showing that thousands of companies have struggled after downsizing is due to a tendency called vividness heuristic. Vividness heuristic is a tendency where people tend to rely on an immediate example which comes to their mind while evaluating a specific concept or a topic (Surowiecki, 2007). When a chief executive officer thinks about downsizing, the immediate example which comes into his mind will be of a successful downsizing story. Even he/she would desire to become the Jack Welch of his/her company. Just because Jack Welch could pull off the downsizing strategy well and safely at General Electric does not necessarily mean anyone who adopts the same strategy will become successful (Wilkinson, 2005). The template of success is always registered in human minds rather than the failure stories. Rarely do the failed stories of downsizing get due attention. The management should not give up to the pressure from its stakeholders to downsize. It should choose downsizing as a strategy only when it is required. Let the pressure build up, but the management should not forget its duty. The duty of the management is to help the company to be effective and efficient in the long run. The management should never forget the vision and mission of the company for the long run. The management should guide the company towards its mission and if downsizing is the best way to reach the mission then the management should go for it. The management should not succumb to the external pressure if it feels that downsizing could be harmful for the company to accomplish its mission. One of the best examples of a company succumbing to external pressure to downsize is the case of Citigroup. Eventually, the company had to file for bankruptcy in November 2009.

When to Downsize?

Does that mean downsizing is a bad option? Not at all, downsizing can be effective if it is implemented with proper planning. The timing of downsizing is a very crucial element. Geoffrey Love & Nohria (2005) in their study states that the timing of downsizing is as important as any other part in the downsizing process. How a manager answers the question when to downsize plays a big role in determining whether the downsizing will have its positive or negative effect.

While evaluating the economic crisis of 2008, you will find that the revenue and sales of many organizations had a steep fall. Those steep falls hit hard on single-line businesses as these businesses were not able to offset the loss as they didn't have any other line of business with increased revenue or stable revenue. Downsizing was the only option for organizations as credit markets were frozen. In this scenario, one can justify downsizing as a reactive measure to an emergency state of affairs. Downsizing can also be a good option when it is implemented to align the workforce strategy with the overall business strategy. For instance, a company's new business strategy while introducing a novel product or service targeting a new pool of customers may need new employees who have the skills to effectively implement the strategy. In this case, downsizing old employees with obsolete skills would make sense. It does not make the employees have a feeling of betrayal as there is a valid reason behind the implementation of downsizing. Thus, not affecting the morale of the remaining employees negatively.

What Not To Do While Downsizing?

Downsizing can be an effective tool in certain cases but managers should make sure that they do not end up making the following mistakes as it may erode all the benefits the organization intended out of the implementation of downsizing (Baumohl, 1993; Cascio, 2002; Tuna, 2009). *Implementing Downsizing as a first reaction rather than as a last resort*: Managers often tend to forget that downsizing has a long-term impact. They also do not realize that employees or the work costs are rarely the reason behind the situation the company is facing. They should also realize that employees are the ones who bring forth novel ideas and innovations. To implement downsizing, to cut down the budget and to change the organizational chart is not rocket science. It can be done by anyone but only creativity and true genius can help the company grow.

Failing to Amend the Manner in Which Work is Done

Companies which reduce the number of employees without modifying the business processes with respect to the new organizational chart load the same amount of work upon fewer employees. This approach does nothing to solve the fundamental problem but produces stress and burnout as its byproducts.

Ignoring the effect of downsizing on the stakeholders

The ripple effects of downsizing will eventually reach the stakeholders of the company i.e., the local community, suppliers and its customers. The company should make efforts to reduce or eliminate the negative effect of downsizing on its stakeholders by working with the suppliers and its customers.

Failure in Collecting Proper Feedback from Employees on Ways to Cut Costs, Reduce Wastage and in Increasing Efficiency

Ground level employees can see more clearly than the chief executive officer the areas where the company could potentially save more money. Their suggestions should be taken into account seriously as they are the ones who are involved in the actual process practically rather than an executive who takes decisions seeing few fancy lines and stats shown on a PowerPoint.

To Underestimate the Potential Damage to a Strong Organizational Culture

The prime casualty in a downsizing would be the morale of the employees. When the firm downsizes for the first time, the sudden reaction of the employees is often a sense of betrayal. The altered organizational environment due to downsizing has to face consequences in the long run such as fewer innovations and surging voluntary turnover rate. Companies like Southwest Airlines, Synovus Financial and SC Johnson do not downsize mainly due to this reason.

