THE DOWNSIZE OF DOWNSIZING: USING RESEARCH ACTION AS CONSULTING PROCESS

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Abstract: Most downsizing processes prove to be dysfunctional, resulting in high hidden costs. This article aims at identifying how a specific methodology of research action (socio-economic approach to management) can help to overcome those dysfunctions using consultation. It presents the qualitative results identifying major pitfalls following a downsizing process. It then quantifies the impacts of such a process and identifies solutions that can be given using SEAM.

JEL classification: M00, M10

Key words: research action, downsizing, consultation, hidden costs, survivor analysis

1. INTRODUCTION

In the last few years, industries and services underwent major restructuring. Technology, global competition, rapid access to information and the need to control costs have been analyzed, assessed and classified in order to create new managerial practices. As a result, engineering, total quality management and downsizing have all been used as managerial tools in the reorganization process enabling firms to regain competitiveness. This paper focuses specifically on the downsizing process applied to firms in a difficult strategic position.

The following article provides a deeper look into a specific research action methodology the socio-economical approach to management (or SEAM). This approach will be used to identify the impact of consultation in a firm following downsizing.

The example of a firm that went through a downsizing process following financial difficulties is also analyzed. This example will help us illustrate the role that can be played by a consultant using SEAM to limit the pernicious effects of this situation.

2. THE VARIOUS ASPECTS OF DOWNSIZING AND ITS PERNICIOUS EFFECTS

Before analyzing the effects of downsizing, it is necessary to define this process, since it can convey various meanings. The analytical field of this process is quite large since some authors limit downsizing to cuts in the working staff while others define it as a set of strategic measures destined to transform the production process and the company's culture.

According to Huber and Glick (1993), downsizing should be defined as a voluntary process which:

- Includes but is not limited to staff reductions
- Aims at increasing the productivity of the firm
- Transforms the production processes.

However, this definition is restrictive. According to Mentzer (1996), it is possible to identify a typology of the various types of downsizing. Three different categories have been identified.

Rational Downsizing

According to Huber and Glick (1993) or Mentzer (1996), rational downsizing can be viewed as the expression of political decisions taken by managers to control costs.

As a rational process, downsizing can be used to control the costs of the organizational structure (external approach), but also to deal with internal problems (internal approach), as shown by Marks (1994) and Tomasko (1987). The process is then analyzed as a possible answer to external pressure. Downsizing is therefore based on a precise analysis of the firm's environment.

However, as shown in a US Department of Labor's report (1995), such a process has also been used in firms (such as General Electric and Campbell Soup) that announced major productivity gains before implementing the process. Although we can assume these firms use proactive strategies, it seems that other factors can affect the decisional process leading to a staff reduction.

Asymmetric Downsizing

Some authors show that there is a temporal distortion affecting the process of downsizing. In which case, downsizing is not undertaken at the right time. This analysis is based on the principle of limited rationality as defined by Simon (1959) and March (1978). In hindsight, downsizing can be considered a reaction to economic pressure since managers are not able to be objective in their analysis.

This analysis is based on the fact that growth and the downsizing process are not symmetrical in their impact on organizations. However, downsizing, in this case, remains an answer to economic pressure.

Institutional Approach

This category is based on an institutional approach. According to DiMaggion and Powell (1983), some companies tend to copy the strategies applied by other firms, as these are thought to have access to restricted information.

According to this analysis, Mckinley, Sanchez and Schick (1995) have defined downsizing as a fad (isomorphic approach).

This analysis shows that the decision-making process is irrational since firms apply managerial methods that might not correspond to their needs.

Different theories can be used to explain the use of downsizing as a managerial tool: a transaction cost approach, a core skills/competencies approach or an agency analysis (Ocler, 1998). As this paper does not deal with the identification of these justifications, we are simply alluding to them and will now rather focus on the effects of downsizing and especially on its pernicious effects.

Pernicious effects

The effects of downsizing are not clear. Different arguments can be found in favor of or against downsizing. De Meuse, Vanderheiden and Bergmann (1994) have identified the following effects:

Table no. 1 Downsizing effects

Arguments in favor of downsizing	Arguments against downsizing
Reduction in operational costs	Drop in profitability and limitations in dividend growth
Increase in organizational efficiency	Does not enable an increase in efficiency in the long term
Increase in competitive advantages	Decrease in productivity and quality
Less futile tasks	Increase in stress

As shown is this table, it is difficult to have a straightforward idea of the effects of downsizing.

In term of financial analysis (the evolution of profits and financial markets after a downsizing process), Cascio, Young and Morris (1997) studied the performance of firms which downsized over a period of 12 years, from 1981 to 1992. The return on assets was used as an indicator. The results show that downsized firms did not increase their profits. Moreover it shows that the more there were layoffs, the more there was a drop in financial profits.

