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Downsizing : an analysis of organisational strategies and human resource management outcomes

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DOWNSIZING: AN ANALYSIS OF ORGANISATIONAL STRATEGIES AND HUMAN RESOURCE MANAGEMENT OUTCOMES

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ABSTRACT

The objective of this research was to examine the relationship between loss and retention of key employees in downsizing organisations and organisational performance. The purpose of this was to develop an understanding of the organisational performance that results when downsizing organisations are unable to retain their key workers. The secondary objective of the research was to examine the factors that make up a downsizing organisation's employee selection process in order to determine how these factors affect loss and retention of key workers.

The research was guided by a theoretical framework developed by Kozlowski et al (1993) and Thornhill and Saunders (1998) and utilised a multi-method research approach suggested by Creswell (1994) and Eisenhardt (1989). The contextual issues in downsizing employee selection were examined through analysis of seven Western Australian case study organisations. The case studies, through structured interviews and secondary data, provided insight into the complexity of the employee selection process, enabled a rich contextual base which aided in understanding the downsizing process, informed the development of a survey instrument, and provided for triangulation of the data. Each organisation was analysed as a unique site. Cross-site analysis techniques, based on pattern analysis, provided a better understanding of the selection process (Miles and Huberman, 1984). The downsizing process for each organisation was mapped as a process model in order to compare the employee selection process across the organisations.

The survey sampling frame was based on the Kompass Australia (1999) data set, which included around 26,000 organisations. A random sample of the data set resulted in selection of 1860 Australian organisations for survey. The firms constituted a wide cross-section of Australian private and public sector organisations and varied in size as well as type of company. Some 422 organisations responded to the survey for a response rate of 23%. Firms provided demographic information as well as data on the process used for employee selection, whether or not the firm lost key employees and managers, use of redundancy packages, use of selection strategies, and organisational performance subsequent to the downsizing.

Factor analysis was used to develop a simplified classification system for organisational performance. This resulted in a reduction of the performance variables to two categories: employee performance and financial performance. The two factors of organisational performance were then used for cluster analysis in order to classify the organisations according to the two performance dimensions. The results of this stage of the analysis suggested that the best fit for modeling the groupings of performance was based on a three-cluster solution. It was discovered that most of the organisations, 52%, exhibited declines in both employee and financial performance. Additionally, only 33% of the

organisations improved both financial and employee performance, and some 15% of the organisations improved financial performance despite declines in employee performance.

The three groups of organisations were then examined for differences in loss and retention of key managers and employees. Using chi-square tests, it was discovered that 66% of the organisations that suffered declines in both financial and employee performance lost key employees during the downsizing process and that only 32% of those organisations that improved both financial and employee performance lost key managers. The results were statisticallly significant and supported the premise that loss and retention of key managers and key employees is closely associated with organisational performance in downsizing firms.

The effects of the employee selection process on loss and retention of key managers and employees were next examined. It was discovered that larger organisations tended to lose a disproportionate level of both key managers and key employees, that the greater the proportion of staff that were shed the greater the probability of loss of key managers and employees, and that certain types of industries, such as mining companies, insurance and financial institutions, and utilities, demonstrated a high proportion of loss of key managers. The factors influencing loss of key managers included transfers to lower paying jobs as a downsizing alternative to cost reduction, the use of delayering as a downsizing target, and use of across-the-board staff cuts to achieve cost reduction. Strategies that resulted in retention of key managers included the use of a competitive selection process that utilised selection criteria such as skills and experience.

Key employees were lost to organisations that transferred workers to lower paying jobs, reduced the number of working hours, downsized as a result of merger or takeover, downsized in order to achieve economic turnaround as the primary goal, closed specific work sites, and used voluntary redundancy as the primary downsizing strategy.

It is argued that these results have significant implications for human resource management theory and practice, suggesting that employees must be valued as strategic assets not only in periods of expansion, but during organisational contraction.

DECLARATION

I certify that this thesis does not, to the best of my knowledge and belief:

(i) incorporate without acknowledgement any material previously submitted for a degree or diploma in any institution of higher education;

(ii) contain any material previously published or written by another person except where due reference is made in the text; or

(iii) contain any defamatory material.

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ACKNOWLEDGEMENTS

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CHAPTER 1

INTRODUCTION

1.1 Background to the Research

Despite the continuing use of downsizing as a tool for economic turnaround (Morris et al, 1999; Cascio et al, 1997), there is evidence to suggest that the process is generally ineffective in achieving its desired goals (Bennet, 1991; Wysocki, 1995). Research indicates that downsizing firms do not usually improve their profitability, stock performance, or financial performance (Morris et al, 1999; Cascio et al, 1997). In addition, downsizing can have a negative impact on the work environment for creativity (Amabile, 1999) and as acknowledged by Mabert and Schmenner (1997), can actually result in declining, rather than improved, productivity. There is also evidence that downsizing has a negative effect on the work effort of those who survive the process (Brockner et al, 1992).

On the other hand, some organisations do successfully downsize. There are probably many reasons why this is so, but Cameron et al (1991) argue that the *way* in which downsizing occurs is a much more important factor in accounting for downsizing effectiveness than the degree of reduction in the workforce or the cost savings that are

realised. Despite this evidence, most organisations downsize in order to reduce costs and improve performance (Morris et al, 1999; Cascio et al, 1997).

The justification of the use of cost reduction strategies as a means to achieve economic turnaround is based on the assumption that a firm's employees are costs to be rationalised and that they are just another expense of doing business. This, in human resource management (HRM) terms, is what is known as the HRM "hard" option (Storey, 1989). The alternative to the cost reduction strategy is the HRM 'soft' option. If cost reduction strategies *reject* employees on the premise that workers are business expenses, the 'soft' HRM strategy proactively values the worth of employees and seeks to *retain* key human resources on the basis of their strategic value to the organisation.

Firms hiring new employees use a retention strategy. This is so because much of the emphasis in hiring is based on the prediction, and just as importantly, the retention, of employees who will effectively perform on the job (Cascio, 1991). If firms were to use the same care in employee selection when restructuring as they do in hiring, what form might this take? It could be theorised that a 'soft', or retention, HRM strategy for downsizing would involve firstly, a determination of just *who* the organisation's key internal human resources are, an understanding of *why* these employees are valuable to the organisation, and finally, an assessment of *where* these key resources reside. The firm would next need to develop proactive interventions in order to ensure that these key human resources are retained during the downsizing process. Finally, the company would have to ensure that it rejects, and rejects only, those employees and managers who are not

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crucial to organisational performance. Stated in HRM terms, downsizing in this way is a recruitment and selection process, just as in hiring new employees, but with the order of implementation reversed. Rather than recruitment and then selection of new employees, the downsizing version of staffing would involve firstly a determination of the key workforce contributors to organisational performance (selection) and then secondly the proactive intervention to ensure that these resources are retained when the organisation restructures (recruitment). Indeed this HRM parallel has been observed by others, for in some HRM circles the rejection side of downsizing is termed 'decruitment' (Cascio, 1994).

1.2 Research Questions

The discussion in the previous section concerning use of retention downsizing strategies emphasised the importance of the decision process that determines the key employees who are contributors to organisational performance. In theory, this is congruent with the resource-based theory of the firm (Barney, 1991) which argues that an organisation's ability to effectively manage its internal resources is predictive of sustained organisational performance. The argument is taken further by the premise that a company's human resources satisfy the criteria for sustained competitive advantage in that they are valuable, rare, non-imitatable, and non-substitutable (Wright, McMahan, and McWilliams, 1994). Following this line of reasoning, it could be argued that it is not just in periods of expansion, but even in times of organisational restructuring, that the

loss of key employees can adversely affect organisational performance. It has not, however, been determined whether or not loss of key employees in downsizing organisations is related to long-term organisational performance, a crucial assumption in validating the use of an employee retention, rather than rejection strategy in organisational restructuring.. In order to test the validity of the retention strategy approach to downsizing, we must establish a relationship between the loss of key employees and organisational performance. If this relationship exists, we then need to understand how the downsizing process itself affects loss and retention of key employees.

This suggests two research questions:

(1) Are retention and loss of key employees and key managers associated with organisational performance in downsizing organisations?

(2) What downsizing selection processes in downsizing organisations are associated with the loss and retention of key employees and key managers?

If we are to assess the effect of employee retention strategies on organisational performance, we must define a measurement of organisational performance, and we must also define what is meant by a "key employee. There is no general theory on how best to evaluate organisational performance in downsizing organisations. Many researchers focus on economic measures of performance (Morris et al, 1999). Others suggest that

performance is a much more complex issue, involving not just the organisation's bottom line, but also the employee actions that affect the bottom line (Guest, 1997). Another view is that these factors are important in predicting and influencing organisational performance, but that additional factors must be considered, such as client networks, customer service, and the "ability to get things done" (Oram and Wellins, 1995). Underlying this view is the implicit assumption that high performing organisations are effective because of high performing employees (Guest, 1997). Employee performance, in turn is said to be associated with job satisfaction, motivation, productivity, organisational commitment, and the interrelationships between these variables (Newstrom and Davis, 1993; Wood et al, 1998). In this study, organisational performance was assessed both by financial measures (change in profit, change in share price) and by employee-related measures (job satisfaction, productivity, organisational commitment, turnover, morale, and motivation).

The underlying theory of performance in this study builds on the work of Guest (1987, 1994, 1997), Cameron et al (1991) and Cameron (1994a, 1994b 1995), who suggest that organisational performance should be measured across the two dimensions of employee performance and financial performance. Thus the referent for organisational performance in this study is based on the assumption that although businesses are ultimately assessed on the basis of economic performance, this in turn is associated with effective employee performance.

As for the case of organisational performance, there also is no general theory on

the criteria for what makes up the concept of the "key manager" or "key employee".

Some have suggested that key employees are those who possess core competencies

(Prahalad and Hamel, 1990; Hamel and Prahalad, 1989; Hamel and Prahalad, 1994). It is

argued by others that key employees contribute to organisational performance by

knowing how to get things done, because they possess an organisation's corporate

memory, or because they maintain an important network of clients (Brown, 1994;

Barrick, Mount, and Strass, 1994). Because of the ambivalent nature of this perception,

the survey stage of this study used a global definition of "key workers" by stipulating

that each organisation should define what it meant by key workers in its own way.

Employee selection in downsizing organisations, within the context of this study,

does not rely on the same definition as that used by organisations when hiring employees.

The reason for this is that downsizing firms have very different goals from upsizing firms

when selecting employees. When organisations hire employees, the underlying aim of the

process is to predict future employee performance on the job. For downsizing

organisations, however, the goal is very different. Thornhill and Saunders (1998, p. 278)

describe the employee selection practice in downsizing organisations as a "series of

interrelated processes which range from senior management planning, through

operational implementation, to post-change, individually-focused or group-focused

interventions." The downsizing selection process is reliant in large measure on the level

and nature of managerial control over the selection process (Thornhill and Saunders,

1998), which in turn is dependent on the choice of downsizing targets, the choice of

downsizing strategy, and the nature of the selection criteria that are used (Freeman, 1994; Greenhalgh et al, 1988; Kozlowski et al, 1993).

All of these factors are interrelated. For example, the effectiveness of an organisation's ability to analyse its operating environment and the quality of its strategic planning process in turn has an effect on its choice of downsizing targets and downsizing methods (Thornhill and Saunders, 1998). An organisation that has become reactive to its environment rather than proactive, for example, might well be left with little choice in its strategic actions and would be more likely to engage in across-the-board staff reductions. It is quite likely that the result would be "unfocused or across-the-board reductions, perhaps related to a general cost reduction strategy." (Thornhill and Saunders, 1998, p. 277). The selection process in this case might well result in loss of key employees.

Greenhalgh et al (1988) argue that there is a tradeoff in selection methods between the ability of managers to control the process, the likelihood of employees to voluntarily leave the organisation, and the congruence of the selection method with the time constraints of the downsizing process. They argue that the selection methods with the least managerial control, such as attrition or retirement, are also the least likely to threaten an employee's sense of job security. In this case, key employees would be less likely to leave the organisation, but the use of natural attrition is a long-term process, not suited to large-scale, short-term reductions in staff.

For purposes of this study, the employee selection process in the downsizing organisation involved the entire chronological sequence of downsizing events, beginning with the initial communication to the workforce that the organisation intended to downsize, to the establishment of the goals and aims of the downsizing, the development of specific downsizing targets, the use of particular downsizing strategies, to the use by the organisation of a competitive selection process, and finally culminating in the retrenchment of an employee or the deciding of the employee to leave the organisation.

1.3 Justification for the Research

The research in this study has implications for management theory and practice, human resource management theory and practice, and for industrial relations theory and practice. Some of the more important issues are discussed below.

Downsizing is still a highly-used organisational restructuring tool, but few organisations are successful at it (Morris et al, 1999). The research in this study contributes to a better understanding of the underlying mechanisms of the downsizing process and in so doing helps provide insight into the development of more effective organisational restructuring processes.

As argued by Appelbaum et al (1999), human resources are often considered to be just another expense of doing business. Firms that operate from this perspective view the workforce as a large proportion of organisational costs, thus the purpose of restructuring

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is simply to focus on reducing the number of employees. On the other hand, some view employees as a firm's most valuable assets (Kets de Vries and Balazs, 1997; de Meuse et al, 1994). This divergence of perspective reflects much of the variance in arguments regarding the efficacy of various theories of management styles (Legge, 1995; Guest, 1997). The research in this study provides insight into the notion that treating employees as valued assets leads to organisational performance, even in downsizing organisations. This is an important consideration for management theory, for HRM theory, and for theories of economics. The research adds to the body of knowledge in the debate between use of a socio-technical, humanistic, approach to human resource management as opposed to a cost reduction, economically rationalistic management style.

Although it has been argued that downsizing success is based not so much on the degree of the staff reduction but rather on how the downsizing process is accomplished (Cameron et al, 1991), it is not well-understood why this might be so and just how this process should be implemented. The research in this study provides an underlying framework that can enable organisations to better manage the downsizing process in such a way as to increase the probability of improved organisational performance.

This research examines the implications for downsizing of not just managers but also employees. Much of the previous research focuses on the implications of managerial issues but ignores those of employees (Cameron et al, 1991).

1.4 Methodology

The research methodology description in this section is provided only as a summation, with a more detailed discussion of the methodology provided in chapter 3.

1.4.1 Multi-method approach

The field of knowledge of this area of study is exploratory and developmental in nature. Because of this, it was decided to use a multi-method approach. That is, two different methodologies were used sequentially in order to obtain and analyse data. The first part of the study used case studies and structured interviews in order to provide an understanding of the contextual framework for the research and as a means of informing the second part of the study, a survey. This allowed the first stage of the research to refine and inform the survey instrument, and enabled triangulation of the analysis.

1.4.2 Case studies

The case study phase of the study involved structured interviews at seven different organisations together with analysis of secondary data such as company policies, company statements, and other publicly available information. The interviews were developed from the research frameworks in Koslowski et al (1993) and Thornhill and Saunders (1999). The case study firms were located in Western Australia and included two mining companies, two financial institutions, two public service organisations, and a

telecommunications provider. The focus of the case studies was on determining just how the organisation downsized and how the organisation went about its decision process used in selecting employees for retrenchment or retention. Transcripts of the interviews were analysed for contextual content and an employee selection process model was developed for each case study. The information gained from the case studies was then used to assist in development of a survey instrument.

1.4.3 Survey

A survey instrument was developed to measure the organisation's performance subsequent to downsizing, whether or not the organisation lost key managers or key employees, the selection process that was used in determining employee retrenchment or retention, selection criteria, and demographic information. A pilot survey was administered to the same companies that participated in the case study phase and the results of this survey were used to refine the survey instrument. The sampling frame for the survey was based on the 1999 Kompass Australia data base (Kompass Australia, 1999) using a random sample of 1860 Australian organisations from 26,000 listings. The companies in the data base included a wide cross section of firms in both the public and private sector. There were 422 valid responses received, for a response rate of 23%. Of these respondents, 304, or 72%, had undergone downsizing, and these organisations were the subject of data analysis.

Analysis began with a determination of the organisational performance outcomes of the downsizing companies. Factor analysis indicated two categories of performance

elements, which could be broadly classified as financial performance and employee performance. The data were then subjected to cluster analysis in order to determine if it was possible to classify the organisations across these two factors. The grouped organisations were then examined, using multiple discriminant analysis, to determine if there was any relationship between cluster membership and loss and retention of key managers and employees. Finally, multiple discriminant analysis was used to determine if there was an association between the selection process and the loss and retention of key employees and key managers.

1.5 Outline of the Study

Chapter one of the study provides an overview of the research, including the background to the research, a summary of the key areas of the rest of the study and an overview of the integration of the various sections into an overall research framework.

Chapter two provides the theoretical and research background for this study. The research issues in the area of study are outlined, concluding with the argument that there are several key areas of research that are missing from the field. These "missing pieces of the puzzle" are the basis for the research framework and methodology that are outlined in chapter 3.

In chapter 3 the research methodology is presented in detail. The primary aim of this chapter is to provide a research methodology framework that can then be duplicated by other researchers. This chapter includes the methodology used in both phases of the study: case studies and survey. The chapter shows how the insight gained from the case study phase of the research then informs the survey and then goes on to outline the development of the survey itself.

Unlike chapter 3, in which both phases of the research are described together, chapters 4 and 5 outline the data analysis process for each of the two phases individually. Chapter 4 examines the analysis process for the case studies, including some of the contextual issues developed from transcript analysis. The chapter concludes with a series of employee selection process models for the organisations examined in the case studies and a summation of the research issues to be incorporated in the survey instrument.

Chapter 5 discusses the data analysis process for the survey instrument. Since the survey is a quantitative instrument of measurement, much of this section is involved with a discussion of statistical methods of analysis. Although most of the discussions of the implications of the survey analysis are outlined in chapter 6, chapter 5 includes some examination of research results in those instances in which the data are used to sequentially inform subsequent stages of data analysis.

The last chapter summarises the salient conclusions to be gained from the study and outlines further areas for research. Included in this chapter are the implications of the

research for the research questions and emergent research issues, the implications of the research for theory, the implications for the theoretical framework, and the implications for practice. The chapter then concludes with a discussion of the implications of the research for further research

1.6 Limitations of Scope and Key Assumptions

Limitations of scope are those factors that are within the control of the researcher and which outline the explicit boundaries of the research problem. Some of the more important limitations of scope for this study are outlined in more detail below.

The sampling frame included only Australian organisations. Because of this, the research is generalisable only if compared with a similar research framework as described in this study. The research framework utilised in this study builds on the theoretical framework of Kozlowski et al (1993). Although the Kozlowski et al (1993) framework has an extensive basis in theory, other than an examination of the effects that downsizing has on the survivors of downsizing organisations, there has been very little empirical research in the area.

The sampling frame used in this study was based on the Kompass 1999 database, which randomly sampled 1860 organisations from 26,000 data entries . As in all sampling frames, there is the real danger for sampling bias to influence the outcomes of the study. The study was cross-sectional in nature, which does not allow for analysis of

longer-term effects and is valid only within the constraints of the time window that was examined.

Assessment of organisational performance and employee performance were based on global measures, which was a subjective assessment by expert witnesses of employee performance, organisational performance, the selection process, and the loss of key workers. There are both pros and cons for use of this type of assessment, but the fact that this type of evaluation was utilised should be noted.

The respondents for both the case study and survey stages of the research were senior HR managers. Because of this it can be argued that there may be biased responses, particularly if the respondents did not have adequate access to the needed information. In order to ameliorate the possible effects of this bias, respondents were senior executives who had participated in the strategic planning process for the organisation's restructuring and who thus had access to organisational performance information.

1.7 Definitions

The definitions of some of the terms used in this study are not necessarily the same as those adopted by other researchers, so key and controversial terms are defined to establish positions taken in this study.

Downsizing

a deliberate organisational decision to reduce the size of the workforce that is intended to improve organisational performance

Downsizing catalyst

the action, or 'trigger' that precipitates an organisation's decision to downsize. Some examples include merger or takeover, economic crisis, conformance to government policy

Downsizing goal

the organisation's desired goal or aim resulting from the downsizing. Some examples might include cost reductions, re-orient the organisation's culture, reduction in staff numbers, elimination of duplication, improved communication, de-layering (flattening of the organisation)

Downsizing target

those segments of an organisation that are made smaller or eliminated. Examples might be geographic locations, specific sites, organisational areas, obsolete competencies, or specific employees.

Employee selection

predicting employee job performance. In the case of downsizing organisations, this involves the determination, through a selection process, of the employees to be retained or retrenched.

Key workers

those managers or employees whose skills, knowledge, competencies, experience, or corporate memory are essential to an organisation's performance

Selection criteria

assessment standards used to evaluate employees for retention or retrenchment

Selection method

the specific selection technique used in a competitive selection process. Examples include selection panels, interviews, and assessment forms.

Selection process

the decision process which results in determination of which employees are to be retained or made redundant. Selection begins with the organisation's determination that it must undergo restructuring and ends when employees either voluntarily or involuntarily leave or stay with the organisation.