Not Learning from the Earlier Mistakes

This is one of the major mistakes companies often make while downsizing. Downsizing is usually not a one-time affair in case of most companies. Companies should evaluate the impact the previous downsizing had on the company and also learn from the mistakes that happened then. If the company wants to make improvements in its process of downsizing and its outcome, it should make an effort to listen and learn from its customers, survivors, managers and other stakeholders.

Strategies of Downsizing

Companies generally downsize through five different strategies. They are:

Attrition

Alao & Adeyemo (2013) in their study states that attrition is the loss or reduction in an organization's workforce due to various conditions like relocation, sickness, death and retirement of employees. This is the simplest method of downsizing where the organization does not make an effort to find a replacement when a person leaves the organization. In this approach, the choice of staying or leaving the organization is wholly with the employee. Therefore, the feelings of powerlessness and the chance of conflicts are minimized. But this approach is not really advisable for companies to adopt as attrition is uncontrollable and unplanned.

Voluntary Termination

Allan (1997) in his study suggests that a company can offer voluntary termination when it needs to downsize its workforce. This approach of downsizing includes buy- out offers which also gives an opportunity to the employees of exercising a choice. As an opportunity to exercise their choice is given to the employees, it helps in reducing the stigma associated with the employment loss.

Early Retirement Incentives

The third downsizing approach would be the Early Retirement Incentive (ERI) scheme where the organization would offer its employees more generous retirement benefits if they are ready to quit at a certain quit date in the future. Many consider this approach of downsizing as a larger buy-out scheme. From the company's point of view, managers assume that schemes like ERI will help in opening up vacancies for promotions to its younger employees. At the same time, a research has revealed that it is not easy to predict the number of older employees who will accept this scheme. On an average, around one-third of those who receive this offer accept it. ERI also benefits the company as most of the poor performers will accept this offer and leave the company as they know that they are fewer chances for them to have future pay hikes (Feldman, 2007).

Compulsory Termination

This is the final downsizing strategy where the employees are given no choice. This typically happens when plants are closed down or when a whole department is eliminated. This approach also has an advantage of lower number of lawsuits filed because the employees cannot allege discrimination as not just few employees are terminated instead a whole department or business unit is eliminated (Redman & Wilkinson, 2009).

Across the Board Cuts

This option is exercised by eliminating a certain percentage of employees from all the departments. Though this method is the least effective way of downsizing, the company can claim that there was a standardized treatment given to all employees and no discrimination at all. On the negative viewpoint, the standardized treatment ignores the difference in efficiency and the performance of different departments to the organization's success. Not all departments function at the same level of efficiency. Suppose if one department's performance is far better than another department, it would be not fair if the company treats both the departments equally when it comes to downsizing. It will have a negative impact on the morale of the employees who are in the better performing department if the same percentage of employees is downsized as of the less performing department. *"Snip, Snip, Oops!"* is how this problem has been described by *The Economist* magazine (The Economist, 2001).

Identifying the Employees to be Downsized

Once the decision is made by the management that the company has no alternative but to go for downsizing, the next crucial step would be to decide who all are to be downsized. There are various criteria available to select which employee has to go or which employee has to stay. The management is free to choose any of the criteria available but they have to make sure that their criteria (Figure 1);

- Does not discriminate anyone based on the class they belong.
- Is not capricious or arbitrary.
- Is based on valid and lawful reasons

