M@n@gement, Vol. 2, No. 3, 1999, 39-43
Special Issue: Organizational Downsizing

# Organizational Downsizing: An Introduction

Jack Rabin

Pennsylvania State University-Harrisburg
School of Public Affairs
eMail: jxr11@psu.edu

In discussing the current downsizing of organizations with Professor Robert T. Golembiewski of the University of Georgia, he differentiated between “downsizing by need” and “downsizing by preference.”

How did he define these terms? In “downsizing by need,” we have the classic layoff situation in which the organization is faced with a change in its environment, markets, or there is a great technological change (e.g., automation) whereby workers have to be laid-off, sometimes permanently.

In a situation of “downsizing by preference,” however, the organization may be financially sound, even making record profits for private-sector firms, but still follows a policy of laying-off significant numbers of employees. What motivates such behavior? Why is it tolerated? What may be our future?

## THE NATURE OF THE PROBLEM

Let us consider some of the common reasons given by management for “downsizing by need” and “downsizing by preference.”

### REASONS GIVEN FOR DOWNSIZING

Often, one receives one or more of the following reasons why the organization must fire employees (Downs, 1995):

– «The Lean-and-Mean Story: The business climate these days has become enormously more competitive. Global markets have contributed new competitors that can offer goods and services at a much lower cost than American producers. (…) [T]o be competitive, [the organization] must remain lean and trim costs (…). Your job (…) has been eliminated.» (Downs, 1995, p. 8).

– The Strategic Flexibility Story: Technological change in our area is rapid, and products which we have been making are obsolescing. We must “reconfigure” ourselves to keep pace with these changes. Thus, we have eliminated the product you have been producing, and your job has ceased to exist. (Downs, 1995).

– «The “Learning Organization” Story: The key to success in today’s world is continual learning and process improvement. The minute we stop moving forward, learning and using new technologies, we start moving backward.» (Downs, 1995, pp. 8-9) Since your job has changed and you don't possess the requisite qualifications, you are being laid-off.

– The Mystical Management Story: Leadership is vital to the organization. We must have leader-managers who inspire subordinates to do more with less. «Sometimes a particular combination of a manager and employees just never seems to develop this kind of rapport. I'm afraid this is the case in your situation, and we don't see much chance for change. We think it would be advisable that you consider the package we are offering you and to leave the [organization] rather than have your career damaged by the consequences that could occur down the road.» (Downs, 1995, p. 9).

– «The "We're Out of Money" Story: As you may know, the company's [or government's or hospital's] performance has not been great recently. We are now at the point where there just aren't enough funds to keep all of our employees on the payroll. Since I have been told to eliminate 10 percent of my employees, I have decided that your job is the one that we will have to do without. I'm sorry, but I have no other choice but to lay you off.» (Downs, 1995, p. 9).

– «The Eye on the Prize Story: As [an organization], we committed at the beginning of this fiscal year to reach some very challenging goals. We've worked hard all year and accomplished much, but not quite enough to meet our commitments [or balance our budget]. As the year draws to a close, it has become clear that the only way we will make our goal is to reduce expenses. Each manager has agreed to reduce the staff by one. Because you have the least seniority on staff, your job has been eliminated.» (Downs, 1995, pp. 9-10).

## SCOPE OF THE PROBLEM

Are our layoffs arising through real need (i.e., "downsizing by need") or are we in a situation of "downsizing by preference?"

The Twentieth Century Fund in its report *Market Speculation and Corporate Governance* (Twentieth Century Fund, 1995) highlights what, in this writer's opinion, is one of the central causes of the downsizing problems in the U.S. and other economies today:

«The United States economy and financial system suffer from "short-termism," an affliction caused by a lack of attention to long-term economic performance. Financial markets put pressure on corporate managers to focus too much on quarterly profits and too little on patient investment for the long haul.

«Responsibility for a corporation's future is in the hands of three groups: corporate managers, board directors and investors. But often, none of these groups ranks the long term as its highest priority. Corporate executives, who do not themselves own their companies, are often judged by others on how well they meet short-term objectives. Boards of directors, who have the responsibility for overseeing management performance and setting long-term organizational strategic directions, often have neither the time nor the inclination to supervise seriously management decision-making. And the primarily institutional investors who really do own the corporation are rewarded in part on the basis of the profit they reap from short-term price changes, which can make them more likely to focus on short-term trading decisions than on the organization's long-term problems and prospects. The result–in too many instances–is that neither managers, directors, nor owners are minding the store.»

What does the wave of corporate and governmental downsizing do to the motivation and morale of our fellow workers? David C. Korten (1995, pp. 245-246) hits home in answering this question when he urges us to consider the "adjusting to diminished prospects" by millions of downsized U.S. workers:

«Those forced out of their existing jobs seldom find new ones with comparable pay. Starting pay is dropping rapidly. (…) Those workers who manage to hang on to their jobs often face a choice between giving up salary and benefits or seeing their jobs disappear entirely. In the United States, average hourly wages for production and nonsupervisory workers fell from $11.37 in 1973 to $10.34 in 1991 (in constant 1991 dollars), whereas average annual hours worked increased from 1,683 hours in 1973 to 1,781 hours in 1990.