Selection strategy

the methods employed in order to accomplish staff reduction. Examples include attrition, voluntary redundancy, and involuntary retrenchment

1.8 Summary

This chapter examined the background to the research, linking this to a research framework and research question. It was found that although previous research has argued that the way in which organisations downsize is more influential on downsizing success than the degree of cost reduction or number of employees retrenched, there is little available explanation for why this might be so. If cost reduction strategies are ineffective as downsizing practices, it was suggested that employee retention, rather than rejection, strategies might be alternatives leading to functional downsizing.

CHAPTER 2

DOWNSIZING RESEARCH ISSUES

2.1 Introduction

This chapter outlines the research issues that are relevant to downsizing organisations and then shows where there are gaps in the research that require further investigation. The chapter then outlines a research framework to be used for the remainder of the study.

The chapter first provides background information on downsizing, necessary in order for the reader to better understand the context of the research in the area. Research issues in downsizing theory and practice are covered next. The body of knowledge of this research is divided into areas encompassing industry-wide issues, organisation-wide issues, and research on downsizing at the individual employee level. From this is developed a discussion of the research examining downsizing best practice. This section concludes with a discussion of other research perspectives on downsizing, discusses the research on the performance outcomes resulting from the downsizing process, and shows where further research is needed in order to better understand the phenomenon of downsizing. It is concluded from this section that in most cases downsizing does not improve organisational performance and that this is due to use of cost reduction, or employee rejection, downsizing strategies. It is then argued that use of employee

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retention downsizing strategies that are designed to retain key workers may provide a more suitable means of managing downsizing and that this is an area in need of further study.

The next section of this chapter outlines the key areas requiring research and develops a research framework that is used in the remainder of the study. This becomes the basis for the research questions that frame the research methodology outlined in chapter 3.

2.2 Background

Until recently, many organisational theorists, managers, and executives argued that larger companies were better (Cameron et al, 1991; Cameron, 1994a). Organisations were said to be successful when expanding, increasing size, hiring larger staff numbers, and adding more departments. Conversely, if an organisation was not expanding, it was thought to be in decline and stagnating. Successful organisations, following this line of reasoning, would exhibit increasing revenue, an expanding workforce, and ever-increasing market share.

More recently, for many firms, competitive pressures and economic downturn have resulted in decreased profit margins and lessened cash flows. Increased global competition and a need to improve quality of service have forced companies to rethink

their organisational strategies (Cameron, 1994a; 1994b). Some organisations are also deciding that increased size also leads to waste and inefficiency, and may thus result in reduced organisational performance (Cameron, 1994a; 1994b). Companies have been forced to evaluate their economic positions and look to flatter structures and smaller staff numbers as a way of alleviating the economic pressure. As a result, the requirement to reverse organisational decline through improved organisational efficiency has led to the premise that downsizing is an effective organisational business strategy for rejuvenating a firm and reversing economic decline.

Downsizing, within the context of this study, is defined as "a deliberate organisational decision to reduce the workforce that is intended to improve organisational performance (Kozlowski et al, 1993, p. 267). Downsizing may be implemented through strategies involving the reduction of workload, the elimination of functions, the removal of hierarchical levels or units, or by implementation of cost containment strategies that streamline activities such as administrative procedures (Cameron, 1991). The term *downsizing* has come to become synonymous with a variety of terms, including organisational restructuring, rightsizing, de-layering, rationalising, streamlining, demassing, and re-engineering (Tomasko, 1989, 1991, 1992, 1993). Regardless of how the process is described, however, downsizing results in reductions in the size of an organisation's workforce.

Downsizing has become a way of life for organisations worldwide. A global survey of company executives indicates that in the period between 1988 and 1993, the

vast majority of organisations had undergone restructuring, downsizing, or cost reduction (Cascio, 1994). In the United States, for example, more than 85% of the Fortune 1000 firms retrenched white-collar employees between 1987 and 1991, affecting more than five million jobs (Cascio, 1993). In 1993, more than 615,000 American workers were retrenched, and this trend continued at the rate of 3,100 layoffs per day in 1994 (Hitt et al, 1994).

Organisations seem to downsize for a variety of reasons. Many firms view downsizing as a way to achieve better strategic placement and to attain a competitive advantage (Greenberg, 1991; Heenan et al, 1989; Cameron, 1994; Cascio, 1994). Downsizing for these reasons can result in wholesale reductions in staff, can be evidenced by the removal of some layers in the organisation, or may result in the elimination of specific positions (Cascio, 1993; Cameron et al, 1991).

Many organisations downsize in the hope that the strategy will improve the organisation's economic position. In these instances, it is surmised that successful downsizing will result in positive economic indicators such as increased market share, increased productivity, and improved cash flow (Cameron, 1994; Ascari et al, 1995; Freeman and Cameron, 1993; Cascio, 1993, 1994). Because for most organisations costs are more predictable than profits, and because in many instances a large proportion of a corporation's budget is preoccupied with personnel expenses, reducing staff numbers is a seemingly straightforward way of reversing cash flow problems. Therefore downsizing is

viewed as a way to reduce overhead, and this is achieved by shedding staff (Heenan, 1989).

Some theorists and company executives argue that organisational restructuring can result outcomes beneficial to the firm other than just the reduction of overhead costs (Heenan, 1989). Some of these perceived benefits include:

- a more streamlined bureaucracy
- more rapid decision-making
- smoother communication
- an increased capability for entrepreneurship
- increased productivity

The means to achieve these efficiencies is often seen to be through "flattening" the organisational structure and thus reducing the number of managerial layers (Lansbury, 1994; Nienstedt, 1989). The result of a more streamlined structure, it is perceived, is better communication, better decision-making, and even perhaps a revitalisation of the organisation's culture (Buchanan et al, 1992; Greenberg, 1993; Cascio, 1993).

In some cases, organisations preemptively downsize in anticipation of competition, although these firms may already have record profits (Cascio, 1993). As a case in point, research by Greenberg (1993) describes the situation in which almost half

of 800 American corporations implemented downsizing programs in 1993 for "strategic rather than recession-driven reasons" (Greenberg, 1993).

Australian organisations have followed this worldwide trend. Over the period from 1986 to 1991, the annual number of retrenchments in Australia varied from a low of 314,600 in 1986 to a high of 560,500 in 1991 (Buchanan et al, 1992). A more recent survey of Australian companies for the period 1990 through 1995 indicated that a consistent 50 to 60 percent of companies had downsized (Littler et al, 1996). The survey anticipated continuance of the trend, with 43% of the companies expecting to downsize through 1997, which seems to substantiate the premise that Australian organisations downsize even during periods of economic growth (Buchanan et al, 1992, Australian Bureau of Statistics, 1992).

One of the primary reasons for organisational restructuring in Australia is in response to fluctuating demands for goods and services. Faced with decreases in demand for product services, organisations retrenched employees (Callus, Morehead, Cully, and Buchanan, 1991). However downsizing in Australia has not been limited to just the private sector. The Australian Public Sector utilises downsizing as a means of cutting costs, of promoting increased managerial control over employees, and as a way of improving upwards accountability (Considine, 1993). Downsizing in this sense can be viewed as a means of rationalising statutory authorities and government corporations. One important differentiation between private and public organisations is the fact that the public sector must continue to provide services to expensive clients, despite cost

reduction measures. Thus downsizing in the public sector may result in the spreading of diminished resources across an undiminished client base (Considine, 1993; Raum and Soniat, 1993).

2.3 Downsizing Research Issues

2.3.1 Background

There has been a rapid growth in the academic literature on downsizing over the last three decades (Appelbaum et al, 1999). Much of the discourse on downsizing deals with research conducted by Cameron et al (1991), which examined the North American automotive industry in the late 1980s. There are three perspectives from which this literature can be reviewed (Cameron et al, 1993; Kozlowski et al, 1993; Appelbaum et al, 1999): the global or industry level (Porter, 1980), the organisation level (Cameron et al 1991; Cameron, 1994; Drew, 1994; Freeman and Cameron, 1993; Freeman, 1994; Kozlowski et al 1993; Thornhill and Saunders, 1998), and the individual level (Brockner et al 1987; Brockner et al 1992).

This section on downsizing research issues will discuss the literature using this three-perspective model, beginning with a brief examination of the research on downsizing at the global and industry level, which is preoccupied with mergers, joint ventures, and employment trends (Appelbaum et al 1999). The discussion will then focus

on research at the organisational level. Of interest here are the downsizing strategies used by organisations to improve organisational performance and the processes used by downsizing organisations as they restructure (Thornhill and Saunders, 1998; Cameron et al, 1991; Cameron et al, 1993). The research at the individual, or micro level is examined next, and is concerned with individual coping mechanisms, individual stress, and what is known as the 'survivor's syndrome' (Brockner et al 1987; Brockner et al 1992).

Next the discussion centres on an examination of downsizing best practice, in which both empirical and anecdotal evidence are presented in order to develop prescriptive models of practitioner-related interventions. The focus of the discussion then turns to an examination of the retention and rejection strategies used by downsizing organisations which in turn leads to development of a research framework in the subsequent sections of this chapter.

2.3.2 Downsizing Research at the Industry and Global Level

Research on downsizing at the industry or global level is concerned with analysis of the issues of mergers, divestitures, market segmentation, and consolidation of industry structures (Cameron, 1994a). Other areas of interest included in this research are the effects of downsizing on national employment trends (Buchanan et al, 1992), the effects of the restructuring of the Eastern European economy on organisational restructuring, and the formation of the European Economic Community (Porter, 1980; 1990).

There are few empirically based studies on downsizing at the industry or global level. Although the research at this level is not directly relevant to the central theme of this study, some examples are included in order to help place the overall downsizing research framework in context. Most of the empirical research on downsizing at the industry level attempts to integrate industry type, downsizing actions, and downsizing outcomes. As an example, a statistical analysis of downsizing outcomes in an industrial setting found that organisations in mature industries (e.g., steel) were more likely to increase productivity with downsizing (Baily 1996). In another study of short-term turnaround attempts by mature industrial-product business units, Hambrick (1983) found that efficiency-oriented moves, but not entrepreneurial initiatives, were associated with successful turnaround.

2.3.3 Downsizing Research at the Organisation Level

The following discussion of research on downsizing at the organisational level is categorised chronologically in the sequence of events an organisation would follow as it undergoes the restructuring process. The process begins with the strategic planning methodologies developed by the organisation as it maps out its downsizing process, the organisational determination of the targets of the downsizing, the development of downsizing strategies, and the development of employee selection strategies (Kozlowski et al, 19993; Thornhill and Saunders, 1999).

Strategic planning for downsizing

Research involved with providing a better understanding of the strategic

planning process used by downsizing organisations has suggested a narrow range

of approaches. These involve a preoccupation with the elimination of staff, the

elimination of jobs, or the elimination of work (Robbins and Pearce, 1992;

Neilson, 1990; Tomasko, 1989; Cameron, 1994b). Advocates of wholesale staff

reduction argue that the extensive elimination of staff and jobs is the only sure

way of achieving organisational turnaround (Robbins and Pearce, 1992). Other

studies argue the case for downsizing as an opportunity for eliminating work, not

people (Neilson, 1990; Tomasko, 1989; Cameron, 1994b). These approaches to

strategic planning seem to make use of one or several of the following:

- implementation of across-the-board staff cuts

- elimination of non-value added tasks through process reengineering

- retention of core competencies

- all-encompassing restructuring of the organisation

Across the board staff cuts generally result from a strictly economic or

rationalistic approach to downsizing. Since organisations dedicate large

proportions of their budgets to employee-related costs, the use of across-the-board

cuts is viewed as a useful short-term turnaround solution to financial crisis. These

strategies may also serve to "unfreeze" an organisation and thus enable it to

prepare itself more rapidly for change (Cameron et al 1991; Cameron, 1993, 1994).

Non-value task analysis involves an assessment of the tasks of an organisation, determining which of these contribute value to the organisation's mission, and then eliminating those tasks that are of low contribution. The process is one of cost reduction through the elimination of activities that do not "add value" to organisational performance (Firstenberg, 1993). Case studies of this strategic approach suggest that organisations should not rely solely on cost reduction planning that results in a loss of staff (Drew, 1994), but should undergo what is termed "reengineering", or the ".. analysis and redesign of business and manufacturing processes to eliminate that which adds no value." (Ascari et al, 1995: p. 1). This method of strategic planning involves cost reduction based on whether or not organisational performance is hindered if the function under review is eliminated. The aim of the analysis is therefore elimination of low-valued-added work and then elimination of staff to reflect the reduced workload.

Core competency analysis is a strategic approach to planning in which the organisation determines the crucial competencies that enable the firm to remain competitive (Prahalad and Hamel, 1990). This approach to strategic planning argues that organisational competitiveness hinges on the ability of the organisation to develop and retain core employee competencies (Prahalad and Hamel, 1990). It is argued that from the strategic planning process is developed a

set of the core products that are essential for organisational performance in the marketplace. These products are linked to the employee-possessed core competencies that are required to develop these products. Consolidating and developing these skills corporation-wide maintain competitive advantage. It is suggested that organisations should be structured to retain employees whose competencies are crucial to organisational performance, and that these employees should be managed organisation wide as a strategic corporate resource. Conversely, employees who do not fill core positions are not viewed as valuable assets and become expendable (Hamel and Prahalad, 1989; Hamel and Prahalad, 1994; Prahalad and Hamel, 1990).

There is anecdotal evidence in agreement with the notion that key employee skills and competencies must be retained when planning for organisational restructuring (Hitt, 1994a; 1994b). The argument is based on the premise that restructuring firms must ensure that they retain their best talent, which in turn requires a proactive evaluation of employee ability (Hitt, 1994a). The means for achieving this is through a close link between strategic business planning and human resource planning. Although this perspective argues the importance of valuing and retaining key employees, it does not provide empirical evidence to support this assumption (Prahalad and Hamel, 1990).

All-encompassing restructuring of the organisation is another approach to strategic downsizing planning that involves a revamping of the organisation's

culture. Anecdotal evidence suggests that some organisations downsize in order to improve quality, revise the organisation's set of core values, or in order to enable effective organisational change (Cameron et al 1991; Cameron, 1994b, Freeman and Cameron, 1993). Most of this research is based on case studies designed to show the process in practice. Another example of this strategy can be seen in CIGNA (Faris,1994), in which several divisions were re-engineered in order to realign the organisation's culture and to provide a closer integration of the divisions with the organisation's strategy. Each of the divisions was downsized, and this was accomplished through analysis of each of the jobs and then selection of employees to staff the positions.

Considine (1993) outlines the Australian public sector approach to the downsizing process. In this case, planners adopt a strategy known as Strategic Core Restructuring (SCR), which is a form of public sector organisational restructuring in which two parallel goals are to be realised. The first aim is to achieve cost reduction and restructuring of the organisation in order to promote increased managerial control and improve upwards accountability. The second aim is to ensure retention of the organisation's operational objectives, or strategic core. It is cynically observed that one use of SCR downsizing is to promote political gain. In some cases the organisation concentrates cutbacks in program areas that are politically sensitive, thus mobilizing party and interest group activities against central agencies or the government itself (Considine, 1993). The process is described as "shroud waving" for political gain.

Downsizing strategies

The strategies used in downsizing are best exemplified in one of the few empirical studies of downsizing, based on a four-year longitudinal study of automobile manufacturing companies (Cameron et al (1991) Cameron (1994a; 1994b). The research suggested one or a combination of three strategies used in the restructuring process:

Workforce reduction strategies

The overriding goal of workforce reduction strategies was to produce an overall, across the board reduction in the of employees. Examples of these strategies were retrenchment, attrition, and the use of redundancy packages in order to shed the organisation of staff. These strategies operated in the near to medium term, depending on the strategy used.

Work redesign strategies

Work redesign strategies were aimed at the reduction of work, although in many cases a secondary goal was the reduction of headcount. This was done through the elimination of functions, products, and layers. Other ways of achieving work redesign were by the redesign tasks, merger or consolidation of

units, and by reduction of work hours. These strategies operated in the medium term, and required prior analysis of the work and tasks involved. In almost all cases, work redesign strategies resulted in an overall restructuring of the organisation. The use of a work redesign strategy can overcome the downsizing dilemma which results when fewer workers doing the same, if not more, work, and can also result in more efficient and effective organisational performance.

Systemic strategies

The underlying purpose of the systemic strategy was to change the organisation's culture and value systems. These are long-term strategies, and in most of these organisations downsizing became an ongoing process. Some examples of this include the development of a total quality management process, the establishment of quality improvement over time, and organisations that perceived the need for continual change in response to competitive pressures or the dynamics of the environment.

If the strategic planning process and the development of downsizing strategies determines *how* the organisation is to approach downsizing, the specifying of downsizing targets establishes *what* is to be eliminated. Kozlowski et al (1993) examine this issue as part of a broader discussion of a downsizing research framework. These targets are discussed in more detail below.

Downsizing targets

Downsizing targets are the specific areas in the organisation that are to be restructured. The targets of the downsizing can be one or combinations of several dimensions (Kozlowski et al, 1993). These can include the targeting of geographic areas (countries or regions) or specific sites (corporate headquarters, obsolete plants) which are seen to be no longer be relevant to the organisation's overall strategic plan or which, if eliminated will realise cost efficiencies. Another target for rationalisation can be specific organisational areas, such as administrative functions, research and development, or human resource management. A third downsizing target may be the reduction of organisational layers in order to improve communication, flexibility, or decision-making capability.

Employee selection strategies

If the targets of downsizing describe *what* is to be eliminated, workforce reduction strategies focus on *how* the downsizing is to be accomplished (Kozlowski et al, 1993). The range of methods employed by organisations to reduce staff numbers may be categorised in several ways, including the degree of control which the organisation has over which employees leave or which stay, the congruence of the strategy with the targets of the downsizing, the degree to which the strategy has a negative effect on surviving employee performance, the degree of perceived inequity in employee retrenchment and retention, and the perceptions

of the company's social responsibilities to its employees (Kozlowski et al, 1993). Each of the strategies is discussed below, together with a brief description of the relative usefulness for each strategy. As in the case of downsizing targets, organisations have been seen to use these strategies singly or in combination (Cameron et al, 1991).

Attrition

Attrition is the use of labour wastage (turnover, resignations, terminations) to reduce staff numbers (Nankervis et al, 1992). Attrition is a slow process that is dependent on what may be department-specific turnover rates and offers low organisational control over the process. The fact that the outcomes may be relatively slow in occurrence is balanced by employee perceptions of equity and thus may result in minimal negative impact on the attitudes of survivors toward organisational commitment and motivation (Kozlowski et al, 1993).

Voluntary redundancy

Voluntary redundancy occurs when employees agree to resign from their position. The issues involved with voluntary redundancy can vary widely, depending on whether or not incentives for redundancy are provided by the organisation (Cameron et al, 1991, Cameron, 1994b,).

Voluntary redundancy with incentives

Voluntary redundancy with incentives occurs when organisations offer attractive redundancy packages or early retirement incentives (Markowitz and Friedlander, 1992). One of the downsides of voluntary redundancy with incentives is the loss of organisational control over which employees leave or stay (Cameron et al, 1991, Cameron, 1994b,). From a performance management standpoint, the provision of incentives for redundancy actually rewards those employees who decide to leave the organisation, which in turn can undermine workforce organisational commitment.

Providing incentives for employees to leave an organisation may also result in the loss of an organisation's core competencies because high performing employees can find jobs elsewhere (Brockner, 1992; Hitt, 1994; Mone, 1994). This loss of crucial skills has a follow-on effect because organisations must dedicate additional training and development resources to the remaining employees (Hitt, 1994). Some companies have provided attractive redundancy packages only to find their former employees working for the competition or forming competitive businesses themselves (Brown, 1994).

Another problem of providing incentives for employees to leave the organisation occurs when firms offer incentives for early retirement. Early retirement packages may be indirectly discriminatory and can result in the loss of

key, older employees whose experience, networks, leadership, and maturity are important contributors to the organisation's culture and performance (Estabrook, 1993; Dougherty, 1995; Galen, 1993).

Voluntary redundancy without incentives

Employees who voluntarily leave a downsizing organisation often do so at the first hint of the organisation's intent to restructure. This is so because some employees may perceive that downsizing will result in less job security, will provide only limited opportunities for training and development, will offer fewer promotion opportunities, or may result in lowered job satisfaction (Brockner, 1992). There is some evidence to indicate a tendency for high performing employees to voluntarily leave downsizing organisations because they know they can find suitable jobs elsewhere (Brockner, 1992; Hitt, 1994; Mone, 1994). Because the strategy is a voluntary one, there is little control over who stays and who goes (Cameron et al 1991; Cameron, 1994b).