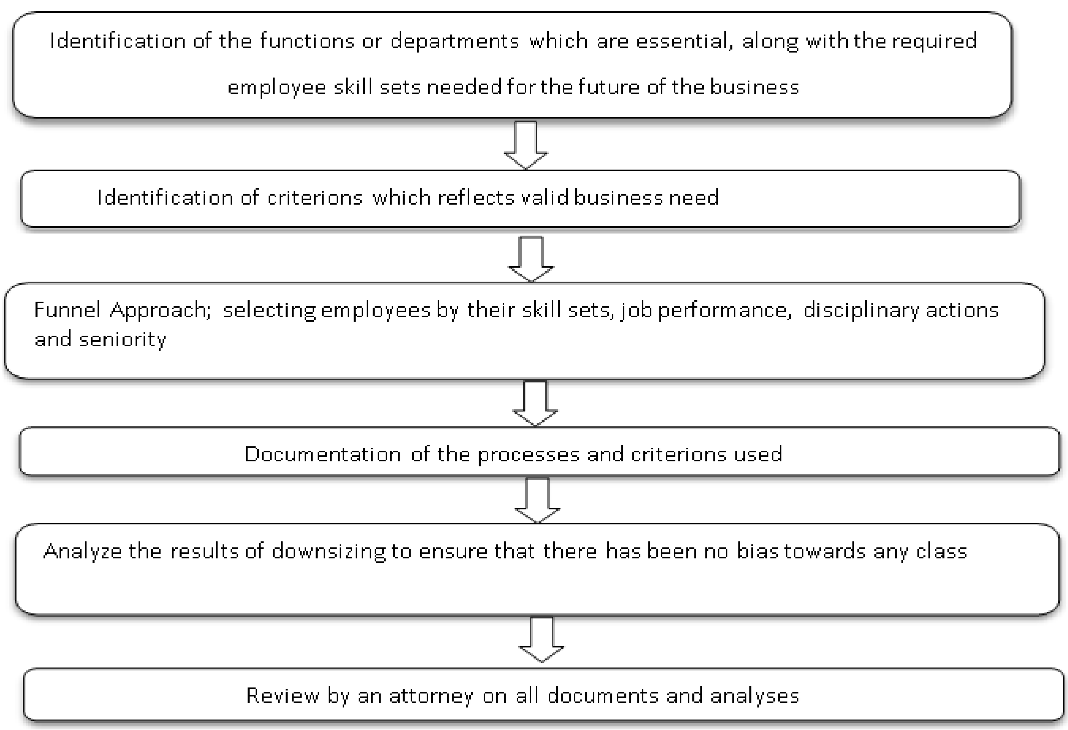

FIGURE 1
GUIDELINES TO DOWNSIZE; CHECK LIST

Analyzing Each Department Separately According To Their Strategic Importance

This is the more advisable option to identifying the best employees the management should retain while downsizing. A company will always be keen in retaining its key employees – those employees with the best skill sets and who are key to the functioning of the company. The next set of employees to be retained is the ones who have the skill sets which the company might need for executing the business strategies in the years to come. For that to happen, the company must analyze each department separately and should analyze which skills are required for that department in the future. Those employees with those skills which are required for the future should be retained. This will boost their morale as they get to know that the company values their skills and sees them as an important part of the company.

This approach of downsizing which has just one criterion, i.e., the skill sets of employees which decides who all should stay, does not work in all the companies especially in huge multinational companies. These multinational companies which have high reputation will have employees who would have a variety of skills under their belt. When the manager goes for downsizing, he will realize that there are more people with the required skills than the positions available in the downsized organizational chart. The next criterion a manager would set to identify the employees who are ought to stay will be the job performance of the employees. Disciplinary problems of the employees are also considered during this stage of shortlisting the employees. Unfortunately, many companies do not have a valid scale for measuring the performance of its employees which therefore forces them to rely on other criteria. Even after limiting the number of employees using criteria such as required skills, job performance and disciplinary problems, there are chances that the organization has more employees than it requires. This is when managers take seniority or tenure of the employee within the firm as an element in the selection criteria.

Cascio (2010) recommends the following steps that an organization should take before the implementation of downsizing;

(i) It should conduct an adverse-impact study.
(ii) It should document the processes and various criterions which are used to downsize.
(iii) An attorney who has specialization in the employment law of the country should be given the task to review the whole process including the results.

Even if the adverse-impact study shows that there will be some adverse impact, the organization can ignore it as long as the criterions set are work related and reflect valid business needs.