However firms that have downsized and undertaken other strategic actions (such as an investment policy restructuration) do not have these problems.

Therefore, downsizing should not be strictly analyzed as such but other actions taken by the firm (reengineering, total quality management, mergers….) should be analyzed and their relation to downsizing understood.

In terms of industrial effects (productivity analysis), few companies reached their objectives as shown in the following table developed by Cameron (1994):

Table no. 2 Performance of downsizing

Goals	% of firms having reached their goals
Decrease in expenses	46
Increase in profits	32
Increase in productivity	22
Increase of the return on investment	21
Increase of competitive advantages	19
Decrease in bureaucracy	17
Increase in sales	13
Increase in quality	9
Advances in technology	9

SEAM and Downsizing

Methodology of analysis

We will now focus on the analysis of a downsized fish processing company. After this process, the CEO decided on a socio-economic intervention (for a full description of SEAM see Boje and Rosile, 2003 a). The following results are based on the diagnosis made and the project undertaken within this company. The diagnosis allows the identification of potential major dysfunctions in the firm and their evaluation in financial terms (hidden costs) to identify internal resources which could be used for projects. The projects are based on a diagnosis used to transform hidden costs into visible performance

The diagnosis consisted of 22 individual interviews with the managers (lower to top management) and 15 group interviews (67 persons) with the workers in order, as stated by Boje and Rosile, 2003 b) to describe "*fragments of the metascript and present a deconstruction of the script variation and incongruities*". This was completed by 16 interviews with managers (8 persons) in order to identify the financial effects of the firm's dysfunctions.

Qualitative Results

The qualitative interviews are based on six major themes: working conditions, work organization, (communication, coordination, and dialogue), time management, integrated training and strategy implementation. For each theme we have selected a number of sentences called "witness sentences" (Savall, 2003). The following table shows a short extract of the diagnosis; 444 sentences have been selected.

Table no. 3 SEAM Diagnosis

Themes	Witness sentences
Working conditions	We keep saying that the equipment is not machine adapted. We still withdraw the bone of the fish with tweezers. The fish we have is of good quality but it is turned into pulp The machines are not checked because there is a limited number of employees We have a big problem with the transfer mechanisms/connection between processes/the flow of the processing chain. Conveyor belts were installed and nobody asked if they fit properly/actually are what is needed
Work organization	The workers in the plant do not know who they can talk to when they have a problem There is a lot of absenteeism and we do not know how to deal with it. We send people to one plant whereas there is a lack of workers here In the morning, I arrive at the same time as the others. I always have to wait five to ten minutes before I know where I will be working
Communication, coordination, and dialogue	There is bad communication between the office and the plant. For instance, we find out in the evening that there is a shortage, but as the delivery truck has already gone, we cannot inform the clients Here the communication is informal. It is not organized and we have no progress reports We lack feedback. We cannot manage the plant because we have no productivity indicators
Time management	We had been doing some analysis to determine the level of salt in the fish, but when the results came back from the laboratory, the fish had already been processed What should be done first is done last. We have to check production planning to be sure that the fish that is required for the delivery truck in the morning is not going to be processed in the afternoon. We prepare the production lines but do not have the fish to be processed in stock.
Integrated training	We have no training. We are given new tasks and nobody shows us what we have to do.

	When we want to repair the machines, we always call the same person to be sure of the results so production is not penalized.
Strategic implementation	The firm is not client-oriented. We are only starting to speak of product quality. We have built new machines but it is all wasted as no steps have been taken to use them

The major problems that were encountered were the following:

Table no. 4 Major issues following downsizing

Themes	EXAMPLE
Working conditions	Inadaptability of production machinery which lead to waste and overtime An uneven relationship between workers and the hierarchy leading to a lack of cooperation between services
Work organization	Lack of function definitions leading to problems in the decision process High level of absenteeism Procedures and rules not precise enough and not adapted to the activity
Communication-coordination-DIALOGUE	Lack of interest during meetings (limited access to operational information) The distribution of information is anarchic Lack of vertical communication leading to planning problems
Time management	Difficulties in keeping to the planning Difficulties in applying quality standards activity fragmentation
intergrated training	Gap between the training and the implementation Lack of formalization
Strategic implementation	Lack of strategic management indicators Lack of energy with regard to changes Uneven human resource management

Financial Results

Once the qualitative interview has been carried out, an assessment of hidden costs is necessary. According to Bonnet (1997), hidden costs following a downsizing can be classified under four major headings:

- Loss of competencies
- Dysfunctions directly caused by downsizing
- Work overload
- Lack of motivation

In the case of the firm analyzed, we found a total of € 3,097,840 in hidden costs such as show in the following table *(sums expressed in Euros):*