Involuntary redundancy (retrenchment)

Retrenchment is the result of the employee's position being made redundant (as through a downsizing target), through re-selection for a future position in the "new" (downsized) organisation, or as a result of a selection process that is based on criteria such as employee performance, key skills and

abilities, or development potential. Involuntary redundancy can result in high organisational control of the process if selection criteria for retrenchment are linked to the organisation's crucial competencies. The use of retrenchment may invoke legal difficulties because of unfair dismissal litigation (Banham, 1995; Hoffman, 1994)), industrial relations action, or EEO litigation on the basis of discrimination (Sacks, 1992; Lee, 1995). While there is some organisational control over employee retention at the individual level, the use of this strategy as a means of wholesale staff reductions results in low organisational control because the loss of key skills and abilities (key employees) may be quite unpredictable (Thornhill and Saunders, 1999).

2.3.4 Downsizing research at the individual level

The effects of downsizing on the individual employee have received much attention from researchers and as a result, there is a substantive body of literature that examines the effects of downsizing at the micro, or individual, level. The reactions of terminated employees to loss of employment have been investigated (Leana and Ivancevich, 1987; Leana and Feldman, 1988, 1989, 1990; Liem and Liem, 1988), and the effects of downsizing on the survivors of the process (Brockner et al, 1987; Brockner et al, 1992; Brockner and Greenberg, 1990). There is evidence to suggest that downsizing organisations must take into account the loss of employee commitment to the organisation well before the downsizing process begins, because high performing employees, knowing they can find good

jobs elsewhere, may be the first to leave (Brockner, 1992; Hitt, 1994; Mone, 1994).

Much of the downsizing research at the individual level focuses on the reactions of the survivors of the downsizing because this is seen to have a great deal of influence over the overall effectiveness of the downsizing process (Brockner, 1988). The importance of this is emphasised by Kozlowski et al (1993), in arguing that in large measure success or failure of the downsizing process is influenced in large measure by the degree to which the organisation can minimise the negative effects of organisational restructuring on the survivors of the process.

The psychological effect of downsizing on downsizing survivors has been empirically verified (Brockner et al 1987) in a multimethod research study administered in the U.S. Survivors of downsizing reacted most negatively to the process when they strongly identified with retrenched employees who were perceived to have been inadequately compensated. This negative reaction took the form of reduced work performance and lowered organisational commitment (Brockner et al 1987). The study suggests that organisations must do more than just compensate employees who are retrenched and must emphasise the equity of compensation for retrenchment in ways that are credible and noticeable in the eyes of the survivors.

Brockner et al (1992) also studied the relationship between survivor work effort and job level as influenced by perceived job insecurity. The study was based on a survey instrument distributed to the survivors of organisational restructuring in a national (U.S.) chain of small retail stores. The independent variables were job insecurity and economic need to work. The dependent variables were work effort and the survivor's perceived level of concern about the possibility of retrenchment. The research concluded that employees worked harder when they perceived a high level of job threat and high level of perceived control or when they perceived a low level of job threat and low level of control. Employees did not work as hard if they perceived a low level of job insecurity together with high control.

Additional research has provided evidence that individuals who survive downsizing experience a range of negative side effects, including reduced morale (Brockner et al, 1997), loss of trust, lowered productivity, higher levels of stress, increased feelings of conflict, increased role ambiguity, and a lessening of job satisfaction (Appelbaum et al, 1987; Cascio, 1993; Kets de Vries and Balazs, 1997; Mone, 1994).

In order to provide a better understanding of the effect of downsizing on employee performance, Greenhalgh and Rosenblatt (1984) provide a model of job insecurity that outlines the relationship between the psychological state, or work attitude, of employees and resultant workplace behavioural reactions. The model

suggests a correlation between the psychological constructs of organisational commitment, job insecurity, lower morale, increased work stress and the resultant behavioural reactions of absenteeism, intention to turnover, risk-taking, resistance to change, and work performance.

Leana (1988) examined the provision of post-termination assistance to employees. This empirical study suggested that the organisational provision of post-termination assistance to employees can ameliorate employee stress as a reaction to downsizing. Factors critical to the reduction of stress in employees included:

- advance notification
- severance pay
- extended benefits
- retraining programs
- outplacement

Labib (1993) examined the contention of Schweiger, Ivancevich and Power (1987) who argued that not only must the criteria used to select employees for retrenchment be closely linked to the organisation's strategic aims, but that these criteria must also be perceived by all employees to be clear, appropriate, and fair. This is especially true of surviving employees as, according to Greenberg (1990), survivors are in a unique position to judge the fairness of terminations and

when this perception is of an equitable selection process, survivors respond through commitment and motivation. This view is also held by Isabella (1989), who suggests, based on anecdotal evidence. that the addressal of the post-downsized needs of the downsizing survivors can help ensure that employees continue to be committed and motivated subsequent to the downsizing.

The primary issues at the individual level that are salient to this research are therefore:

(1) Employees who are high performers may be the first ones to be tempted to leave a downsizing organisation, and this may begin to occur with the initial announcement of the organisation's intent to restructure. Key employees may also leave despite the use of alternatives to downsizing such as reduced work hours, reduced pay, or job redesign. If attractive redundancy packages are to be utilised, these must be seen to be equitable and not so much as a reward for leaving the organisation but as a means of providing a humanitarian outsourcing process.

(2) The negative effects of downsizing on both survivors and casualties must be minimised. Employees must be involved in the downsizing planning and implementation process, must be provided with information, and must perceive the process to be equitable and fair.

2.3.5 Research on downsizing best practice

Much of the evidence on downsizing best practice is based on early, limited, anecdotal evidence. Downsizing best practice, particularly in the earlier literature, is often characterised by the argument that the overriding purpose of downsizing is largely one of cost reduction (Bunning, 1990; Hambrick, 1983). Using the cost reduction perspective has led some to believe that the most effective way to accomplish downsizing is to get the process over with quickly in order to minimise the impact that restructuring has on the organisation's employees (Greco, 1989). Greco (1989) in fact argues that the use of planning and analysis in the downsizing process hinders the primary objective in successful downsizing, getting on with the task as quickly as possible.

Other early research on downsizing best practice took a more moderate view of the process, but again, most of the data were prescriptive and based largely on anecdotal evidence. Several theorists suggested that the downsizing firm should thoughtfully analyse the tasks and structure of the organisation (Appelbaum 1987; Tomasko, 1987) and that some consideration should be dedicated to which employees are crucial to long term performance.

Hardy (1987, 1990) takes the perspective that the "hidden costs" of organisational restructuring are often ignored by strategic planners. These can include such issues as union activism, damaged credibility, and alienation of

employees. Successful downsizing organisations factor these hidden issues into their downsizing strategies. Hardy (1987) therefore counters the argument that speed, rather than analysis, is the overriding issue in downsizing best practice.

More recent, but limited, empirical research has modified this view of downsizing best practice suggesting that effective downsizing is much more than simple cost reduction (Cameron et al, 1991; Cameron, 1994a, 1994b; Kozlowski et al, 1993) and emphasises the importance of effective management of the organisation's human resources before, during, and subsequent to, the organisational restructuring (Cascio, 1993, 1994). Some, as for example, Guest (1997), argue the importance of a tight linkage between the organisation's strategic planning process, its business interests, and the strategic human resource management strategies that support the restructuring. Unfortunately, with the exception of a few empirical studies, research in this area is largely anecdotal and descriptive (Thornhill and Saunders, 1999).

Much of the literature on downsizing deals with research conducted by Cameron et al (1991) that examined the North American automotive industry in the late 1980s. The research involved a four-year longitudinal assessment of thirty organisations in the automobile manufacturing industry, all thirty of which had undergone downsizing and most of which planned to downsize again in the immediate future. The research was conducted in two stages, the first of which involved a series of interviews with the head of each organisation in order to

establish a contextual framework. Of particular interest in the first stage of research was the relationship between organisational performance and the downsizing implementation strategies that were used.

Data collection for the second stage of the study used a survey instrument that measured managers' perceptions of the organisation's strategies, corporate culture, and leadership, together with an evaluation of the outcomes of downsizing. The research thus examined the perceptions of those who were involved in the downsizing process itself. The study did not attempt to construct a theoretical framework for downsizing, nor did it attempt to explain the relationships between variables or predict organisational performance on the basis of strategies. Nevertheless, the research provided a useful insight into the decision processes and organisational experiences of companies undergoing organisational restructuring.

The study reported that successful downsizing organisations usually began the downsizing process with a systematic analysis of the organisation's structure and an examination of the nature of firm's tasks and jobs (Cameron et al, 1991). This pre-planning enabled precise targeting of inefficiencies and redundancies both within and external to the organisation. As a result, downsizing implementers were able to design organisational structures to enable integration of the organisation's culture at the local, or team, level.

Organisations that improved their organisational performance were associated by Cameron et al (1991) with a set of "downsizing best practices". However only a few firms were able to achieve improved organisational effectiveness over time as a result of downsizing, and only the most effective exhibited all of the "best practice" processes. These are discussed in more detail below:

(1) In effective organisations, leaders initiated downsizing but the best downsizing strategies were recommended and designed by employees, not top managers. Employees analysed the operations of the organisation job-by-job and task-by-task.

(2) The most successful downsizing processes were both short-term and across-the-board but also long-term and selective. The use of short term strategies such as across-the-board staff reductions overcame resistance to change, helped avoid the perception of favouritism in retrenchment and retention, and enabled quick realisation of cost savings. The use of longer term strategies (targeted selection and attrition in specific positions) ensured that it could be predicted who would be eliminated, thus enabling retention of key skills and experience.

(3) The most successful downsizing organisations paid special attention both to those who lost their jobs and to those who didn't, the survivors. For those who

were retrenched, this took the form of outplacement services, personal and family counseling, and relocation assistance. For the survivors, this included increased information and communication to convey the idea that the survivors were there because they were valued and respected.

(4) Successful organisations specifically targeted areas where job redundancy, excess cost, and inefficiencies could be eliminated.

According to Cameron et al (1991), downsizing organisations were generally unsuccessful when they relied exclusively on the use of across the board staff cuts. The use of across the board cuts resulted in a loss of corporate memory, loss of organisational control over who left the organisation, and loss of key skills and competencies. Although many of the successful downsizing organisations used across the board staff cuts, this was done in conjunction with other strategies (targeted selection based on valid criteria) that provided organisational control over which employees were retained and which were retrenched.

Another characteristic of successful downsizing was the management of human resources through interventions on behalf of both the survivors and those who left the organisation (Cameron et al, 1991). For the survivors, this involved a high level of two-way communication of information, positive reinforcement of the value of employees as assets to the organisation through use of intrinsic and extrinsic motivation reinforcement and performance management systems, and

increased training and development opportunities for survivors. Survivor management thus depended in large measure on the development of sophisticated, effective human resource management systems that had been in operation well before the downsizing was implemented.

Successful downsizing organisations also considered those who left the organisation and made an effort to reinforce the notion that casualties were still valuable assets to the organisation (Cameron et al, 1991). This was implemented through outplacement support and incentive packages for those who left the organisation.

Another important theme in downsizing best practice is the argument that rather than merely reducing staff numbers, organisations should develop strategies designed to decrease workload (Travaglione, 2000; Kozlowski et al 1993; Faris and Liedel, 1994; Henkoff, 1990).

As a result of the evidence obtained from both empirical and anecdotal research, it was concluded that the *way* an organisation downsizes is a much more important contributor to improved organisational performance, rather than the sheer numbers of staff that are shed (Cameron et al, 1991; Cameron 1994a, 1994b).

2.3.6 Other downsizing research frameworks

In an attempt to better understand the phenomenon of downsizing, theorists have developed several research frameworks to explain the processes. Shaw and Barrett-Power (1997) for example argue that downsizing can be modeled as a stress-based process . The underlying theory for this explanation is based on literature and anecdotal evidence and suggests that research using this model can enable a better understanding of performance at the organisational, group, and individual level. Stress-based criteria are alternatives to measures based on financial performance, indices which may not apply to work groups or individual employees.

Barr, Stimpert and Huff (1992) used a different perspective on downsizing, arguing that organisational renewal is predicated on the closeness of linkage between environmental change and corporate strategy, together with the ability of the organisation to modify that linkage with time.

A social psychology perspective is used by Sutton (1990) to provide an understanding of organisational performance in downsizing organisations. In this model, it is argued, organisational effectiveness in downsizing firms is dependent on the continued participation and support of external groups and individuals. The framework is adapted from an earlier model developed by Sutton and D'Anno (1989) and proposes that a "decrease in work force size evokes: (1) increased anxiety among surviving organisational members, and (2) decreased need for

coordination and control of the smaller work force." (pp. 228-229)

Another, different, perspective is suggested by Weitzel and Jonsson (1989) who have developed a life-cycle framework for downsizing, based on anecdotal evidence and a review of the literature.

2.3.7 Research on the Outcomes of Downsizing

There is an ongoing debate concerning the viability of downsizing as a device for achieving economic turnaround. Some have suggested that organisational restructuring (downsizing) is an absolute requirement for achieving economic turnaround (Robbins and Pearce, 1992; Pearce and Robbins, 1994). There is an increasing body of research, however, that refutes this notion, arguing that although a large number of companies have downsized, few have improved their financial performance as a result of the process (Cameron, 1994a; 1994b; Cascio, 1994), and most downsizing organisations have been unable to achieve economic turnaround (Baumohl 1993, cited in Kets de Vries and Balazs, 1997). An example of this lack of success can be seen in the stock market prices of firms in Europe that downsized in the 1980s and subsequently lagged behind the industry average in the 1990s (Kets de Vries, 1997). In some instances, downsizing actually increased costs rather than decreasing them (McKinley et al, 1995). Downsizing has been shown to increase costs in several ways, such as reduced product quality that results when firms downsize and business

opportunities that are lost when an organisation begins to lose its key employees and important clients (Mabert and Schmenner, 1997).

In addition to cost, other criteria can be used to measure organisational performance, such as productivity. It has been argued in several studies that downsizing has a negative impact on organisational productivity, as for example, a study cited by Henkoff (1990), in which more than 50% of 1468 surveyed in Canada reported that productivity either remained the same or decreased after downsizing. A study examining manufacturing plants in the U.S. demonstrated a similar result, with evidence based on a microeconomic analysis of the Longitudinal Research Database (LRD). The results of the study indicated that manufacturing plants that increased workforce size had about the same level of productivity as those that downsized (Baily et al, 1996). Baily et al (1996) concluded that of 1005 firms that underwent downsizing from 1986 to 1991, only 46 percent reduced expenses, only 32 percent increased profits, only 22 percent increased productivity, and only 17 percent actually reduced bureaucracy. In yet another case, it was reported that more than half of 1468 firms that downsized actually *lost* productivity (Cameron, 1994a), a conclusion reached by others (Cascio, 1993; Mabert and Schmenner, 1997).

Based on these and other studies, the preponderance of evidence suggests that downsizing usually results in declining organisational performance (Baily et al, 1996). In addition, there is some indication that downsizing has other, less

obvious, deleterious effects (Fisher, 2000). Using a social network research methodology, Fisher (2000) concluded that downsizing damages the learning ability of an organisation to an extent far greater than head-count ratios might imply.

Dunford (1995) suggests that while much of the research attention has been directed at the management of the transitional aspects of downsizing (e.g., Brockner, 1992; Cameron, 1994b; Cameron et al 1991, 1993; Tomasko, 1989), little attention has been given to the management of its aftermath. This "aftermath" is categorised as work pressure (more work, fewer employees), fragmented and interrupted career patterns, loss of organisational commitment, loss of the firm's corporate memory, loss of market relationships, and fragmentation of the corporate strategy (Dunford,1995). There are additional unwanted side effects, it is suggested, that result from downsizing, including declines in employee morale and the loss of employee trust in the organisation and management (Mirvis, 1997). Other undesirable outcomes are attributed to downsizing, such as increased employee stress, increased conflict between supervisors and subordinates, increased role ambiguity, and loss of job satisfaction (Appelbaum et al, 1987; Cascio, 1993; Kets de Vries and Balazs, 1997; Mone, 1994).

It is reasonable to assume that when employees fear for their jobs, they will have feelings of increased stress and will feel less committed to the

organisation. There is some evidence of this relationship as suggested by Greenhalgh and Rosenblatt's (1984) model of job insecurity. This theoretical framework argues that psychological states and work attitudes such as lessened organisational commitment, lower feelings of job security, low morale, and increased work stress result in behavioural reactions such as absenteeism, increased turnover, a higher propensity for risk-taking, an increased resistance to change, and a resultant lowering of work effort and/or performance. As a result, the organisation may lose its key employees and those who do remain may suffer declines in performance. This may be so because of declining morale and effort but may also be attributable to the fact that in many downsizing organisations, high self-efficacy employees leave and low self-efficacy employees stay (Mone, 1994; Evans et al, 1996; Cascio, 1993).

It can be concluded that there is a general consensus among researchers, academics, and theoreticians that for most firms, downsizing does not result in improved organisational performance (Cameron, 1994a; 1994b; Cascio, 1994; Mone, 1994; Evans et al, 1996; Dunford,1995). So compelling is the evidence that downsizing adversely affects organisational performance that some have argued that it should be the turnaround strategy of last resort (Arogyaswamy and Yasai-Ardekani,1997).

Previous research has suggested that success in downsizing is not directly related to the proportion of employees that are shed from the organisation nor is it

dependent on the degree of cost savings that are realised (Morris et al, 1999; Cascio, et al, 1997). Although there is a growing accumulation of literature on downsizing, much of what is known is descriptive and prescriptive (Kozlowski et al, 1993; Cameron et al, 1991; Cameron et al, 1993). Additionally, there are gaps in the body of knowledge. For example, many have argued that downsizing strategies based exclusively on cost reduction result in reduced organisational performance (Cameron et al, 1993; Cascio, 1993; Cascio, 1994; Morris et al, 1999; Cascio, et al, 1997; Appelbaum, 1999). Cameron (1994b, p. 197) adds that exclusive use of workforce reduction strategies to enable downsizing is much like "throwing a grenade into a crowded room....", which may have the unwanted outcome of the "loss of valued organisational competence and negative consequences for those remaining.." (Thornhill and Saunders, 1999, p. 275).

It has been suggested by many, but not empirically verified, that the loss of an organisation's core competencies and key employees as a result of downsizing can have an adverse effect on organisational performance (Bernardin and Russell, 1993; Cox and Nkomo, 1992; Didinato and Kleiner, 1994; Isabella, 1994; Labib and Appelbaum, 1994; Firstenberg, 1993). Anecdotal evidence suggests that when organisations use wholesale staff reductions to reduce costs, one of the unwanted side effects is often the loss of high performing employees whose experience and knowledge are important to organisational performance. Lublin (1994) suggests that this is a frequent occurrence in firms that have downsized many times, and

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can be attributed to voluntary resignations of valuable employees who are insecure about their future with the company.

As discussed earlier in this chapter, there is an increasing body of evidence to support the argument that few downsizing organisations improve their performance when using strategies that are predominantly based on headcount reduction and across-the-board staff cuts (Cameron, 1994a; 1994b; Cascio, 1994; Mone, 1994; Evans et al, 1996; Dunford,1995). Firms that downsize in this way assume that employees are just another expense of doing business and are merely costs to be eliminated in order to achieve economic goals. These organisations reject employees from the workforce in order to attain economic targets.

If cost reductions, or rejection, downsizing strategies, are generally unable to improve organisational performance, the question remains as to whether or not other strategies are suitable alternatives. A case can be made for the existence of alternative strategies for downsizing, for some organisations do successfully downsize (Cascio, 1993). For the answer to this, we might turn our attention to the theoretical framework that is used to predict organisational performance in non-downsizing situations. One such theory that has been shown to have some predictive power is the resource-based theory of the firm (Barney, 1991; Hall, 1992; Mahoney and Pandian, 1992). This theory argues that effective management of internal resources is much more predictive of organisational performance and organisational effectiveness than whether or not a given

organisation is able to strategically position itself. The internal resources of an organisation, the theory suggests, include both materiel and people, which implies that organisational performance is associated with not only effective materiel management, but also management of a company's human resources (Guest, 1987; Guest, 1997).

An increasing number of theorists and researchers are beginning to support the contention that employees are human capital resources and not just business expenses (Hitt, et al 1994: Guest, 1997). Advocates of the resource-based theory of the firm argue that this represents a new and different way of managing companies. Applied to employee management, this 'new way' is labeled 'human resources management', or HRM (Pfeffer, 1994; Wright, McMahan, and McWilliams, 1994). Adapting resource-based theory to HRM results in several key beliefs or assumptions (Storey, 1995):

(1) human resources provide an organisation's competitive edge

(2) the aim of human resource management is not just employee compliance with rules, but employee commitment to the organisation

(3) in order to maintain the four qualities required for competitive advantage (added value, uniqueness, difficulty of imitation, and non-substitutable), an organisation's employees must be carefully selected and developed

The contention that an organisation's employees should be viewed as valuable strategic assets is seen in much of the literature relating to the field of human resource management (Cascio, 1994; Towers, 1996; Bamber and Sappey, 1996; Guest, 1997). There are sceptics, however, who submit that human resource management is just a re-badging of managerialism, in which employees are exploited in order for the organisation to achieve economic gain. Tyson and Fell (1986) therefore argue that although a business may openly espouse the values of human resource management, the reality is that it probably regards employees as largely a factor of production, along with land and capital. In this way, the human resource is just an expense of doing business, a cost rather than an asset.