«A declining percentage of full-time jobs pay a living wage. The U.S. Census Bureau reported that in 1992 the wages received by 18 percent of full-time workers in the United States were not adequate to maintain a family of four above the official poverty line of $13,091—compared with 12 percent of full-time workers in 1979. (…)

«Even the fortunes of upper-middle class professionals took a turn for the worse in the 1990s. According to *Business Week,* "Just as the last decade was defined by yuppies and their flamboyant material excesses, the 1990s may come to be the age of 'dumpies'—downwardly mobile professionals." The U.S. Labor Department reports that 20 percent of graduates from U.S. universities in the 1984-90 period took jobs in which they were "underutilized" and predicts that 30 percent of those graduating between 1994 and 2005 will join the ranks of the unemployed or underemployed. The phenomenon of the hotel bellboy with a bachelor's degree has become commonplace. *Time* recently noted one bright spot on the horizon—growing opportunities for prison guards.»

## THE BUDGET SIDE OF THE PROBLEM

Downsizing is a problem of budgets, specifically expenditure reduction. All organization budgets are composed primarily of personnel expenditures: direct and indirect costs. Some organizations may have seventy or eighty percent of their budgets (on the expenditure side) comprised of personnel costs.

Thus, if one wants to make a significant budget change and is not willing to raise prices, taxes or fees, there is only one way of affecting the bottom line in a major way—fire personnel.

Yet, what are the true costs in the long-term?

## IS THERE A SOLUTION?

Is there anything within our management literature which is a clarion-call urging managerial and political policymakers to turn a new leaf? The answer to this question may be found in the writing of Chester I. Barnard.

As President of New Jersey Telephone Company during the Great Depression of the 1930s, Barnard was faced with the option of downsizing his company in order to make up for a revenue shortfall. Instead of mass firings, Barnard proposed, and his workforce agreed, that everyone in the organization (including its President) would take a reduction in salary and wages until revenues returned to normal. Thus, *no one* at New Jersey Bell was laid off during Barnard's tenure.

These actions by Barnard were decisions based on his idea of "executive responsibility." For Barnard, executive responsibility flows from leadership which is «the aspect of individual superiority in determination, persistence, endurance, courage; that which determines the *quality* of action; which often is most inferred from what is *not* done, from abstention; which commands respect, reverence. It is [implied] in the word "responsibility," the quality which gives dependability and determination to human conduct, and foresight and ideality to purpose.» (Barnard 1968, p. 260).

Furthermore, Barnard asserted that responsibility «is the property of an individual by which whatever morality exists in him *[sic]* becomes effective in conduct» (Barnard 1968, p. 267), and «Executive positions (a) imply a complex morality, and (b) require a high capacity of responsibility, (c) under conditions of activity, necessitating (d) commensurate general and specific technical abilities as a *moral* factor. (Barnard 1968, p. 272).

«Thus the endurance of organization depends upon the quality of leadership; and that quality derives from the breadth of the morality upon which it rests.» (Barnard 1968, p. 282).

He concluded:

«Executive responsibility, then, is that capacity of leaders by which, reflecting attitudes, ideals, hopes, derived largely from without themselves, they are compelled to bind the wills of men *[sic]* to the accomplishment of purposes beyond their immediate ends, beyond their times. Even when these purposes are lowly and the time is short, the transitory efforts of men become a part of that organization of living forces that transcends man unaided by man; but when these purposes are high and the wills of many men of many generations are bound together they live boundlessly.

«For the morality that underlies enduring cooperation is multi-dimensional. It comes from and may expand to all the world; it is rooted deeply in the past, it faces toward the endless future. As it expands, it must become more complex, its conflicts must be more numerous and deeper, its call for abilities must be higher, its failures of ideal attainment must be perhaps more tragic; but the quality of leadership, the persistence of its influence, the durability of its related organizations, the

power of the coordination it incites, all express the height of moral aspirations, the breadth of moral foundations.
«So among those who cooperate the things that are seen are moved by the things unseen. Out of the void comes the spirit that shapes the ends of men.» (Barnard 1968, pp. 283-284).

## CONCLUSION

This symposium considers the organizational downsizing phenomenon. Using theoretical and case studies, we also benefit from a cross-national and cross-sector focus. We hope that our readers will be informed by our presentations.

**Jack Rabin** is Professor of Public Administration and Public Policy at Penn State University in Harrisburg. He is editor of eight academic journals, and executive editor of the Marcel Dekker Public Administration and Public Policy book series, the largets book series in the history of public administration. His specialities are public budgeting and financial management and human resources administration.

## REFERENCES

■ Barnard, Chester I. 1968
*The Functions of the Executive,* 30th anniversary ed., Cambridge: Harvard University Press.

■ Downs, Alan 1995
*Corporate Executions: The Ugly Truth About Layoffs–How Corporate Greed Is Shattering Lives, Companies, and Communities,* New York: AMACOM.

■ Korten, David C. 1995
*When Corporations Rule the World,* West Hartford: Kumarian Press, and San Francisco: Berrett-Koehler.

■ The Twentieth Century Fund 1995
*Market Speculation and Corporate Governance: Report of the Task Force,* New York: Twentieth Century Fund Press, retrieved July, 1999 from: http://epn.org/tcf/xxspec03.html