Table no. 5 Financial impacts

	Excess Pay	Overtime	Overconsump -tion	Non-productivity	Untapped potential	Total
Absenteeism	208,550	4,720	Unassessed	41,310	Unassessed	254,580
Industrial Injuries	14,630	Unassessed	Unassessed	Unassessed	Unassessed	14,630
Staff Turnover	Not evaluated	66,310	Unassessed	300	Not evaluated	66,610
Quality Defects	Unassessed	517,250	362,060	58,080	Unassessed	937,390
Productivity loss	210,980	835 720	217,840	560,090	Unassessed	1,824,630
Total	434,160	1,424,000	579,900	659,780	Unassessed	3,097,840

We can then classify the hidden costs as follows: *(expressed in Euros)*

Table no. 6 Hidden costs genesis

headings	Elements	Hidden costs
Loss of competencies	Lack of indicators and control of activity	2,194,960
Dysfunctions directly caused by downsizing	Lack of definition of the work to be performed by the first line managers Lack of informational flow	220,890 626,260
Overwork		Unassessed
Lack of motivation	Lack of rigor and evenness in human resource management	44,210

Motivation and Survivor Analysis

So far, the analysis is based either on financial or on industrial indicators.

The performance of the firm is defined by the link between structure and behavior. The downsizing process has an impact on both the structure of the firm and the behavior of its players.

The behavior of the players within the firm is linked to the firm's performance through the hidden costs.

The survivor theory developed by Brockner (1988) is an applied analysis of the dysfunction and is particularly based on the working conditions.

The role of the consultant will thus be a determining factor in influencing the actions taken to balance structures and behavior. We will now see the steps needed to ensure that the consultant helps the firm after a process of downsizing

Role played by the consultant after a downsizing process

Methodology Applied

In order to cope with the problems originating from downsizing, an integrated methodology must be found. Three major lines (see Savall and Zardet, 1995) have to be taken into consideration in order to ensure a synergy and a total implication. As shown by the following graph, the three lines in question are the policy and strategic decisions, the process of improvement and the management tool.

The political line shows the general orientation of the firm. The process of improvement is implemented first to help managers classify the dysfunction they will face, then to ensure that specific actions are taken to counteract these dysfunctions.

The mirror effect, a specific part of the diagnosis, can be analyzed as the added value of the consultants; what for them are the major dysfunction to be targeted which need to be transformed into visible performance.

The tools are then used to limit the loss of core competencies (Trepo, De Geuser 2003) by increasing the formalization of the strategy and processes. They are also designed to limit the development of new hidden costs by anticipating possible dysfunctions.

Result of the Diagnosis

The diagnosis is only one phase of the work of the consultant. Once achieved, there still remains a need for structuring. Based on the mirror effect, the consultant will have to use both his own perception of the problems (called the expert advice) and the mirror effect itself: in other words, a synthesis of the dysfunctions encountered in the firm (for a more in-depth analysis of the mirror effect and metascripts see Boje and Rosile, 2003 B). These elements will be combined to obtain what can be called 'baskets' (baskets can be seen as metascripts, the major items to be targeted within an organization, the generic ideas being contained within the diagnosis). Each basket is composed of elements based on the six themes which we have already introduced.

In the fish processing plant, we identified 4 major baskets:

- Master the flow of activity and develop adapted management tools and management indicators
- Increase the visibility of managers' contributions and define their role
- Develop a stimulating information path limiting losses and distortions
- Increase rigor and professionalism by developing fair and motivating management tools

As shown here, for the major tasks to be performed, three major problems must be targeted. First, the production process has to be analyzed and adapted to ensure that there is no gap between what is to be performed and what is needed to perform it. Therefore, the role of the manager is important since he is the one who will make the difference in terms of implication. Following a process of downsizing, it is necessary to reinforce the credibility of the managers and to provide visible examples of management methods. Finally, it is necessary to focus on the information flow and on the motivation process.

3. CONCLUSION

The downsizing process always implies a strong change in organization. We have seen that major problems can arise following a downsizing process. These problems can be classified and should be solved as soon as possible and even anticipated.

The level of hidden costs emanating from disorganization and loss of motivation can be assessed and should be targeted to limit the effect of such a process.

The role of the consultant is thus to stimulate the energy that will ensure a formalization of the actions and the project. To do so, the consultant must first concentrate on the inner resources of the firm and identify the major risks. He should then ensure a good balance between the immediate result and a potential development. Specific actions must be taken to increase the turnover but other actions should also be taken to ensure that future development will be insured.

For that reason, following a downsizing, the consultant's function is one of re-motivation and 'mediation'. The goal is thus to ensure that the traumatic phases will not have a lasting effect and that all the players take part in the strategy of the firm.

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