Indeed in practice, there is evidence of the existence of both points of view. That is, in some circles, human resources are regarded as costs, while in others, assets. This dichotomy is described by Storey (1989) as the 'hard' and 'soft' versions of HRM:

> "... The [hard version] emphasises the quantitative, calculative and business strategic aspects of managing the headcounts resource in as rational' a way as for any other economic factor. By contrast, the 'soft' version traces its origins to the human-relations model. It emphasises communication, motivation and leadership." (Storey, 1989, p. 8)

Singh (1996) comments on these fundamental differences by suggesting that in the case of the 'soft' version of HRM, policies and practices are essentially

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people centred. For the 'hard' option, on the other hand, anything is admitted that fits the business strategy, including low pay, harsh discipline, and redundancy. The implication of the hard version of HRM is that management can, and should be able to, do anything required in the transformation of the organisation. As argued by Sisson (1994, p. 15), "... the rhetoric may be the people-centred approach of the 'soft' version; the reality is the cost reduction approach of the 'hard' version."

If, as suggested by Tomasko (1992) and others (Church, 1995: Prahalad and Hamel, 1990; Porter, 1980), employees are key strategic assets to the firm in times of expansion, it can argued that these same employees are still valuable assets to a firm even in times of contraction. It could further be argued that even for downsizing organisations, there are key employees whose knowledge, skills, abilities, experience, and corporate memory are crucial to organisational performance. This further suggests that loss of these key employees is just as crucial an issue for organisational performance in times of contraction as in times of expansion.

Developing this premise further, it would make sense that downsizing firms should work at retaining their key employees who are valuable internal resources of the firm and are contributors to organisational performance rather than simply reducing costs by rejecting employees as expenses,. This policy could be described as a retention, rather than rejection strategy, in which the

organisation restructures, but in a way such that key employees are retained, rather than rejected.

The alternative to the cost reduction strategy in HRM terms is the HRM 'soft' option. If cost reduction strategies *reject* employees on the premise that workers are business expenses, the 'soft' HRM strategy would proactively value the worth of employees and would seek to *retain* key human resources on the basis of their strategic value to the organisation.

Estabrook (1993, p. 11-12) describes this dichotomy in HRM terms:

> " ... the problem is that companies tend to approach restructuring by offering all employees an opportunity to leave, either with a severance package or an early retirement package. This is radically different from the approach they take when they hire new workers, which is to examine each new hire with much care as to whether he or she can perform up to expectations. Surely a more sensible approach to restructuring would be to examine all employees' performances and determine which ones are best qualified to help keep the company competitive after the restructuring is complete."

When firms hire new employees, the approach taken is that of a retention strategy. This is so because much of the emphasis in hiring is on predicting, and just as importantly, in *retaining*, employees who will effectively perform on the job (Cascio, 1991). There are two HRM processes, or functions, related to hiring and these are termed 'recruitment' and 'selection'. The recruitment and selection process is often called staffing, and in this process the organisation determines the

job related factors important to on-the-job performance, locates and contacts candidate employees who possess these qualities (recruitment), and chooses those who, it is predicted, will perform effectively and will remain committed to the organisation (selection).

If firms were to use the same care in employee selection when restructuring as they do in hiring, what form might this take? It could be theorised that a 'soft', or retention, HRM strategy for downsizing would involve firstly, a determination of just *who* the organisation's key internal human resources are, a development of an understanding of *why* these employees are valuable to the organisation, and finally, an assessment of *where* these key resources reside. The firm would next need to develop proactive interventions to ensure that these key human resources are retained whilst the organisation undergoes transformation. Finally, the company would have to ensure that it rejects, and rejects only, those human resources who are not valuable strategic resources. Stated in HRM terms, downsizing in this way is a recruitment and selection process, just as in hiring new employees, but the order of implementation is reversed. The aim is firstly to assess the workforce to discover the key contributors to future organisational performance (selection) and then to proactively intervene to ensure that they are retained when the organisation restructures (recruitment). Indeed this HRM parallel has been discussed, for in some HRM circles the employee rejection side of downsizing is termed 'decruitment' (Cascio, 1994).

To summarise to this point, it is clearly evident that cost reduction downsizing strategies do not generally improve organisational performance. On the other hand, some companies do in fact successfully downsize. This suggests that organisational performance may be associated with some other, alternative strategy. The fatal flaw in the cost reduction strategy is quite possibly the contention that employees should be viewed as business expenses that must be shed in order to achieve economic turnaround. A possible alternative downsizing strategy exists in the antithesis to the cost reduction position, and this is based on the contention that employees should be perceived as strategic assets, rather than costs. There is, however, no empirical verification that the loss and retention of core employees in downsizing organisations is associated with organisational performance. This should be further investigated, and if found to be valid, further research should examine the downsizing processes resulting in retention or loss of key workers and managers.

Clearly then, there is ample empirical evidence to support the case against cost reduction downsizing strategies (Cameron et al, 1993; Cascio, 1993; Cascio, 1994; Morris et al, 1999; Cascio, et al, 1997; Appelbaum, 1999). There is anecdotal evidence to suggest that cost reduction strategies result in the loss of key employees and organisational core competencies (Bernardin and Russell, 1993; Cox and Nkomo, 1992; Didinato and Kleiner, 1994; Isabella, 1994; Labib and Appelbaum, 1994; Firstenberg, 1993) and that the loss of an organisation's

core competencies can have an adverse effect on organisational performance (Bernardin and Russell, 1993; Cox and Nkomo, 1992; Didinato and Kleiner, 1994; Isabella, 1994; Labib and Appelbaum, 1994; Firstenberg, 1993). However, despite the contention, via anecdotal evidence, that loss of key workers during downsizing has a detrimental effect on organisational performance, this argument has not been suitably empirically verified. If loss of key workers is associated with organisational performance in downsizing organisations, we have a powerful tool to fashion an alternative strategy for organisational restructuring.

2.3.8 Research questions

The research question of interest to this study, then, is this:

Are retention and loss of key employees and key managers associated with organisational performance in downsizing organisations?

In order to examine this question more fully, we must first find a way to measure organisational performance. Next we must develop a framework that enables us to describe, and thus measure, what is meant by a key manager or key employee. Finally, we must examine the effect of loss and retention of key managers and key employees on organisational performance. If there is a relationship between loss and retention of key employees and managers and organisational performance, we are next interested in determining the downsizing

processes that lead to retention or loss of key employees and key managers. The second part of the study, then, focuses on the following issue:

What downsizing selection processes in downsizing organisations are associated with the loss and retention of key employees and key managers?

These issues are discussed in the following section, in which a theoretical framework for the research is outlined.

2.4 Development of a Theoretical Framework

The previous section has developed the dimensions that make up the research questions, which include the measurement of organisational performance, the examination of the relationship between loss and retention of key employees and managers and organisational performance, and the assessment of the employee selection process in downsizing organisations together with analysis of the contribution made by the selection process to retention or loss of key employees. This section examines the conceptual issues that contribute to the theoretical framework of the study and develops a process model showing the relationships between the variables. The dimensions of the theoretical framework are discussed in more detail below.

2.4.1 Measuring organisational performance

There is no generalised theory for measurement of organisational performance (Thornhill and Saunders, 1999). Much of the literature on organisational performance in downsizing firms is preoccupied solely with financial performance (Cascio, 1994; Morris et al, 1999). Some would argue, however, that organisational performance is highly dependent on effective employee performance (Greenhalgh and Rosenblatt, 1984; Brockner and Greenberg, 1990; Brockner et al 1987; Guest, 1997), which would suggest a need to examine not just financial outcomes, but also employee behaviours and attitudes. Borrowing from previous research on downsizing and its effect on employees at the individual level, it is possible to operationalise a suitable, agreed upon set of performance measurement variables.

There is a great deal of literature on the effects of downsizing on individual employees, and a theoretical framework has been developed, based on the research of Greenhalgh and Rosenblatt (1984). Building from this and the work of Guest (1997) provides a synthesis of both organisational and individual performance measures that can be of use in further research. These two frameworks provide a link between the psychological constructs in individual employees that lead to employee behaviours, to employee performance on the job, and finally to organisational performance. The model of job insecurity (Greenhalgh and Rosenblatt, 1984) describes a relationship between

psychological constructs, such as motivation and satisfaction, and employee behaviours, such as turnover, productivity, and absenteeism (Greenhalgh and Rosenblatt, 1984; Brockner and Greenberg). Guest (1997) adds the dimension of organisational performance by theorising that effective organisational performance is a result of effective employee performance. As a final, desired outcome, financial performance is suggested by many as the eventual goal of most private enterprise firms (Robbins and Pierce, 1992; Pierce and Robbins, 1994; Cameron, 1994a; 1994b; Cascio, 1994; Baumohl 1993; Mone, 1994; Evans et al, 1996; Dunford,1995).

Using these conceptual frameworks as a basis, it can be surmised that organisational performance is derived from psychological constructs, including employee motivation, morale, job satisfaction, and organisational commitment. These result in employee behaviours such as turnover and productivity. These variables were used in the survey stage of the study in order to measure the employee performance side of organisational performance.

The outcome of employee performance behaviours in private sector organisations is profit and share price. These variables became the basis for the measurement of organisational performance in the survey stage of this study.

Using these two categories of outcomes as a basis for measuring organisational performance, the next stage of the research required measurement

of the effect of loss and retention of key employees and key managers on organisational performance. The development of the concept of the "key employee" is next examined.

2.4.2 The key employee

As in the case of the concept of organisational performance, there is no general theory of what is meant by the idea of the "key employee". Several have suggested a variety of definitions, each of which is related to the theoretical framework of interest to the writer at the moment. Firstenberg (1993), for example argues the case for the key employee being defined by whether or not the aggregate of tasks performed by a specific position represents a relatively high overall level of value added. Hitt et al (1994) and Kozlowski et al (1993) suggest that key employees are those who possess the organisation's core competencies (human capital) and which enable operation of the organisation's critical functions. This reinforces the conceptual framework of Prahalad and Hamel (1990) who argue that employees who possess the organisation's core competencies are strategic assets and are necessary for the firm's competitive success. Labib and Appelbaum (1993) together with Kozlowski et al (1993) provide evidence that key employees are those who have key personnel competencies, including both present and future knowledge, skills, and abilities that will be required in the future organisation. This is also suggested by Markowitz and Friedlander (1992), who add to the dimensions of experience and

skills, the key employee's affiliation with clients. A slightly different version of the premise that key employees are those who have crucial competencies, knowledge, skills, and abilities is suggested by Papalexandris (1996), who argues that in periods of downsizing, these employees are crucial to the organisation if these competencies are transferable to other areas within the company.

Others have suggested that employees essential to organisational performance may be in possession of other, less quantifiable characteristics. To what might be described as "hard" or "quantifiable" competencies, we can add to the list what might be categorised as "soft" or qualitative variables. As an example, Sharp and Lewis (1993) contend that key employees possess essential characteristics such as corporate memory and the ability to collect, process, and assess information. Tomasko (1991) provides additional insight into what is meant by these qualitative dimensions by arguing that "One hidden cost [of downsizing] is incurred when a business loses many of its managers and high-level staff professionals. Over the years, these people have acquired what economist Oliver Williamson calls company-specific skills. These are skills learned on the job, and they include the thousand and one things it takes to get something done well in a specific company environment (or corporate culture)." (p. 23-24) The skills alluded to by Tomasko include the ability to develop effective collaborative relationships and personal trust with stakeholders through networking.

The literature suggests, then, that the idea of the key employee is comprised of two primary dimensions. The first of these includes the quantifiable, key characteristics essential to organisational performance such as knowledge, skills, abilities, and competencies (Prahalad and Hamel, 1990; Labib and Appelbaum, 1993). The second includes less well-defined variables, and consists of what are probably better described as constructs, including the ability to get things done, the organisation's corporate memory, and knowledge management (Sharp and Lewis, 1993; Tomasko, 1990).

The literature also makes it evident that there is no general agreement on which of these dimensions is of higher importance or whether some of these variables are of higher value within the same organisation at different stages of the organisational life cycle. Additionally, there is no agreement as to whether or not the concept of the key employee varies across different kinds of organisations. The only point of agreement seems to imply that if an organisation is aware of the importance of retaining and developing its key employees, it will know these workers when it sees them. Because there is no refined definition of what is meant by a "key employee", and because of the very real implication that the concept is strongly situational, the research in this study was based on the assumption that each organisation retains its own conceptual reality of what is meant by a key employee, and that each organisation is thus able to define, if not explicitly, at least implicitly, the characteristics of these employees. Rather than operationalising the concept of the key employee and presenting this concept to

the organisation, this study utilised the organisation's own global definition of what it meant by "key employee". Because of this, it is possible that an individual respondent's perception of a "key employee" was not congruent with the actual value of the employee to the organisation. The effect of this might be to call into question the validity of the relationship between loss or retention of key employees and organisational performance, a key issue. Conversely the targeting as respondents the senior human resources manager in each organisation utilises the expert testimony of those who are best equipped to render a valid perspective.

This study had as its first research question the examination of the relationship between organisational performance and loss and retention of key managers and key employees. For the next stage of the research, the study focused on the factors affecting whether or not these key workers were retained or lost. Discussion of this process of employee selection is examined in the next section.

2.4.3 Employee selection in downsizing organisations

As discussed earlier, previous research has argued that the way in which organisations downsize is more closely associated with downsizing success than the degree of cost reduction or number of employees retrenched (Cameron et al, 1993). Framing this concept in HRM terms, clearly a part of 'the way' in which organisations downsize is the firm's decision process that determines which employees are to be retained and which are to be rejected.

Thornhill and Saunders (1999) provide a useful framework for analysis of the downsizing selection process and show this to be a complex series of interrelated actions "ranging from senior management planning, through operational implementation, to post-change, individually-focused, or group-focused interventions." (p. 278). Thornhill and Saunders (1999), borrowing from the conceptual framework of Kozlowski et al (1993), argue a prima facie case "about the significance between the type of organisational strategy used to downsize and the nature of the consequences which result from the process." (p. 278). The organisation's ability to implement the employee selection process effectively depends on "... the suitability of each process and its congruence to other downsizing interventions and broader organisational factors...." (Thornhill and Saunders, 1999, p. 278), including the degree of managerial control over the process, the scope for targeting, the choice of selection method, and the nature of the selection criteria that are used.

The employee selection process is made even more complex by the fact that either the individual employee, or the organisation, can be party to selection. That is, employees can elect to leave the organisation voluntarily in order to retire or take up a position with another company, they can be induced to leave, as through attractive redundancy packages, or they can be involuntarily retrenched. This implies that the downsizing selection process in fact begins with the onset of the organisation's decision to downsize. Employees, upon awareness of a firm's

intent to downsize, may elect to begin looking for jobs elsewhere. Mone (1994) emphasises how this may result in the loss of high self-efficacy, high self-esteem employees who leave the organisation because of decreased perceptions of job security, knowing that they can find good jobs elsewhere (Brockner et al, 1992).

The employee selection conceptual framework can be seen to comprise the following:

- *catalyst*: merger or takeover (Cameron et al 1991), government policy (Buchanan et al, 1992; Considine, 1993)

- *desired goals or outcomes of the downsizing* (Freeman, 1994; Kozlowski et al, 1993): cost reduction, change in organisational culture

- *targets of the downsizing* (Thornhill and Saunders, 1999; Kozlowski et al, 1993): selected plants or sites, specific areas of operation, specific jobs

- *selection strategies* that are used to implement the downsizing (Kozlowski et al, 1993): attrition, retrenchment, and redundancy

- *selection criteria* that specify which employees are retrenched or retained (Freeman, 1994; Greenhalgh et al, 1988): performance, competencies, and flexibility

- *methods* whereby the selection criteria are implemented: competitive process, targeted selection for redundancy (Lewis, 1993)

These dimensions are interrelated, all contributing to an understanding of the selection process. For example, if the catalyst that triggers the organisation's decision to downsize is because of government policy, the organisation may have little control over the strategic planning process and may also have to conform to public sector legislation in regard to use of strategies such as retrenchment. If the desired outcome of downsizing is based strictly on cost reduction, little or no effort may be dedicated to ensuring that the organisation does not lose key, high performers during the downsizing process. In this instance the selection process will be aimed at ensuring that a predetermined proportion of staff are retrenched (Freeman, 1994; Kozlowski et al, 1993).

The targets of the downsizing also influence employee selection. Papalexandris (1996), for example discusses the effect of closure of an organisation's plants according to geographic location and shows how this may result in the loss of employees crucial to organisational performance if these workers leave the organisation rather than laterally transfer to other, active locations.

The selection strategy that is employed by the downsizing organisation also has an effect on employee loss and retention. Some strategies, such as attrition, provide the organisation with little control over who stays or goes. Other strategies, such as the offering of attractive redundancy incentives, may actually

increase the loss of key employees because they know they can find other work elsewhere. Some organisations have used what is known as "targeted selection" (Wass,1996; Lewis, 1993: Turnbull and Wass, 1997) in which carefully structured extra-statutory redundancy payments resulted in "voluntary" redundancy in specifically targeted groups of employees. This provided both targeted selection and high managerial control.

Targeting can be used to determine specific work areas for downsizing (Kozlowski et al, 1993). Selection criteria can then be used to home in on particular individuals on the basis of core competencies, performance, or job-related skills (Turnbull, 1988). This increases the degree of managerial control in the process. Selection criteria can also be used to filter volunteers from across the entire organisation. By reinforcing the process with financial inducements, it then becomes an effective and method of selection. This is in opposition to voluntary redundancy across the entire organisation, which results in very low managerial control over the outcomes and as suggested by Lewis (1993, p. 28) "the volunteer population may become an irresistible force and the pattern of volunteers may largely determine the distribution of actual redundancies".

The selection process itself may influence the relationship between the organisation's strategies and whether or not key employees stay or leave. For example, selection may be a competitive process to determine the employee most able to function in the restructured organisation. The selection process may

involve use of a single event based on cost-cutting, or may involve a series of evaluations, each one of which eliminates employees from the workforce.

Finally, the use of selection criteria may provide an indication of the organisation's selection process. Criteria might include performance, competencies, experience, or psychological constructs such as flexibility or ability to accept change.

2.4.4 Theoretical framework

The theoretical framework for this study is shown in Figure 2.1. The first concern of the research study was the examination of organisational performance. This was assessed through global measures of organisational financial performance (profit and share price), and through global measures of employee performance, including job satisfaction, motivation, turnover, organisational commitment, and productivity.

The second area of interest to this study was the determination of whether or not there was a relationship between loss and retention of key managers or employees and organisational performance. This was assessed through a global measure, asking organisations to evaluate whether or not they had lost key employees or managers as a result of the downsizing process.

The third factor of interest to this research was an examination of employee selection process. This was evaluated assessing the relationship between loss and retention of key workers and the variables including the catalyst that provided the impetus for downsizing, the goals that were to be achieved by the downsizing, the selection methods used in determining which employees were retained and which were retrenched, and by the selection criteria used by the organisation.
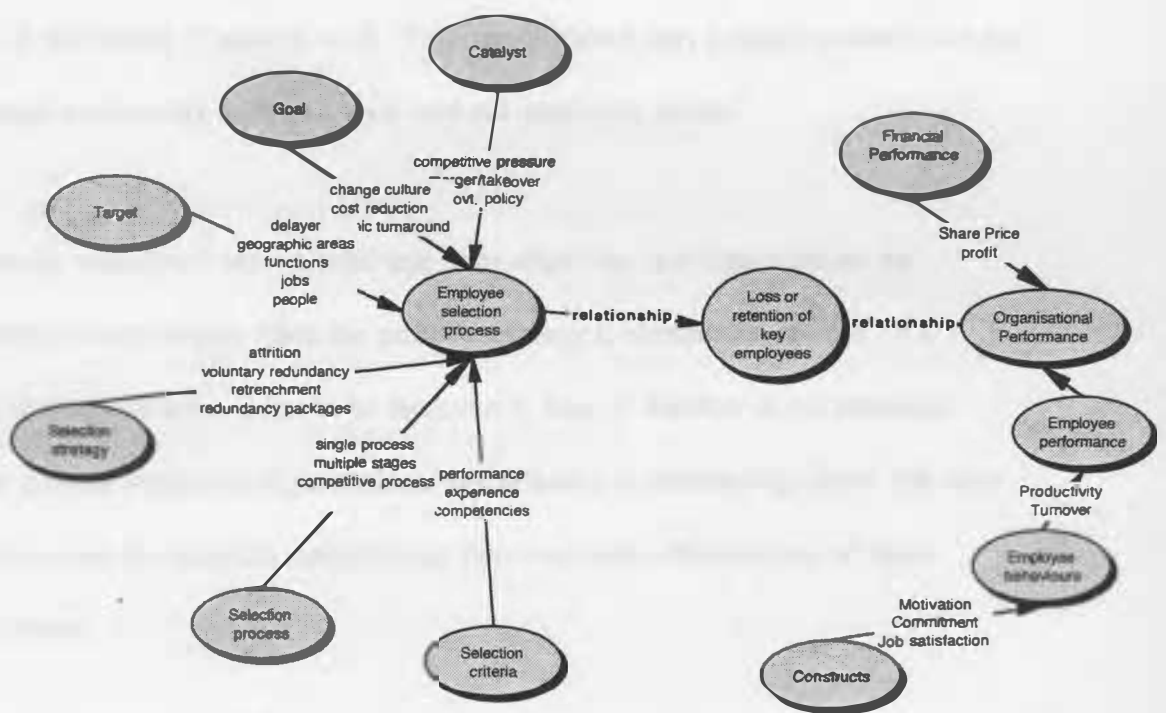
FIGURE 2.1

THEORETICAL FRAMEWORK

2.5 Summary

This chapter has examined the research issues associated with downsizing and has shown that while there has been much that has been researched, there are still areas that are not well understood. It has been shown that in most cases, downsizing does not lead to improved financial performance, an ironic outcome in view of the embracing of downsizing by organisations as the preferred tool for financial turnaround. Little is known about why some companies successfully downsize and others do not. The most rigorous of the studies (Cameron et al, 1991) has explored only a single industry and has concentrated exclusively on managerial, and not employee, issues.