CONCLUSION

Even if downsizing does not help you to perform well, it can be threatening stick to the employees to perform well or else they will be terminated. The concept of downsizing has definitely created this fear among the employees. Companies should also note that merely reducing the number of employees alone cannot always help them survive a recession. If the only change that the company made was reducing the number of employees, then the company would not always be able to achieve the output it desired. Managers should realize that downsizing is just not the only answer to solve economic downturns. Instead downsizing can act as a catalyst in a company's effort to adapt to the changing market conditions and in cutting costs. It is always an uphill task for a manager to choose the departments which are to be included in the downsizing process. If you downsize your sales department, you are going to lose your business due to the lack of salespersons. If you downsize your Research & Development department, you are going to face the lack of new products and novel ideas. Downsizing can decrease the morale of the employees and this may make the high performers leave the company which will in turn, reduce the productivity. Employers should see employees as people who help the company grow. Downsizing can be considered as an opportunity to terminate less performing employees which will in turn help in dealing with the performance problems that the company has been facing over the years whatever the organization is facing, whether it is Covid-19 or something bigger, the organization should also take note that even the employees are facing the same. There should be compassion and kindness towards your employees as they are ones who made the organization stand through ups and downs, lows and highs, for they are the soul of the organization. And there is no organization if there is no soul. The soul remains with the human resources the organization has. Yes, downsizing is a good technique but rushing to downsize is never a good sign of a great organization. Managers become successful not when they implement something but only when they implement it at the right time and in the right way. Reducing the salary may decrease the morale but holding them together even for a less pay in tough times is very crucial. It all depends upon how the manager deals with it. No one can create a perfect model for downsizing. Downsizing is a very delicate technique; a manager has to deal with it very carefully. If you take care of the downsizing process well and safe, its results will make sure that your organization runs successfully the authors recommend that downsizing should be used as a last resort because downsizing has caused more damage than recovery for most of the companies. It can be used in emergency situations like a global recession or when it is necessary to align the workforce strategy with the overall business strategy. The study also finds out that if downsizing is made without changing the way work is done then the whole process becomes useless. Organizations should consider the impact of downsizing on its stakeholders and also should not fail in analyzing the feedback received from its stakeholders. It should learn from the mistakes it made in its previous downsizing and also should never underestimate the impact of downsizing on the organizational culture. The research suggests that downsizing should be done carefully without any biases and the organization should make sure that the whole process is done legitimately.

Author Contribution and Conflict Of Interest

The authors certify that they both have participated sufficiently in this research to take responsibility of the manuscript's content. The authors also certify that they have no affiliations or involvement in any entity or organization with any financial or non-financial interest in the subject matter discussed in the manuscript.

REFERENCES

Alao, D.A.B.A., & Adeyemo, A.B. (2013). Analyzing employee attrition using decision tree algorithms. *Computing, Information Systems, Development Informatics and Allied Research Journal, 4*(1), 17-28.

Allan, P. (1997). Minimizing employee layoffs while downsizing: employer practices that work. *International Journal of Manpower.*

Baumohl, B. (1993). When downsizing become dumbsizing time. March, 55.

Cascio, W.F. (2002). Strategies for responsible restructuring. *Academy of Management Perspectives, 16*(3), 80-91.

Cascio, W.F. (2010). Employment downsizing and its alternatives. SHRM Foundation's Effective Practical Guide Series.

Cascio, W.F., & Wynn, P. (2004). Managing a downsizing process. Human Resource Management: Published in *Cooperation with the School of Business Administration, The University of Michigan and in alliance with* *the Society of Human Resources Management, 43*(4), 425-436.

Feldman, D. C. (2007). Late-career and retirement issues. In *Handbook of Career Studies* (pp. 153–168).

Geoffrey Love, E., & Nohria, N. (2005). Reducing slack: The performance consequences of downsizing by large industrial firms, 1977–93. *Strategic Management Journal, 26*(12), 1087-1108.

Kivimäki, M., Vahtera, J., Pentti, J., & Ferrie, J.E. (2000). Factors underlying the effect of organisational downsizing on health of employees: longitudinal cohort study. *BMJ, 320*(7240), 971-975.

Lavelle, L. (2002). Swing That Ax with Care. *Business Week*, 78.

Ninan, N., Roy, J.C., & Thomas, M.R. (2019). Benefits of cross-training: Scale development and validity. *Prabandhan: Indian Journal of Management, 12*(6), 41-56.

Popov, A.V., & Soloveva, T.S. (2012). Sustainability of workers in terms of the COVID-19 pandemic: international research experience. UPRAVLENIE, 102.

Press Trust of India. (2020). 86% fear job losses as coronavirus scare mounts: Survey. Retrieved from https://economictimes.indiatimes.com/jobs/86-fear-job-losses-as-coronavirus-scare-mounts-survey/articleshow/75553872.cms

Redman, T., & Wilkinson, A. (2009). *Contemporary human resource management: Text and cases*. Pearson Education.

Surowiecki, J. (2007). It’s the workforce, stupid. The New Yorker, 30.

The Economist. (2001). Managing in a downturn - Snip, snip, oops! 59-60. Retrieved from https://www.economist.com/business/2001/10/11/snip-snip-oops

Tuna, C. (2009). Searching for more tools to trim costs. The Wall Street Journal, B4.

Wang, M., Olson, D.A., & Shultz, K.S. (2012). *Mid and late career issues: An integrative perspective*. Routledge.

Wilkinson, A. (2005). Downsizing, rightsizing or dumbsizing? Quality, human resources and the management of sustainability. *Total Quality Management and Business Excellence, 16*(8-9), 1079-1088.