Many researchers have argued that more often than not organisations are unsuccessful in downsizing when the primary strategy is elimination of staff, or a rejection strategy. What remains to be discovered, then, is whether or not retention strategies provide improved organisational performance in downsizing firms. The next chapter discusses the research methodology that was used in the analysis of these research issues.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

In the previous chapter, we examined the previous research in the field and developed a conceptual framework that was used in the study. This chapter discusses the research methodology of the study. The chapter is divided into three sections, the first of which discusses the rationale for using a multi-method approach to the research. The second section outlines the research methodology incorporated in the case study stage of the research, and the final section discusses the survey instrument. The chapter then concludes with a summary of the more important points.

3.2 Background

This study was concerned with two primary issues. The first area of interest was to examine the relationship between key employee retention in downsizing organisations and organisational performance. The second area of interest was to examine the

relationship between the employee selection process and the loss and retention of key workers. There were several ways in which these questions might be researched, including use of a quantitative (positivist) methodology, using a qualitative (interpretivist or phenomenological) methodology, or a mixture of the two (multi-method) which might which combine "some" features of both, thus allowing for "flexible and opportunistic data collection methods" (Eisenhardt, 1989, p. 536). If the research problem were to encompass a previously studied body of literature, if the variables were known and well-defined, and if there were existing theories to support the research framework, then a quantitative paradigm would arguably be the "preferred" research methodology (Creswell, 1994, p. 9). On the other hand, if the research problem required exploration because of a lack of data on the topic, the variables were largely unknown, and the researcher perceived that contextual issues were important to the understanding of the phenomenon, then a qualitative approach would be more appropriate (Creswell, 1994, p. 9).

In the case of the research questions of interest to this study, there has been little previous empirical research of relevance to either of the two questions. Thus there is little in the way of a coherent research framework, there are substantial gaps in the research knowledge of the field, and the variables involved in employee selection in downsizing selection and in measuring the effect of loss of key workers are largely unexplored. The research framework, as it existed at the beginning of this study, provided for little potential in the way of "strong inference" (Platt, 1964). There was not enough information to ask at the outset of the study, as suggested by Gable (1994, p. 114), "... all

the right questions asked in the right way". Given that the strength of traditional quantitative survey research is "... verification rather than discovery" (Gable, 1994, p. 114), then for this study, it would seem that a research paradigm governed by a phenomenological or interpretive perspective would be the research method of choice (Creswell, 1994).

For this study, however, there was, at the very outset, 'some' *a priori* knowledge of the issues at work in downsizing firms, based on previous research. The literature shows how previous research had explained the underlying reasons for why downsizing occurred, how it was managed, and the likely consequences of the process (Kozlowski et al, 1993).The literature suggested some understanding of the "nature of downsizing and how it should be accomplished" (Kozlowski et al, 1993: 266), but contributed little to the development of theory or the derivation of a predictive framework. There was therefore "some" conceptual development discussed in the literature, although the theoretical development was not particularly rigorous. Purists who strongly advocate a strictly qualitative research approach would therefore argue against use of a qualitative research method for this study. Creswell (1994, p. 7) for example argues that qualitative research methods assume as a fundamental premise that "categories emerge from informants, rather than are identified *a priori* by the researcher". The danger in this study was one of there not being enough conceptual development to warrant use of a purely quantitative approach, but at the same time, arguably, too much to allow the researcher to conduct the research "... as close as possible to the inductive ideal of no theory under consideration and no hypothesis to test" (Eisenhardt, 1989: 536). In consideration of these issues, it

was clear that a research methodology based solely on either a strictly quantitative or strictly qualitative approach would not adequately address the complex issues resulting from the requirements of the research question, the gaps in the knowledge base, and the lack of a conceptual framework. The alternative methodology was to a mixing of the two processes, deductive and inductive.

Easterby-Smith (1991) cautions, at a very fundamental philosophical level, against mixing inductive and deductive processes and emphasises the danger of combining quantitative and qualitative methods within a single study. The warning is founded in the underlying assumption of the positivist paradigm, which operates from the deductive perspective with the assumption that there exists an objective, stable truth (Easterby-Smith et al 1991, p. 134). This position is incompatible with the interpretive view that reality is flexible and is continually being renegotiated. Therefore the advice to the researcher is to "... use different methods from within the same paradigm whenever possible, and also to move across paradigms occasionally, but with care" (Easterby-Smith et al, p. 134). Yin (1989) carries the argument further and cautions against shifting paradigms in mid-stream. The flexible research approach in which the research problem moves during research as data are gathered " ... is not well documented in operational terms ... and is fraught with dangers" (Yin, 1989, p. 114-115).

However pragmatism and practicality suggested a moderation of the philosophical position in the development of the research methodology for this study. In practice it is difficult to ignore the preconceived conceptual basis that the investigator brings to the

research table (Glasser and Strauss, 1987). Indeed, Manicas (1989) suggests that it is inevitable that prior knowledge of the research concepts at hand will contaminate hypothesis development. This is a softening of the position that inductive and deductive paradigms are mutually exclusive. The argument implies that " ... 'both extremes are untenable and unnecessary' and that the process of ongoing theory advancement requires 'continuous interplay' between the two so as to 'lessen the gap between the known and the knowable'" (Parkhe, 1993, p. 252, 256, cited in Coote and Perry, 1995, p. 6). This leads to the conclusion that " ... a balance of induction and deduction is required ... (because) induction might prevent the researcher benefiting from existing theory, while deduction might prevent the development of new and useful theory" (Perry and Coote, 1995, p. 6).

What was needed for this study was an approach in which the limited *a priori* conceptual framework embedded in the literature could influence the initial stages of the investigation, with the outcomes of the initial research then informing a more focused quantitative survey. It was therefore determined to use a multi-method research methodology. The approach chosen for the study employed the two research methods developmentally, in that the first method informed the second (Greene et al, 1989). A review of the literature was used to develop the domains of the research question and to establish the framework for case studies using semi-structured interviews. The case studies were preceded by a pilot study in order to refine the interview process, and to improve the validity and reliability of the interviews. Cross-site interviews were then conducted in order to develop an understanding of the downsizing patterns that existed

across other organisations (Easterby-Smith et al, 1991). The structured interviews " ....
though yet exploratory, [had as their] objective the testing of a tentative pattern of
important variables identified from the pilot case and the literature" (Gable, 1994, p.
116). These patterns could then become the basis for a survey instrument that would
further refine the focus of the study and enable generalisability of the results.

The use of multiple methods provided convergence and triangulation, in which
the values of the research issues were observed from several viewpoints (Brewer and
Hunter, 1989; Creswell, 1994). This in turn improved the overall validity of the research,
compensated for some of the weaknesses in each of the two specific methods (Easterby-
Smith et al, 1991), and allowed the research to be grounded on the strengths of each
method (Brewer and Hunter, 1989). A flow diagram showing the integration of the
research methods in shown in Figure 3.1.

Case Study Phase

- Literature Review
- Develop Interview Protocol
- Conceptual Framework
- Pilot Interviews
- Early Model
- Case Study Interviews

Survey Instrument Phase

- Analyse Patterns
- Revised Model
- Operationalise Variables/ Survey Design
- Conduct Survey
- Analysis of Survey
- Interpret Results
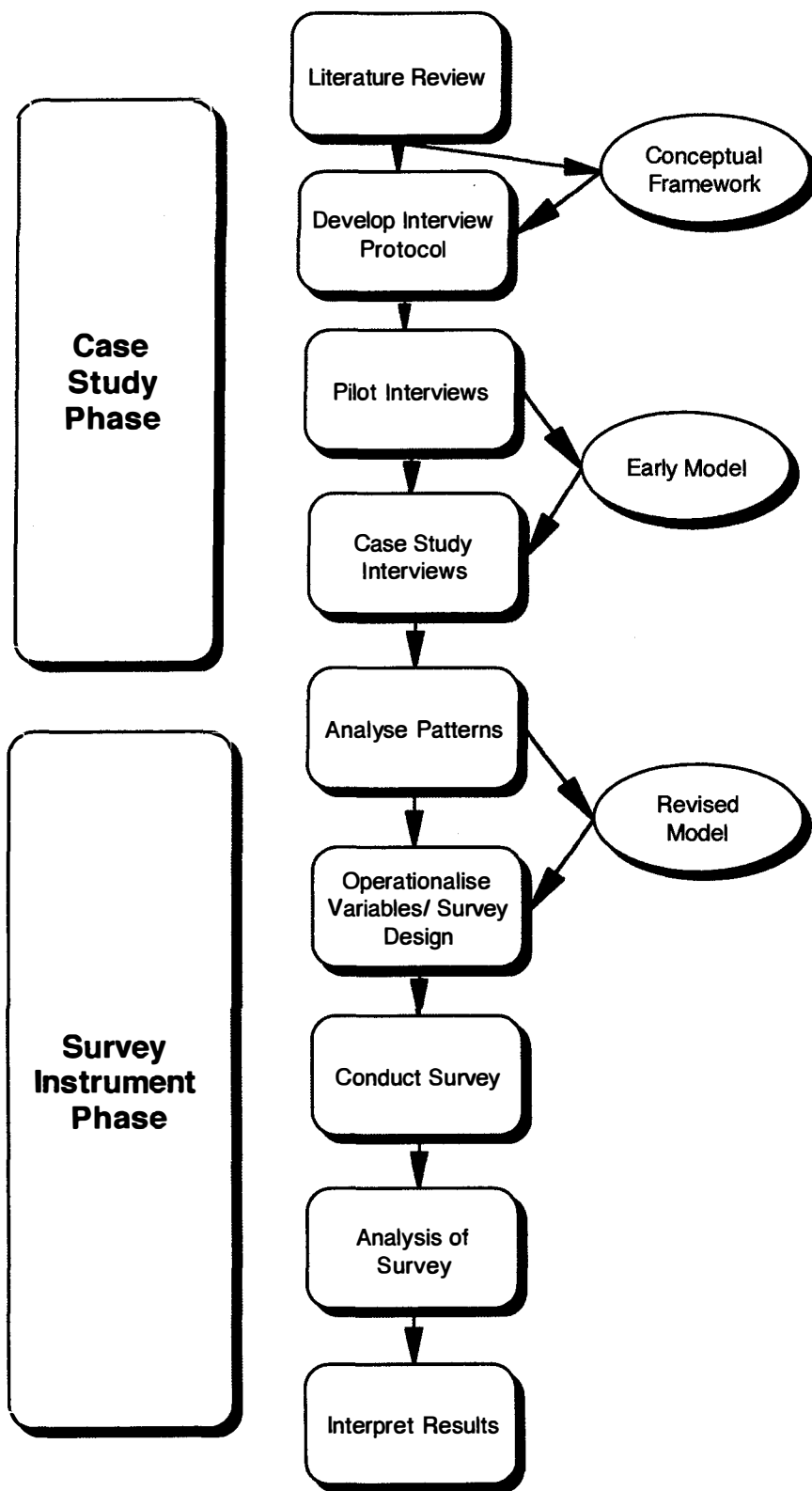
**FIGURE 3.1
RESEARCH PROCESS**

It was determined that the case study stage of the research, rather than focusing on the relationship between loss of key employees and organisational performance, would concentrate on providing an understanding of the organisational decision process in downsizing firms. Although the relationship between loss and retention of key employees and organisational performance was a key one, it was felt that the limited sample size of the case study stage of the study was not well-suited to the generalisability requirements of cross-organisation analysis. It was decided that the focus of the case studies would be on the overall downsizing process and that the survey would then concentrate on the effect of key employee loss on organisational performance. The contextual issues discovered in the case studies could then inform development of the survey instrument and assist the refinement of the theoretical basis for the second stage. The survey would use these data to further develop an understanding of the process of downsizing, adding to the research an investigation of the effect of loss of key workers on organisational performance.

3.3 Case Studies

3.3.1 Background

It was discovered early in the research that few downsizing organisations were willing to discuss their experiences. Successful organisations did not wish to expose the secrets of their success to their competitors and unsuccessful organisations were unwilling to expose their weaknesses. It was evident in some cases that organisations

were fearful that disclosure of their managerial decision process to their employees might result in unwanted media attention and industrial action. Organisations seemed to be willing to discuss the downsizing process in general terms, but were unwilling to allow an in-depth, longitudinal analysis. This affected both the process of selecting case study organisations and the interview process withing each case study organisation.

Cases were selected from a convenience sample representing both private and public sector organisations. The sampling frame was limited in that it many organisations were hesitant in publicising the fact that they were undergoing restructuring. Eventually it was possible to gain access to two mining companies, two financial institutions, two public sector organisations (a public utilities provider and an agency aligned with the building industry), and a national telecommunications provider.

Because of the reticence of firms to provide what was considered to be sensitive information on the downsizing process, it was not possible to interview a wide range of respondents within each company. As a result, the interviews were conducted with one of the senior human resources managers in each of the respondent organisations. This decision assumed that the senior human resources manager would be responsible for implementation of important portions of the restructuring process, and might be a participant in the planning for determining the criteria for employee retrenchment or retention. This is a limitation to the research because of the narrowness of the data collection and the possibility of biased responses.

3.3.2 Interview structure

The structure for the interviews was developed from the research framework outlined by Thornhill and Saunders (1999) and Koslowski et al (1993), with the addition of questions designed to examine the involvement of the human resources function in the restructuring. Although the primary focus of the case study stage of the research was concerned not so much with the effect of loss of key workers on organisational performance as with the overall downsizing process, a question addressing this issue was included in the interviews in order to provide a broader understanding of the contextual relationships. The theoretical framework for the interviews is shown in Figure 3-2 and the interview cover letter, declaration of disclosure and consent, and the structured interview format are shown in appendices A, B, and C, respectively.

The interviews examined a series of broad contextual issues and queried the following:

1. Catalyst: What circumstances convinced the organisation that it should downsize?

2. Goals: What were the desired outcomes of the restructuring? Were these goals achieved? Did the organisation feel that the downsizing process was effective?

3. Targets: What areas of the organisation were targeted for restructuring?

4. Selection strategies: What strategies were used in selecting employees for retrenchment or retention?

5. Criteria: What selection criteria were used to determine whether employees would remain or would be retrenched?

6. Outcomes: Was the downsizing successful? Were key employees lost during the process? Were employees retained that the organisation would rather have retrenched?

7. Strategic HRM: How were the overall plans of the organisation linked to the HR process? What was the involvement of the human resource manager in the determination of downsizing strategy?

8. HRM functions and practices: How were the HR practices of performance appraisal, job analysis, and selection operationalised in the organisation?

9. What would the organisation do differently, should it undergo downsizing again?
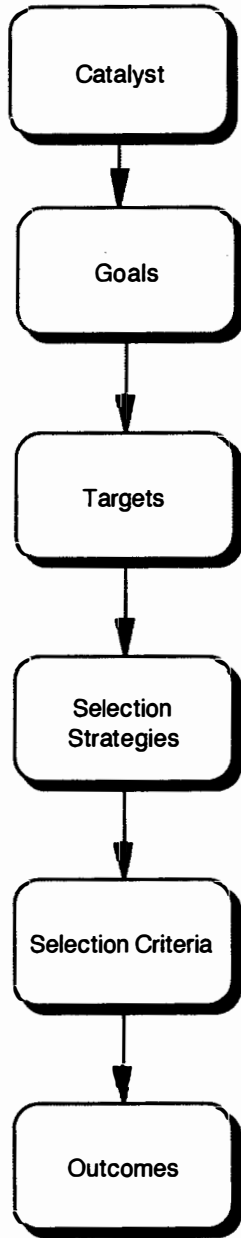
FIGURE 3.2
INTERVIEW FRAMEWORK

Procedures

A convenience sample of seven local organisations was selected for the case study phase of the research. Potential respondents were discovered through media releases and word of mouth, and included two mining companies, two public sector agencies, two banks, and a large telecommunications services provider. This provided data on four different industry types, provided examples of both private and public sector organisations, and provided variance of organisation size.

The first interview was conducted several months previous to the others, and was used as a pilot study which then refined the subsequent interviews . The pilot study organisation was sampled again in conjunction with the other organisations.

A senior human resources manager in each organisation was contacted by telephone, followed up by a letter explaining the purpose and background of the research. Interviews were conducted on-site, in the office of the respondent, and lasted from 45 - 90 minutes. Each of the interviews was electronically recorded and then transcribed for more detailed analysis. Notes were taken in all of the interviews in addition to the electronic recordings.

Data analysis

Each organisation was analysed as a unique site. Cross-site analysis

techniques, based on pattern analysis, were then utilised in order to better

understand the selection process (Miles and Huberman, 1984, p. 151). The

literature suggests that the downsizing selection process follows a sequential

chronology (Thornhill and Saunders, 1999; Kozlowski et al, 1993; Cameron,

1994b; Cameron et al; 1991), beginning with the organisation's decision to

restructure and ending with the determination of which employees will leave and

which will stay. Along the way, decisions are made, some by the organisation and

some by the employees themselves, that affect the selection outcome. It was

therefore determined that analysis would use the data obtained from the

interviews to develop a time-ordered selection process model for each

organisation. This graphic representation of the process would enable cross-site

comparison, would show emerging patterns, and would indicate "drift" or change

in the process as related to the organisation's local context (Miles and Huberman,

1984, p. 102).

The organisational process models were then further refined into a single

event-by-time matrix in order to help determine patterns of selection. This enabled

analysis of the variables such as organisation type and goal of downsizing and

also highlighted local perturbations in the conceptual framework. The framework

and variables resulting from this analysis were then used to inform the survey

instrument. The cross-stage data used to develop the survey are covered in detail in chapter 4 and thus are not reviewed here.

3.4 Survey Instrument

3.4.1 Background

Development of the survey instrument was derived from the literature as modified by information gained from the interview stage. Because the cross-stage data used to modify the survey instrument were a result of the analysis of case study interviews, a more detailed discussion of these variables is included in the section on interview analysis in chapter 4. Additionally, a detailed discussion of the development of the specific questions is included in section 3.4.2 below.

A pilot of the survey instrument was administered to the same organisations that had participated in the interviews. The reason for this was to compare interview data with the survey results and to enable triangulation. The survey requested demographic information on the type of company, together with size, union involvement, and degree of human resource management participation in the downsizing process, and the overall aim of the restructuring. Further categorical questions were added to examine whether or not organisations utilised alternatives to downsizing, the degree of use of redundancy packages as a downsizing practice, and whether or not key employees were lost due to

the downsizing process. Additional questions utilised Likert scales and reported the performance outcomes of the downsizing, the degree of variation in use of downsizing strategies for employee selection, the preferred selection process, a typography of criteria used for retention or retrenchment, and the closeness of linkage of employees to positions which had been made redundant. A copy of the survey pilot study, survey cover letter, and the survey are shown in appendices D, E, and F, respectively.

3.4.2 Sample

The sampling frame for the survey was based on the 1999 Kompass Australia data base (Kompass Australia, 1999) using a random sample of 1860 Australian organisations from 26,000 listings. The companies in the data base included a wide cross-section of firms in both the public and private sector. Surveys were mailed to the senior human resources manager in each of the respondent organisations listed in the data base. Respondents were assured that responses would be anonymous and confidential, and data were returned in a self-addressed pre-paid envelope. Of the total surveys sent, 422 valid responses were received within six weeks, for a response rate of 23%. Not all respondents completed all measures; hence the number of observations for each measure was not always equivalent to the entire sample.

3.4.3 Survey instrument development

The questions in the first section of the survey were designed to obtain demographic information about the respondent organisations. The questions were based on data that might enable classification of companies on the basis of relevant demographics, and queried the type of organisation, size of the firm, and whether or not the organisation had used what are considered to be alternative strategies to downsizing. The final question in this section asked if the organisation had downsized in the last seven years, and was used to differentiate downsizing from non-downsizing companies. The survey instrument concluded at this point for non-downsizing organisations, and only those firms that had downsized were asked to complete the rest of the survey. All of the questions in this section used nominal scales in order to assist in frequency counts and cross-tabulation.

The next section of the survey examined additional demographic information, including the proportion of staff that had been retrenched, the role of the human resource management function in the downsizing process, and the proportion of unionisation of the firm's workforce. These questions were designed to develop additional data relevant to important positions taken by various researchers in the literature, such as the premise that the degree of staff retrenchment is not associated with improved organisational performance in downsizing companies, and the existence of a relationship between an effective human resource management function and successful downsizing. All of the questions in this section used nominal scales.

The survey then followed the structure developed in the case study section of the research, and queried the downsizing catalyst, downsizing goals, downsizing targets, employee and manager selection strategies, the selection process, selection criteria, whether or not redundancy packages were used, the outcomes of the downsizing in terms of organisational and employee performance, whether or not key employees or managers had been lost as a result of the downsizing, and whether or not the organisation expected to downsize again in the next three years. The development of these questions is discussed in more detail below.

Catalyst.

The section of the questionnaire that examined the catalyst for the downsizing was developed from the literature. Previous research seemed to indicate that for many organisations downsizing resulted from the firm's environmental scanning process during strategic planning (Cameron et al, 1991), or in the case of public sector organisations, as a result of changes in government policy (Buchanan, et al, 1992; Considine, 1993). Respondents were asked if the catalyst for downsizing was an urgent need to achieve economic turnaround, if it was based on a merger or takeover by another organisation, if the catalyst was a need to improve the organisation's competitive position in the medium term, or if it was based on a requirement to conform to government policy. Respondents were asked to assess the relative importance of each of the reasons using a Likert scale that was

anchored from 1 to 5 (1, the reason was not important; 5, the reason was very important).

Goals

The questions in this section examined the aims or goals that the organisation hoped to achieve through restructuring. The goals of the downsizing were examined through questions resulting from the literature and building on the theoretical frameworks of Kozlowski et al (1993) and Thornhill and Saunders (1999). These referents suggested that for many organisations, the downsizing process was directed toward elimination of a proportion of staff (Cascio, 1993, 1994; Cameron et al, 1991), delayering (Cameron et al, 1991), changing the organisation's culture (Freeman and Cameron, 1993; Freeman, 1994) or was a result of a new business focus or direction (Ferris et al, 1993). Respondents were asked to evaluate the relative importance of each of the goals using a Likert scale that was anchored from 1 to 5 (1, the goal was not important; 5, the goal was very important). The questions asked if the goal of the downsizing was to eliminate a proportion of staff, to eliminate layers of organisational structure, to change the organisation's culture, or to enable a new business focus or direction.

Targets

The survey instrument next assessed the areas that the organisation had

selected for restructuring. This section was developed from the conceptual

framework of Kozlowski et al (1993), which postulated that downsizing

organisations targeted geographic locations, specific sites, organisational areas,

specific layers, or specific jobs. The survey also asked if no specific areas were

targeted. This dimension was measured by nominal questions and asked if the

targeted areas comprised geographic locations (such as, for example, countries or

regions), specific sites (such as corporate headquarters or obsolete plants),

organisational areas (such as administrative functions, research and development,

or support areas), specific layers of the organisation (such as departments or

middle management), or specific jobs.

Selection Strategies

This dimension examined the methods used by the respondents to effect

staff reductions and assessed this for both managers and employees. The

questions in this section were developed from the theoretical frameworks of

Cameron et al (1991), Kozlowski et al (1993), and Thornhill and Saunders (1999).

Much of the research in this area suggests that most organisations reduce staff

numbers through use of across-the-board cuts (a proportion of staff were

retrenched), attrition, voluntary redundancy, involuntary retrenchment, or through

early retirement. Respondents were asked to evaluate the relative degree of use of each of the strategies using a Likert scale that was anchored from 1 to 5 (1, the strategy was not used; 5, the strategy was the primary one that was used).

Selection process

The selection process was examined from several different perspectives. The questions in this section were developed from the cross-site analysis results of the case study stage of the study and the single-site process models developed for each case study organisation. The interview stage of the research had suggested that downsizing organisations utilised a variety of processes in determining which of their employees might be made redundant and which might be retained. Some organisations appeared to undergo downsizing in a single step, retrenching and retaining employees at a single point in time. For other organisations, the selection process was iterative, occurring over a longer period of time, and utilising several different methods. The first questions that examined the selection process used nominal scales to ask if employees were selected in a single assessment or if this was done in several stages as an iterative process.

The interviews also suggested that the selection process might not always result in employee retrenchment , especially in public sector organisations. For example, rather than being retrenched, employees might be transferred to other positions either inside or outside the organisation. Three nominally scaled

questions examined this outcome and asked if employees were transferred laterally, promoted to higher positions, or demoted as a result of the selection process.

Another outcome evidenced in the interviews was the possibility of what was described by one organisation as "more employees than jobs". In this case, employees might be retrenched because their positions had been made redundant, and in other instances, employees were made to compete with others for a diminished number of jobs. Respondents were asked to assess the degree of use of these two strategies using Likert scale questions that were anchored from 1 to 5 (1, the method was not used; 5 this was the primary method). This dimension was examined for both employees and managers.

Selection criteria

Workers that underwent a competitive selection process would have been assessed on the basis of a set of selection criteria. The questions for this section were developed from human resource management practice (Stone, 1997) using competency profiling and job analysis criteria for job relatedness. These criteria included performance, skills and abilities, experience, age, and industrial relations activity. The latter criterion was included as a result of the interview stage in which it was found that one of the mining companies had retrenched employees on the basis of union activity. This dimension of the selection process was

examined for both managers and employees, and was measured by Likert scales that were anchored from 1 to 5. Respondents were asked to indicate the relative degree of use of each of the criteria, with 1 denoting that the criterion was not used, and 5 denoting that this was the primary criterion.

Organisational performance outcomes

Organisational outcomes were examined by eight Likert scale questions that examined organisational performance using financial performance and employee performance indicators. The operationalisation of these factors is discussed in more detail in chapter 2, section 2.4.1, and is not covered in detail here.

The elements of this dimension included productivity, share price, profits, employee morale, job satisfaction, employee commitment to the organisation, turnover, and employee motivation. Likert scales were used in this section in which respondents were asked to assess the relative change in each element with 1 denoting that the criterion decreased greatly, 3 indicating no change, and 5 denoting that the element increased greatly.

Loss and retention of key workers

The survey also assessed whether or not key employees or managers were lost as a result of the downsizing process. It was found during the case studies that each organisation had its own definition of what it perceived to be a "key worker". Since the idea of "key worker" seemed to be situationally dependent, it was unclear at this stage how the concept could be operationalised. Research on measuring attitudes and values in organisations has faced this issue and the general consensus seems to point to two methodologies: single global measures and multiple facet measures (Robbins et al, 1998).

There are arguments both for and against the use of single global measures in measuring attitudes and values. Bailey et al (1991) argue against the use of global measures in assessing attitudes such as job satisfaction, because not everyone shares the same meaning for a given attitude or value. Additionally, a global rating will not necessarily include all aspects of relevance to the measurement and thus may not be reliable. Vecchio et al (1992) agree with this assessment, adding that faceted scores yield more specific information. An alternative to the use of the multiple facet measurement is that of the single global rating. In this methodology, the assessment is derived as a summation based on multiple facets. Robbins et al (1998) argue in favour of the single global rating for broad concepts in which a single question actually becomes a more accurate measure. This is the case wherein a highly complex issue is not well understood

and cannot be reliably operationalised. Another argument favouring use of single global measures points to research that suggests that even in very complex attitudinal situations, most respondents have a general, or global, sense of the concept (Vecchio et al, 1992).

Because each organisation seemed to perceive a somewhat different of just what constituted a "key worker", it was decided to use a global measure of "key worker", rather than multiple facet measures, thus allowing the respondent organisation to frame this definition in its own terms. A more detailed discussion of the concept of the key worker is outlined in chapter 2, section 2.4.2.

Building on this theoretical framework, the survey was structured such that respondents were asked to provide data through nominal scaled questions in determination of whether or not any employees, or managers, had been lost who, in retrospect, the organisation would rather have retained. Respondents were also asked to attribute the reason for this loss through Likert scale questions which examined the use of attractive redundancy packages, early retirement, laws on unfair dismissal, across the board staff cuts, or the fact that workers simply found better jobs elsewhere. The questions were anchored from 1 to 5, with 1 denoting that the reason was unimportant and 5 indicating that this was the predominant reason.

3.5 Data Analysis

Data analysis of the survey stage of the study is discussed in detail in chapter 5, and the information included here is only an overview of the process. Descriptive statistics were used to assess the demographic characteristics of the respondent organisations. These included frequency counts, cross tabulations, calculation of means, and distributions. These statistics provided an insight into the type of organisation, the degree of unionisation, the size of the organisation, the proportion of staff that had been retrenched, and the number of organisations that had downsized, as well as the number of organisations that anticipated that they would downsize in the near future.

The next stage of the analysis was concerned with the organisational performance outcomes resulting from the downsizing. Factor analysis was used to determine whether or not the organisational performance variables were inter-related, and if so, whether these relationships could be re-defined as a smaller number of dimensions or factors (Hair et al, 1995). Factor analysis suggested that the organisational performance could best be described by a two-dimension solution, which were associated with the employee performance variables and the financial performance variables. These two dimensions were utilised in the next stage of the analysis to group the organisations according to organisational performance. The respondent organisations were then grouped according to performance based on these two factors using the Ward Method of cluster analysis. The results of this stage of the analysis suggested a three-cluster solution as the model best describing the groups of organisations as clustered by organisational performance.

The next step in the analysis was to determine whether or not the displayed clusters were different in a way that was both reliable and statistically significant. It was decided to use Multiple Discriminant Analysis (MDA) with cluster membership as the grouping variable and the two organisational performance factors as predictor variables. This methodology was chosen not only because it can determine the differences in the nature of the clusters, but more importantly, it can also test these differences for significance. In addition, the MDA results can indicate whether or not the groups are significantly discriminatory on the basis of all or some of the predictor variables. The results indicated that both of the predictor variables were able to discriminate between the three groups to a degree that was statistically significant. This was evident through simple F-tests that showed all three clusters differing significantly across both variables.

The next stage of the analysis examined the association between loss and retention of key workers and organisational performance. The effect of loss of both employees and managers was examined. Because the survey instrument used nominal scales to measure loss and retention of key workers, the analysis was conducted using chi-square tests for relatedness. It was found that a statistically significant relationship existed between loss and retention of key employees and key managers, and the two dimensions of organisational performance as classified by cluster analysis. The contribution of the downsizing process to loss and retention of key workers was then examined through use of Pearson's Chi-Square tests for relatedness, in the case of nominal scaled variables, and multiple discriminant analysis (MDA) for the variables measured through Likert

scale questions. This stage of the analysis examined the effect on loss and retention of key workers as a result of organisational demographics, the catalyst that triggered the downsizing, the goals of the downsizing process, the downsizing targets, employee selection strategies, the selection process, and the selection criteria that were employed.

3.6 Ethical Considerations

3.6.1 Case studies

Consideration of the case study respondent's right to protection from physical and psychological harm, including stress or deception, was maintained at all times. A copy of the approval letter from the Edith Cowan University Committee for the Conduct of Ethical Research was provided to the respondent before commencing the interview. Prior to the interview, respondents were provided with a *Form of Disclosure and Informed Consent for Research*, as shown Appendix B. Respondents were informed, both verbally and in writing, of the purpose of the study and the benefits which were expected to accrue from the research. They were advised, both verbally and in writing, of their right to choose not to participate in the research and of their right to terminate the interview at any time. Respondents were informed of their right to confidentiality and of the fact that the identity of their organisation, together with that of participating individuals, would be protected.

Before electronic recording, the respondents were advised that the researcher intended to record the interview for transcription and that the transcribed results would be retained in a secure area, accessible only to the researcher. Respondents were informed when the interview was being recorded. The respondent was provided with the researcher's organisational affiliation and contact details in the event that further information on the study was required.

3.6.2 Survey

Respondents were informed as to the purpose and nature of the research in the cover letter accompanying the survey, a copy of which is shown in appendix E. Subjects of the study were informed that they had the right to choose whether or not to participate in the project and were provided with adequate knowledge of the research, in the cover letter, in order to make an informed participation decision.. Participants in the study were advised of the right of privacy (anonymity) and that this right would be maintained at all times. Respondents' rights to not receive physical or psychological harm, including stress or deception, were adhered to at all times. Confidentiality of data was maintained.

3.7 Summary

This chapter described the research methodology that was utilised in the conduct of the study. Based on the existence of some *a priori* knowledge within a relatively narrow domain of the area of interest, it was determined that the most appropriate

research procedure should be based on a multi-method approach. The use of multiple methods provided convergence and triangulation, in which the values of the research issues were observed from several viewpoints (Brewer and Hunter, 1989; Creswell, 1994). This in turn improved the overall validity of the research, compensated for some of the weaknesses in each of the two specific methods (Easterby-Smith et al, 1991), and allowed the research to be grounded on the strengths of each method (Brewer and Hunter, 1989). The methodology employed the two research processes developmentally, in that the first method informed the second. The case studies focused on the contextual issues of the downsizing process, while the survey instrument examined these same domains, as modified by information gained in the case studies, together with an assessment of the effect of loss of key workers on organisational performance.

The case studies were developed from a review of the literature, using the research frameworks of Thornhill and Saunders (1999) and Kozlowski et al (1993), in order to establish the domains of the research question and to formulate semi-structured interviews. Cross-site interviews were then conducted in order to provide an understanding of the downsizing patterns that existed across other organisations. These patterns became the basis for a survey instrument that further refined the focus of the study and enabled generalisability of the results.

The survey instrument was also derived from the research frameworks of Thornhill and Saunders (1999) and Kozlowski et al (1993), but was modified based on the findings in the case study stage of the research. The sampling frame of the survey was

derived from a random sample of 26,000 entries in the Kompass Australia 1999 data base, and consisted of 1860 organisations. Of the total respondents surveyed, 422 were returned, for a response rate of 23%.

The survey results were analysed using descriptive statistics for evaluation of demographic information. Factor analysis was used to simplify the variables measuring organisational performance. The two factors resulting from this analysis were then used to classify the respondent organisations according to performance outcomes with cluster analysis. Multiple discriminant analysis then examined the association between loss and retention of key workers and organisational performance. The information resulting from this stage of the analysis was then, in turn, used to examine whether or not there was a relationship between the downsizing process and loss and retention of key workers.

The next two chapters of this study provide a detailed analysis of the data, beginning with the case study stage of the research.

CHAPTER 4

CASE STUDY DATA ANALYSIS

4.1 Introduction

Chapter 3 described the methodology used in the research for this study. In Chapter 3 it was argued that the research questions could best be investigated through use of a multiple method approach to the research. This chapter will examine the data resulting from the first stage of the research, which was based on interviews with senior human resources managers in the respondent organisations. Chapters 4 and 5 are restricted to presentation and analysis of data and thus do not attempt to draw general conclusions or compare results with the other researchers discussed in Chapter 2. A detailed discussion of the findings of Chapters 4 and 5 is outlined in Chapter 6 which examines the results of the research within the context of the literature.

Each of the research sites is examined as a separate case. The analysis begins with a discussion of background information for each of the organisations including discussion of the relative magnitude of the organisational restructuring and a brief description of the kind of organisation and services or products provided. This is followed by a narrative description of the downsizing process based on the qualitative interview questions. As outlined in chapter 3, these questions were derived from a theoretical framework developed by Thornhill and Saunders (1999) and Kozlowski et al (1993). The events leading to the decision to retrench or retain

employees are then graphically represented for each of the respondent organisations by a process model. The narrative and process models are summarised in the form of a summed index matrix that provides a means of cross-case analysis (Miles & Huberman, 1984; Yin, 1989). The chapter then outlines the issues discovered in the course of the interviews that are of relevance to the research questions that are then used to inform development of the survey instrument.

The chapter begins with a discussion of the background for each of the organisations in order to provide the context for further discussion. All information is derived from company records available to the general public unless otherwise noted. The respondent organisations all stated that although publication of research data was permitted, the firms wished to maintain confidentiality. For these reasons, the actual names of the respondent organisations are disguised, the names of the interviewees are not disclosed, and the actual sources of secondary data have not been referenced.

4.2 Background: Case Study Organisations

4.2.1 Organisation A

Organisation A is an Australian resources mining company that is listed on the Australian stock exchange. The company has developed and matured into a firm with substantial assets and a growing international reputation as a successful mining resources explorer, developer, and producer. Organisation A was established in 1954 as a mining resources

developer in the Gippsland area of south-east Victoria. Failing to locate resources in commercial quantities in Gippsland, it began looking for fresh exploration opportunities elsewhere in Australia. By 1963, the organisation acquired significant new exploration acreage in the remote northwest of Western Australia. Because this was a vast, relatively unexplored area, exploration for mining resources was a high-cost, high-risk business that required financial and technical support from other global mining companies. In return for this financial and technical assistance, in recent times the company has had to align its strategic planning with input from its partners.

In the early 1970s, the company achieved financial success with the discovery of several lucrative mining resource fields near Western Australia's harsh Pilbara region. Delivery of the resources to customers in Western Australia commenced in 1984 under long-term contracts with the State Government. Beginning in 1989, several 20-year contracts with energy providers in Japan enabled the company to begin overseas export. Since that time, spot sales of resources have been made to Spain, South Korea and Turkey. The company is actively exploring for mining resources in other areas, including Timor and Papua-New Guinea.

4.2.2 Organisation B

Organisation B is another mining resources company and is a subsidiary business unit of a much larger global corporate group. Nonetheless, the company is highly autonomous and is the world's second largest producer of its specialty mining resource. Its operations are located mostly in Western Australia, including mines, rail and port facilities, and power facilities. Organisation B is the majority participant in mining

operations at six mining areas and encompasses the transportation and power facilities at these sites. The company has the capacity to export more than 70 million tonnes per annum, and exports to its own corporate group facilities interstate and internationally, in addition to exporting to Japan, South Korea, China, Taiwan and Europe. Organisation B presently has a work force of around 2,500 people with approximately 600 of these workers employed in contract mining.

4.2.3 Organisation C

Organisation C is a regional bank founded in Western Australia. The bank was acquired by a nationally based organisation and was merged with the larger financial institution in 1996. The Western Australian organisation is self-contained within the larger corporate structure and maintains its own industrial relations, occupational health and safety, deployment, training, development, and finance functions. When the two organisations merged,

> "A lot of functions were actually duplicated and once we identified which functions were duplicated and once you merged or amalgamated them together there was a surplus of people actually required to do those functions." (Interviewee, Organisation C)

As a result of the takeover, a process was begun to eliminate duplication of functions, administrative processes, and positions. At the same time, Organisation C decided to 'delayer' the company structure. The reason for this was to improve the speed and validity of decision making and to improve the quality of customer service. As a

result of the merger and subsequent restructuring, over a period of 2 years Organisation C reduced its staff from around 3,400 employees to 2,600 employees.

4.2.4 Organisation D

Organisation D is a financial institution founded in Western Australia in 1895. The company played a major role in the development of Western Australia's agricultural sector during the pioneering days of the late 1800s and early 1900s. The firm rechartered its business name in 1945, and over the next 50 years, became a leader in the local finance industry. In 1994 a majority share of the company was bought out by an overseas institution, but "the parent company has been now for the last 12 months, very much a hands off type arrangement and we have our own board and executive and it's been business as usual in terms of a lot of these decisions to reshape the organisation." (Interviewee, Organisation D). As a result of the integration with the larger parent company and because of competitive pressures, Organisation D in 1997 reduced its staff from around 3,800 (in 1990) to around 2,890. As a result of enterprise bargaining arrangements, the workforce proportion of full to part time employees has changed, resulting in the part time workforce increasing from around 200 to around 900.

4.2.5 Organisation E

Organisation E is a public sector company that provides public utilities, customer service, and maintenance. The organisation downsized as a result of privatisation and

reduced its staff numbers from 4,300 employees in 1994 to around 2,000 employees. The restructuring was massive: nearly 50 percent of the jobs were axed and approximately 1000 to 1,500 jobs were eliminated within an 18 month period. The company is now an autonomous entity, but during the downsizing period all of the restructuring decisions were made by the Western Australian government and were motivated by pressure from the Federal Coalition to become more efficient. The restructuring strategy was based on a process of evaluation of services which could be provided by the private sector and thus be outsourced. Cost-saving measures were analysed because the organisation would have to compete with the private sector. Because of political pressures in the state government, the company was induced to restructure within a fixed time span, with little leeway provided for implementation or planning.

4.2.6 Organisation F

Organisation F is a public sector organisation that has recently restructured itself through a combining of several agencies into one, and through a reduction in staff numbers. The agency underwent a radical shift of assigned duties, which saw it evolve from a management authority of building processes to a manager of contractual arrangements. As a result of this process, several operational functions and construction roles were eliminated from the organisation and passed on to the private sector. From an original workforce of 2010, the organisation has downsized to around 650 employees. The organisation is planning to further downsize to a staff of approximately 350 employees.

4.2.7 Organisation G

Organisation G provides telecommunications services and is in transition, having begun operation as a public sector monopoly, then evolved into a government enterprise, and finally transitioning to full privatisation. Organisation G was downsized from a staffing level in the late 1980s of around 94,000 employees to around 65,000 employees in 1994. The size of the organisation gradually increased to 73,000 by 1996, but it was intended that the staffing levels be decreased to a total workforce level of 54,000 employees by July 1998. The organisation has taken many different forms over the last decade, from a corporate style management structure with centralised control from headquarters to semi-autonomous small business units and back again.

4.3 Employee Selection Process

4.3.1 Organisation A

Downsizing catalyst

Organisation A underwent a series of restructurings, beginning in 1993 when benchmarking with competitive organisations indicated a fall in the organisation's key performance indicators, profitability and revenue. Diminishing returns in these indicators convinced higher management to implement measures to improve efficiency.

As a result, the firm downsized, reducing the size of the workforce from approximately 1700 employees to 1600 employees, mostly through reorganisation of services areas such as administration and information systems.

The company downsized a second time in 1994 in order to reduce costs and to improve profitability. This second restructuring was a result of several stressors, including pressure from the company's competition, a loss of profit due to a drop in worldwide commodity prices, and in response to calls from some of the organisation's international partners to improve financial performance. As a result, higher management decided on a shift in focus from mining exploration to operations. This shift in focus resulted in the elimination of some 500 highly specialised positions that were directly involved with mining resource exploration, and in the outsourcing of these activities to subcontractors through 'alliance contracts'. This second restructuring resulted in a reduction in workforce from around 1600 employees to approximately 1200. When the world price of the organisation's product increased again, the organisation expanded, and in the period of 1995-1996 added additional workers to increase its workforce to around 1400 employees.

Therefore the catalyst in the first instance resulted from the organisation's strategic planning process and through this the realisation that in order to remain competitive, the firm would have to improve its financial position through improved efficiencies. In the second instance, the catalyst was diminishing world commodity prices, resulting in the decision to improve financial return by reducing costs.

Downsizing goals

Although in both instances of downsizing cost reduction was the ultimate goal of Organisation A, the method of achieving this was arrived at by different means. In the first instance cost reduction was to be achieved through elimination of duplication, and the elimination of waste. In the second instance, the firm changed its business focus, eliminating exploration activities in favour of an emphasis on mining operations.

[In the first instance] we had already done some studies in the technical group and services areas in regard to what people we thought we could, if you like, dispense with. Also we had monetary targets in regard to operating costs. ...[The goal was to] achieve what we were doing with a lesser number of people. (Interviewee, Organisation A]

Downsizing targets

The targets of the downsizing differed in the two restructuring efforts. In the first instance the targets were the elimination of duplication of effort and specific administrative functions. These targets were specifically designed to reduce cost and improve efficiency by eliminating a predetermined number of staff. As a result of the

strategic planning process, approximately 100 services-related staff were made redundant.

The second iteration of restructuring occurred in 1994 and was handled very differently from the first. About fifteen months prior to the restructuring, a series of meetings with the financial partners resulted in the conclusion that further cost savings were necessary. Planning for these processes began with a 15 month technical study to determine where further efficiencies and cost savings could be realised. A consultancy firm was commissioned to assist in the development of the restructuring process. The consultants facilitated the planning, provided advice during the implementation of the restructuring, and then left the organisation with a restructuring framework for later use.

> I suppose there were two parts to it. There was a technical survey for about a year, so whilst initially the reduction to come out of that technical survey was less of a number that we had to put off, there was a good idea which areas we could target. And people really they had to go back and look at that and something had been worked out quite scientifically and in fact would go further than the reductions they put in and they had to fairly quickly make some judgments and some of those judgments were well ok. (Interviewee, Organisation A)

As a result of the study, it was decided that the firm would eliminate the technical support divisions that provided mining exploration operations, as the company was shifting away from an exploration role to one emphasising the operational side of mining. This would enable the organisation to outsource those technical and administrative functions not directly related to its core operation of mining. In order to

further reduce costs, the company decided to scrutinise the operations of the entire organisation in order to target areas of duplication and inefficiency. This resulted in the elimination of several administrative, technical support, and security positions. In addition, the company decided to flatten the organisational structure which would result in a further reduction of staff numbers. Despite the use of an 'objective standard' for restructuring, the organisational culture became one of "make big cuts quickly and then fix it afterwards" (Interviewee, Organisation A), which suggests that some key employees might have been lost to the organisation in the rush to achieve cost reduction targets.

Within a year, the world price of the organisation's product increased dramatically, and the company found it necessary to once again begin exploration for mining resources. Since the divisions responsible for this function had been eliminated in an earlier restructuring, it was decided to outsource these functions to a new, local company specialising in these operations. In an ironic twist of fate, these were the same technical staff that had been downsized from Organisation A a few years earlier. As explained by the interviewee,

> The difficulty has been the fact that we've gone into this growth phase. Looking back now, we would've liked to have kept those people. Had we not had all this success this last year, had we had the same forward plans as when we went through the down staffing, I don't think we would have been saying well let that person go. (Interviewee, Organisation A)

For the first restructuring, Organisation A set as a primary target the elimination of a nominal number of staff. For the second, there were several targets, including the elimination of specific functions and departments, implementation of cost reduction measures designed to eliminate duplication and improve efficiency, job redesign, and delayering..

Selection strategies

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When Organisation A underwent downsizing the first time, the preferred strategies were voluntary redundancy and involuntary retrenchment. It was felt that employees should not be provided too much time to consider the implications of the organisational restructuring and that the best option was to get the process over with as quickly as possible. Disgruntled employees who remained on the job for a long period of time would affect the morale of the survivors and this would result in a loss of organisational commitment and job satisfaction. In some cases, employees arrived at work to find a member of the security team at their desks and were told they had only a few minutes to clear their work and leave the premises. As described by the interviewee, "We used a very heavy-handed approach…." (Interviewee, Organisation A)

In the interim between the first and second periods of restructuring, Organisation A revised its policies for retrenchment. This was based on negative feedback not only from the retrenched employees but from the survivors as well. By the time of the second restructuring, a system of evaluation had been established for employees who were in

positions that had been made redundant. As an additional measure, a process of outplacement was implemented to ease the pain of being made redundant. As in the first instance, the second downsizing utilised voluntary redundancy and involuntary retrenchment.

Selection processes

In the first restructuring, Organisation A selected employees for redundancy or retrenchment on the basis of job redundancy. If a position was made redundant, the incumbent in that job was retrenched. In a few cases, employees made use of voluntary redundancy.

For the second restructuring, the firm began its planning process by determining which of its areas were to be targeted for elimination. It was found that in some instances there was an oversupply of employees in these jobs. A "competency matrix" was developed in order to assess employees in these positions for retention or retrenchment. Production supervisors and the production superintendent were tasked with providing the bulk of the evaluation because they were the direct supervisors of most of the targeted employees. As described by the interviewee,

> If several employees worked in the same area, and this area was being restructured, the competence matrix was to be used in order to determine which employees would have to be retrenched. (Interviewee, Organisation A)

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The competence matrix was based on the dimensions of technical competence, attitude, performance (based on supervisor perception), teamwork, achievement of outcomes, ability to work with others, and understanding value. Professionals and managers were rated on the basis of performance reviews and potential. The evaluation of both employees and managers were based on the subjective perceptions of supervisors. Unlike the assessment of employees and managers, evaluation at the higher levels of management showed little attempt to match the competencies of the individual with the needs of the job. Some key senior staff left the organisation and this had an effect on organisational performance. The interviewee suggested that in future,

> … We would look at a competence profile for the job and we would look at a competence profile for the individual. These are non-award, higher level people and there were a couple of mistakes that were made in that area which weren't really good for us. (Interviewee, Organisation A)

The organisation changed its employee selection process from the first to the second restructuring learning from the negative experiences it had gained. As a result of this the organisation implemented an outplacement programme and re-thought the idea of giving employees a minimal notification time for retrenchment. There was, however, some ambivalence as to whether or not there should be a concerted effort to minimise the negative impact on the survivors of the restructuring.

What would we have done differently? Giving people lots of notice in this particular exercise didn't seem to backfire. It's really only conjecture, whether we'd have gotten value into putting more effort into so-called "survivors". (Interviewee, Organisation A)

Outcomes

The organisation was certain in its assessment of a successful downsizing, primarily on the basis of the realisation of cost reduction targets. As described by the respondent,

The whole thing was successful if it was followed up by "Let's get the efficiency levels up, we can do a whole lot of things better than we used to do, we've increased our revenue". The whole thing was quite a success. Some people are back, some people are working longer hours, there has been an improvement in business, and cost reductions have been successful. (Interviewee, Organisation A)

Loss of key employees

Organisation A lost employees that, in retrospect, the firm would rather have retained. The company had entered a period of expanding operations and loss of some these workers during downsizing affected the organisation's ability to operate. As the respondent described the result,

The difficulty has been the fact that we've gone into this growth phase. Looking back now, we would've liked to have kept those people. Had we have not had all this success this last year, had the same forward plans as when we went through the down staffing, I don't think we would have been saying well let that person go. We did have some like that and in fact we've had a lot of those people back in

the circumstances under, not even under contracts, as consultants.
(Interviewee, Organisation A)

The process models for both downsizing processes for Organisation A are shown

as Figures 4.1 and Figure 4.2.
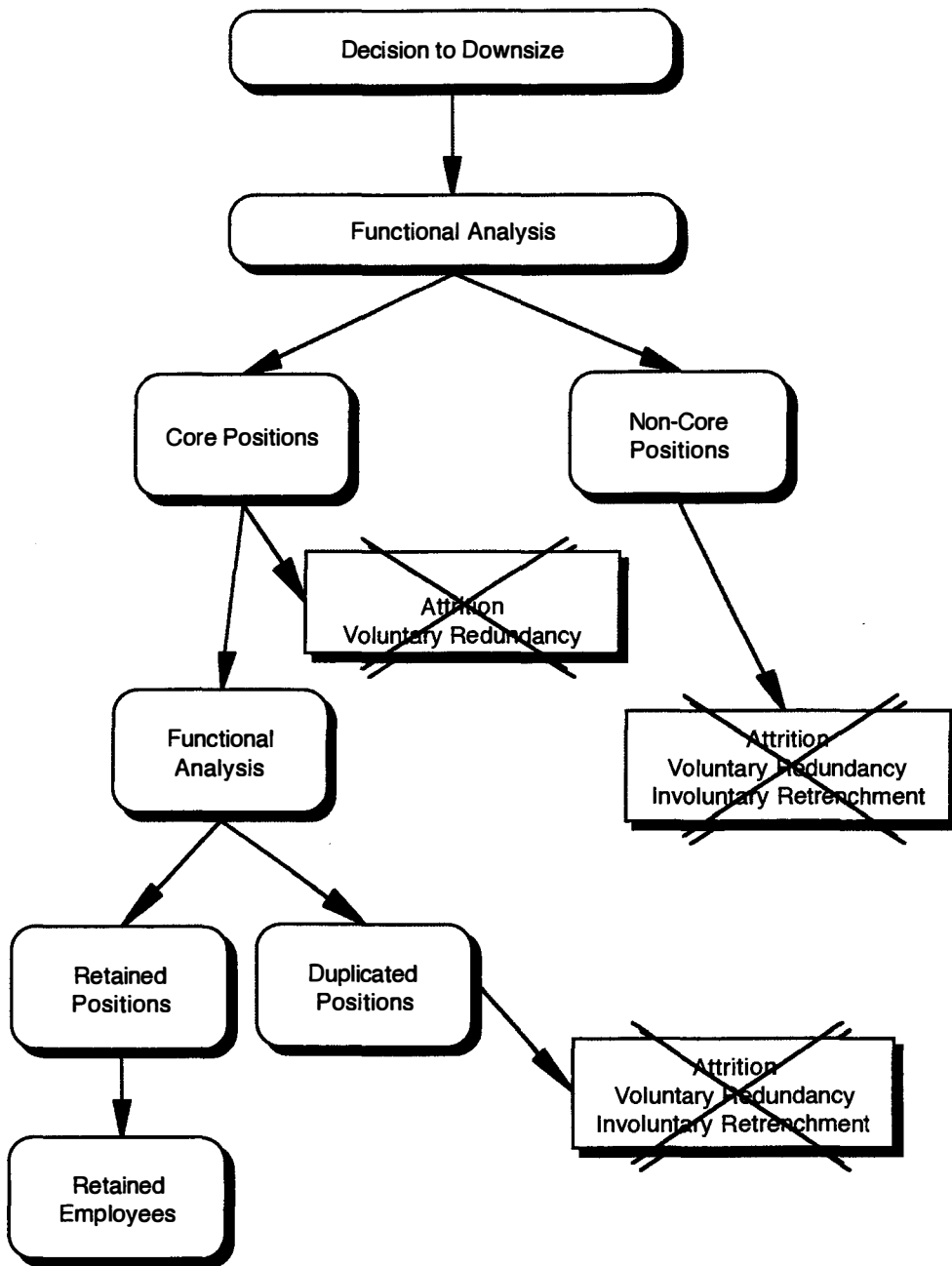
**FIGURE 4.1
ORGANISATION A
FIRST DOWNSIZING**
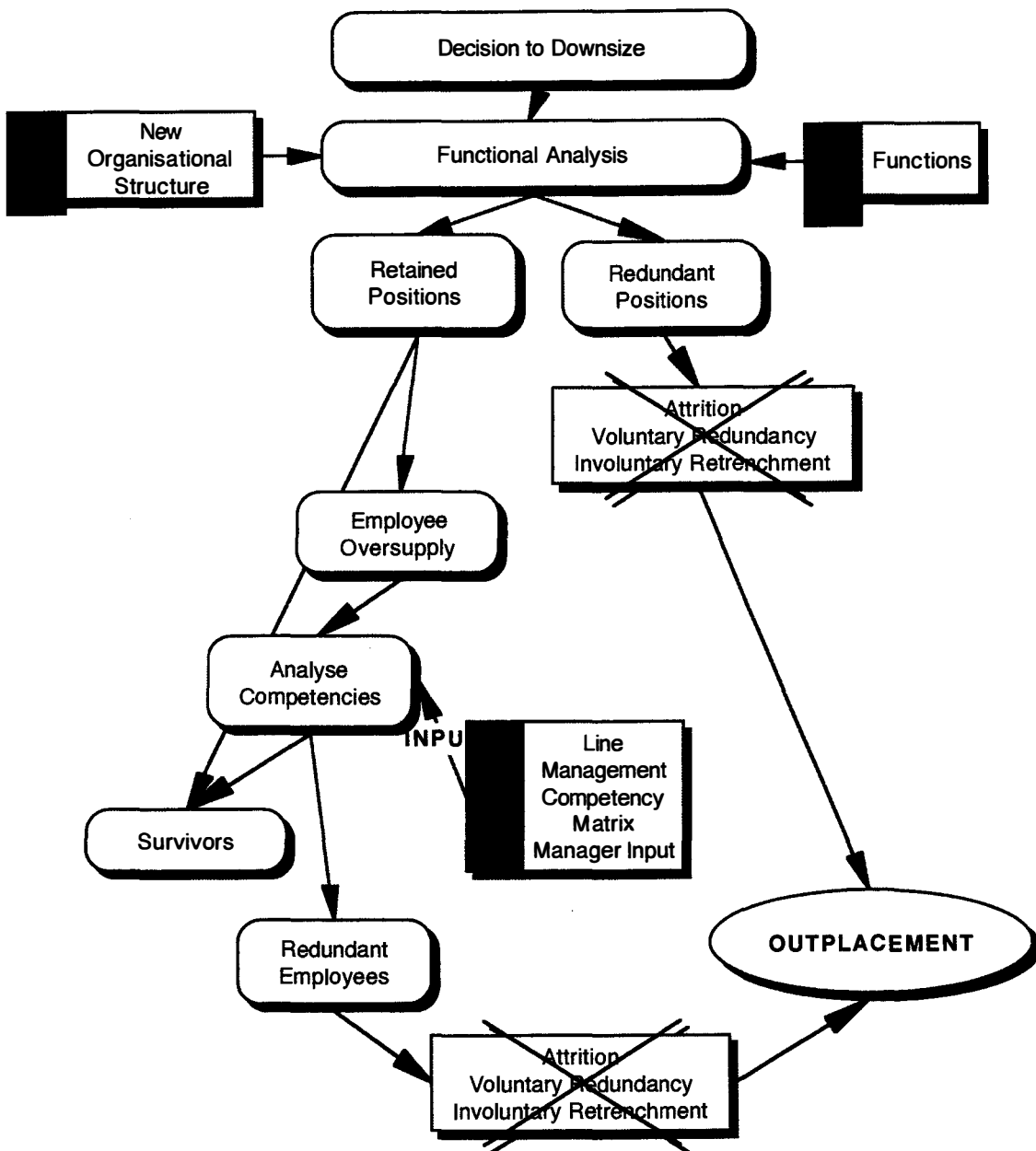
FIGURE 4.2
ORGANISATION A
SECOND DOWNSIZING

4.3.2 Organisation B

Downsizing catalyst

The catalyst for downsizing for Organisation B was the realisation that its profit to loss ratios were gradually eroding, compared to its competitors. Benchmarking against the competition evidenced a trend of gradually declining efficiency. This was attributed to the relatively low priced labour market of overseas mining companies, coupled with the fact that the ore in overseas ore bodies was less labour intensive, provided a distinct competitive advantage to the competition. The only way that Organisation B could compete on this basis would be to 'work more with fewer workers'. Since labour was the largest financial outlay in the company, decreasing the size of the work force became an attractive option for attaining a better financial position. As an initial action, Organisation B retained the services of a consultancy firm in order to obtain assistance and advice. The consultants provided a functional analysis of the organisation and examined the core operations from the standpoint of how costs were generated within these core functions. Ironically, this was the same consultancy used by Organisation A.

Downsizing goals

The consultants argued that the company needed to cut costs across the board and it was suggested that the most expedient way of achieving this was to decrease the size

of its workforce. Restructuring immediately reduce costs through downsizing, coupled with a general shedding of non-essential functions and tasks.

> It wasn't so much a restructuring as we wanted to cut our costs. Our costs were too high compared to our competitors. It is quite well known that, for example, our costs in mining are always going to be higher than some of our competitors because of the way our ore is structured, we have to move more waste than our competitors because our ore body, although its a fine ore body has a lot more rubbish on it. So if you've got to move 3 tons of waste to get 1 ton of ore and your competitors have to move 1 ton or less than 1 ton in some cases your costs are going to be higher. So the only way you can improve and be competitive is to make sure that your costs other than those uncontrolled ones are really spot on and that's what we set out to do. (Interviewee, Organisation B)

Downsizing targets

The targets of the downsizing included an across the board proportionate reduction in staff, the elimination of non-essential functions, and a paring down of support, administrative, and technical staff. The elimination of a proportion of both the salaried and wages work forces resulted in a drop in production staff from around 4,170 in 1992 to around 1,890 by 1995. The size in the administrative/support staff numbers decreased accordingly from around 350 to approximately 210.

> We looked at, really I guess, the actual task. What the department did, we didn't worry about who was doing it... What are the functions, what are the major functions that you do. Then who does them and why. What's the return for the organisation? Then you look at okay if

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we cut this out and this out what do we need, what structure do we
need to do the things that we want to do, that are necessary to do and
that's where we, in some areas, restructured, changed the reporting
relationships. That happened basically across the board. (Interviewee,
Organisation B).

Employee selection strategies

Employees who were in 'non-core functions' were advised of the redundancy of

their current position. Those whose positions had been made redundant were given the

option of voluntary redundancy, or in some cases, were retrenched. The organisational

strategies used for staff reduction were voluntary redundancy, attrition, and involuntary

retrenchment, in order of relative emphasis. Voluntary redundancies were augmented by

attractive redundancy packages in order to enhance compliance. In some cases, more

positions than necessary were made redundant in order to ensure that employees who

were known to be union activists would be retrenched along with the others. In the

words of the respondent, the company could "... get rid of some of those people we

would have preferred to have left." Some of these industrially active workers were "...

just plain cussed". (Interviewee, Organisation B). Indeed management felt that with

fewer workers and more work, there would be less time available for employees to

preoccupy themselves with union activism and industrial relations actions.

[The primary means of reducing staff numbers was] probably voluntary
redundancies I think. Then attrition would certainly be second but it just
takes some time and we were able to shuffle people around to fill spots and
that. It took some years to get down to the optimum numbers and by the
time you got down to those optimum numbers you were then building up
because of other changes. If we split our workforce into our wages
workforce and our staff workforce, our wages workforce is governed by

the union rules and the order and in any forced areas it is last in first off but generally it was on a voluntary basis. (Interviewee, Organisation B)

Employee selection process

Selection was primarily based on job redundancy. If an employee's job had been made redundant, the employee was no longer needed and was asked to take voluntary redundancy, was not replaced through attrition, took early retirement, or in some cases, was involuntarily retrenched. There was no competitive selection process based on assessment for performance, experience, or other selection criteria and no incentives were provided to retain key employees. Employees who were retrenched attended outplacement discussion groups as a way of minimising the negative effects of retrenchment on both the retrenched employees and on those who survived.

Outcomes

The primary determinant of downsizing success was based on the attainment of the Organisation's cost reduction goals, and according to the Interviewee, these were achieved. As a result, the same company structure was retained, but with fewer jobs.

[The downsizing was successful] ... in the respect that we certainly cut our costs. We cut those numbers that if we hadn't had that sort of exercise we would have never have done. We are now producing far more with far less people now. Not only has our manning gone down but our production output has gone up significantly. Far more than when we had all those people. Tons per man is quite incredible. We wanted to cut costs by a significant factor and this exercise did it but it also cut too deeply in some areas which then led to some falling in

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productivity and the need to then recruit. Which adds to your costs. (Interviewee, Organisation B).

Loss of key employees

The emphasis of the restructuring was on shedding staff in order to reduce costs, with little thought to retaining key employees. As a result "... you often lost people that you really didn't want to lose because in those cases the good people are generally more marketable" (Interviewee, Organisation B). The firm then found itself in the ironic situation of having to "... rehire which means that the people that you've got left behind can't fill those shoes in a lot of cases" (Interviewee, Organisation B).

When you offer redundancy, voluntary redundancy, people look at the dollars and particularly some of those that have been with us for some time. Given that in those times when this process started you have to consider also the external factors such as the employment market and if the employment market is hard you can't get jobs then people are not wanting to leave. As I mentioned before those who are pretty marketable, if you've got a bunch of dollars on one hand plus their good marketable skills they're going to be prepared to take the risk whereas the less marketable ones the dollars are, that might not last very long, I might not get another job. They are going to be in some sort of strife so you won't lose those and our turnover rates have been pretty low since that exercise because of the market itself, there aren't that many jobs out there in a lot of cases so turnover rates are pretty low. (Interviewee, Organisation B)

The process model for the Organisation B downsizing process is shown as Figure 4.3.
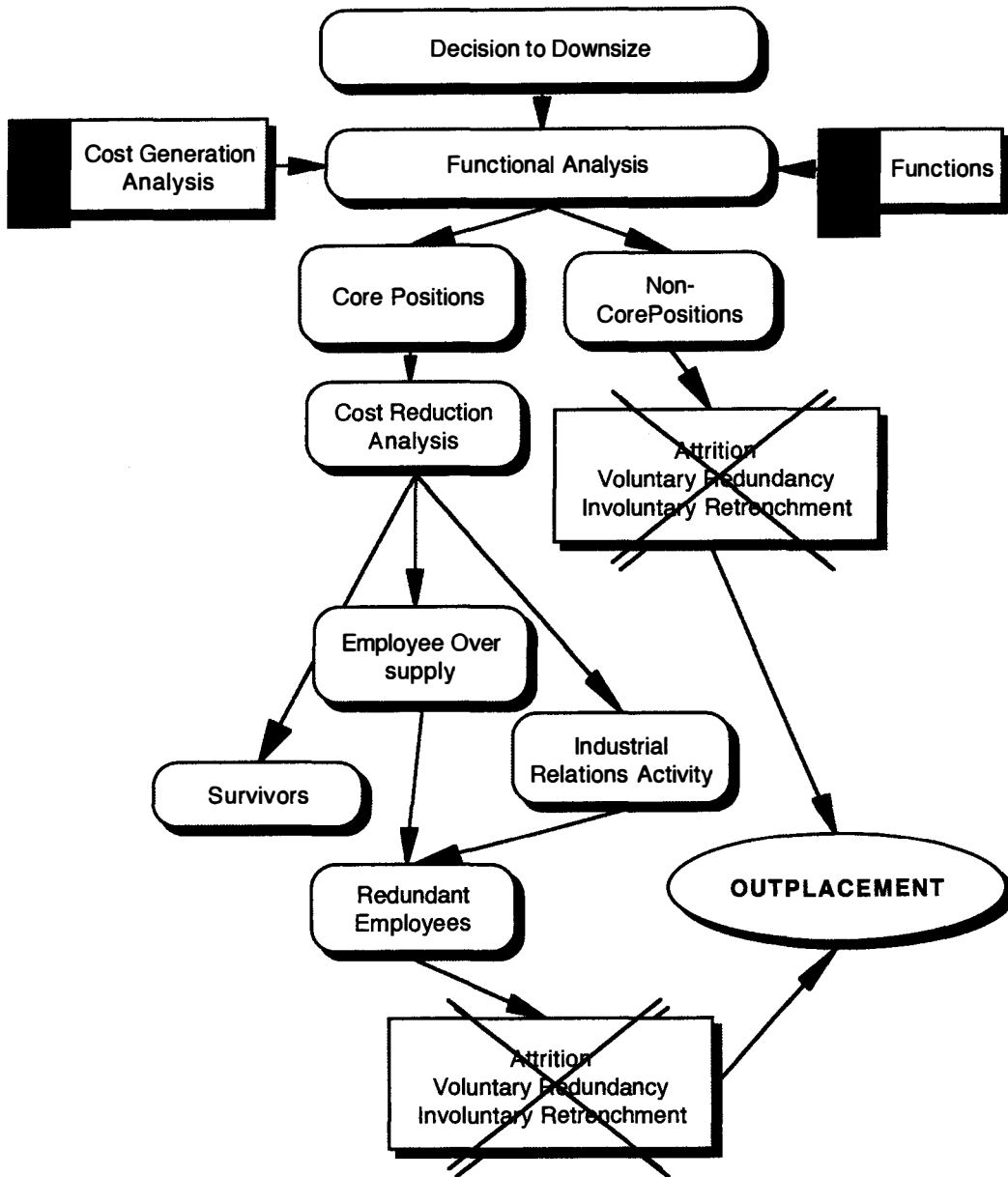
FIGURE 4.3
ORGANISATION B

4.3.3 Organisation C

Downsizing catalyst

The organisational restructuring of Organisation C was precipitated by the takeover of the bank by a larger, nationally based bank. The national bank had many branches in Western Australia, some of which were near those of Organisation C. The operation of the two systems side-by-side resulted in duplication of effort, administration, and operations, so a rationalisation of the two operations was seen to be a logical business move. All of the two sets of banks in Western Australia were to be fronted with the Organisation C name and logo, but some of both banks would be closed in order to avoid duplication. Organisation C was to function autonomously in the development of the amalgamation process for Western Australia. It was decided that the national group would not participate in the integration process.

> When the two organisations merged a lot of functions were actually duplicated and once we identified which functions were duplicated and once you merged or amalgamated them together there was a surplus of people actually required to do those functions. A good example of that is probably the Human Resource Department where [the parent company] in WA had 12 people and [Organisation A] had 45 people. The reason why there was such a disparity of numbers was because [Organisation A] actually ran their whole operation out of Perth whereas [the parent company] had some of their operations centralised in Sydney. So when you brought the two functions together we had quite a number of HR people which was a lot more than we really required to go forward. (Interviewee, Organisation C)

Downsizing goals

The desired outcome of the restructuring was the merging of two financial institutions into a single, consolidated entity. The eventual goal of the integration of the two organisations was to be the elimination of duplicated functions and positions and thus the reduction of costs.

Another issue to be taken under consideration by the strategic planners was the merging of the two organisational cultures. Three different cultural points of view co-existed in the merged banking system. There was the local (state level) Organisation C culture, the national banking culture of the corporate group, and the local culture of the corporate group. Although employee surveys were taken in order to establish the relative proportion of the three organisational cultures, there was no evidence of selection for retrenchment on the basis of which culture the employee seemed to possess. Rather, the existence of these cultures was used as a means of establishing a process of organisational change aimed at the enhancement of the Organisational C regional culture.

> One of the things we did before we actually started the integration was that we did a cultural audit to actually see what makes up people from [Organisation C], and what makes up people from [the parent company]. Basically try and see where we can mold the two together. What we actually found is that there were three cultures running. There was the [Organisation C] culture, the [parent company] – Western Australia culture and the [parent company] -Sydney culture operating in WA. People from Western Australia, their make up is very different from people in the Eastern Seaboard are and so we discovered that Western Australians operate best during an

atmosphere of going against the tide, a little adversity, and that if they can make their decisions locally they will do them quicker and if they are a little more difficult, the task that you're asked to do, they will do it more vigorously and so we unashamedly took as much as we could out of that culture in order to use it to our advantage during integration and do so now. So the culture audit was probably one of the most important components that we did. (Interviewee, Organisation C)

Downsizing targets

The focus of the restructuring was the 'elimination of duplication'. As described by the respondent,

The only jobs that were identified early on as being probably those that would go were those that were duplicated. We had two branches that were amalgamating and if they were duplicated at the branch next door then we decided that we would look at what the new branch would be knowing that some jobs would go. (Interviewee, Organisation C)

A second aim of the restructuring was to be a flattening of the organisational structure. It was felt that the removal of some layers of the organisation's structure would result in a more efficient operation. As described by the respondent,

We didn't want to have seven or eight layers between the person who starts on the frontline counter and [higher management]. (Interviewee, Organisation C)

Thus the targets of the downsizing came to include the elimination of duplicated functions of the two merged banking systems and the elimination of layers within Organisation C.

Employee selection strategies

Organisation C had learned from the downsizing pains of its parent company. The national organisation had provided attractive redundancy packages to its employees and as a result had lost a large number of high performing workers. In addition, many employees perceived this strategy as rewarding employees for leaving the organisation. The feeling at Organisation C was that the use of attractive early retirement and redundancy packages was not cost effective over the long term. Indeed, the company set a 'no retrenchment policy' and relied mostly on voluntary redundancy as a means of achieving its restructuring manpower targets. As a result, although some senior managers left the company, this was through resignation, rather than retrenchment or redundancy.

> What happened during the last 5 or 6 years is that people rather than resign because they want to go and do something different will try their utmost to line up for a retrenchment. You get a maximum of 96 weeks payout which is quite a lot of money and this feeling was really running through the [Organisation C] network. During the integration we made a conscious decision to try and get a more community type atmosphere going, a community culture happening, that we would try to have a minimum amount of retrenchments as we possibly could and that we would actively as much as possible redeploy people to other areas. If you looked at it from a cost point of view, there is the cost of not only retrenching the person in the dollar and cent but it is also the cost of lost investment for the person walking out the door and there is

also lost time from people then wondering, well this person's gone I wonder if I can go. So we actually tried to look at how we could best change that and we had basically a no retrenchment strategy happening since integration which really irked a lot of the more senior [Organisation C] managers who had been around for a long period of time. It now seems to have bitten so to speak and people now understand that there is no retrenchments, that if you do want to leave and look at a different lifestyle or a different job career then you make the decision to resign and go. What's helped us along on that is that [Organisation C] has continued in other areas of the country to downsize using the retrenchment avenue whereas we have decided we won't do that. We've decided that when you look at the cost and the break even points of where the cost is there is a long time before you actually are starting to be in the red so to speak. We've found that we have been able to downsize using that approach and it brings a better feel to what's actually happening in the branch within the network. (Interviewee, Organisation C]

Employee selection process

At the organisational level, the employee selection process began with a functional analysis of the organisation's positions with the aim of targeting areas of functional duplication. At the individual level, the organisation developed a functional job analysis of all its positions that then produced job descriptions and a set of employee competencies for each position. Each employee was subject to a process of performance appraisal and competency analysis and was evaluated on the basis of job - competency - performance matching. Once the organisation's functional analysis was completed, the redundant positions were publicised throughout the organisation. Staff reduction was accomplished primarily through attrition (the organisation normally has an attrition level of around 35 to 45 employees per month) and voluntary redundancy. All employees that left the

company underwent an outplacement process, designed to smooth the transition out of the company.

As described by the respondent,

> We did a job description of what we wanted the role to be, we looked at the competencies of what all the people had, we then ranked the people based on the competencies, ability to go forward, and past performance, and then ranked them. We advised [the employees in those positions] that the positions which they were in had been made redundant, and [they were asked to decide who would like to stay and who would want to go]. (Interviewee, Organisation C)

Employee selection for Organisation C, therefore, was a competitive process, not unlike that used by many firms when hiring new employees.

Outcomes

Although the human resources issues of the restructuring seemed to have been effectively managed, the downsizing was not deemed to be a success. During the transition to the amalgamated bank's new accounting system, some accounts were mis-managed because of computer software errors. Of theses, some accounts were not credited with automatic deposits from the customers' employers, and many accounts were not properly audited. As a result, the company lost quite a few customers to its competitors during the transition period. As outlined by the respondent, "From a manpower point of view [the downsizing process] was successful. From a process point of view of profits and technology, it failed. "(Interviewee, Organisation C)

Loss of key employees

The company stated that it had lost some of its employees that it would rather have retained. As described by the respondent this was a result,

> .... not through retrenchment though, [but] through resignation. There were some staff from the [Organisation] that were in more senior positions that decided to go because they really weren't certain whether this was an organisation of which they would want to work in but they went. We never retrenched any person who we would, in hindsight, rather have kept. (Interviewee, Organisation C)

In summary, Organisation C's downsizing process was characterised by use of a cultural survey in order to provide data to enable organisational change, the decision not to use attractive redundancy packages as a means of effecting redundancy, and the use of employee performance and job related competencies as a means of establishing selection criteria. Despite efforts to retain key employees, the firm lost some of its staff through resignation. The process model for the Organisation C downsizing process is shown as Figure 4.4.
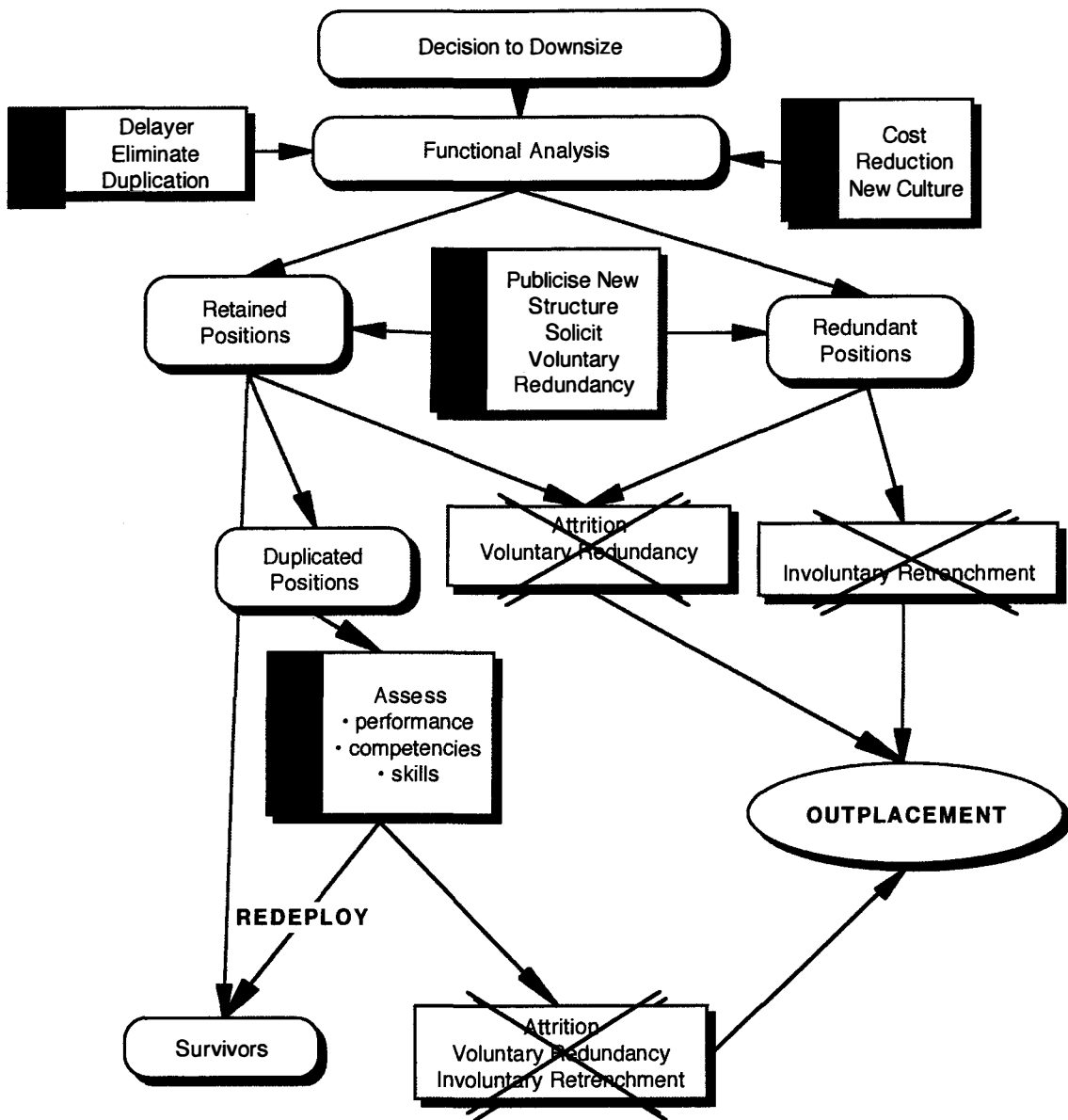
FIGURE 4.4
ORGANISATION C

4.3.4 Organisation D

Downsizing catalyst

The organisational restructuring was precipitated by several issues. Acquisition of the organisation by a much larger international conglomerate led to an evaluation of the company's position within the financial industry . It was perceived that compared to other organisations in a similar position, Organisation D had to improve its cost to income ratio. As described by the respondent, the company had a need to be

> .... driven to be more efficient and improve our turn around times. Underpinning all that was the need for improvement in our cost to income ratio. The game was moving around us, other banks were doing this sort of thing, their ratios were improving and we weren't competing. About 52% of this bank's costs are personnel costs, so it [reducing staff numbers] was an obvious area [to cut back]. (Interviewee, Organisation D)

Downsizing goals

A consultancy firm was retained to assist in developing the restructuring process, which ironically, was the same firm that had been hired by Organisation A and Organisation B. The consulting firm and the bank decided that the restructuring should focus on two areas:

One of [the goals] was to centralise a lot of our back office functions and that had quite a resulting economy of scale. The other was to change our delivery channel and that saw a change of focus with the way we approached our customer. Instead of having a branch manager in charge of the branch and customers as well we actually took them [the branch managers] away from that operational role and had them more as directly relating to the customers. They had a certain portfolio of clients and they had to grow that portfolio service, so become more of a sales rep. (Interviewee, Organisation D)

Thus, the goal of the organisational restructuring was partly the shedding of a proportionate number of staff in order to achieve cost reductions, but also the re-staffing of a new, smaller, restructured organisation.

Downsizing targets

The restructuring focused on several targets. At the organisational level was to be a total re-engineering of the company structure. This entailed the elimination of layers of supervision in order to enable the company to better focus on customer service. The bulk of customer service would be centrally located, which would enable operation from a single location with resultant cost savings. The delayering resulted in a flattening of the structure from eight layers to three.

This led to the second target of the restructuring, an elimination of specific lines of work that were viewed as irrelevant to customer service functions. The organisation saw as a way of achieving this the changing of the ratio between customer service and support employees.

The next issue was that of revision or even elimination of specific positions through a process of job redesign. Finally, the entire organisation was examined from the perspective of cost savings with the focus of this analysis on elimination of duplication, shedding of nonvalue adding functions, and the outsourcing of some administrative and support activities. The result of this was the development of a 'new' organisation with new jobs.

Analysis of all of the organisation's positions was conducted through what was described as 'process engineering'. The process itself had been developed by the consultancy firm that was engaged to formulate the downsizing methodology. As explained by the respondent,

> The process sort of re-engineering that was being done was quite a high degree of quantifying actual savings through what we call a management operating system. That's a tracking mechanism in which staff are required to keep statistics on what they have spent their time on and how it's aggregated. We can see what the various functions, categories of work that we do, how much time it takes to do them, so from rolling that forward we can estimate with some degree of certainty that the bulk of numbers is going to result in the saving of [a quantifiable] number of people. (Interviewee, Organisation D)

Employee selection strategies

The organisation utilised voluntary redundancy and involuntary retrenchment as the primary means of reducing staff numbers. Both of these strategies were augmented by retrenchment or redundancy packages. In some instances, attrition was used as a strategy in that normal turnover which affected a

position targeted for redundancy meant that no replacement was selected through recruitment for that position.

> [Staff reduction] has been done through natural attrition and a lot of the downsizing has occurred through that. There are two other processes at work though. One is a voluntary type scheme, where people accept a voluntary package and there has been compulsory redundancy as well. Roughly the numbers in the compulsory category must be about 300 now and in the voluntary category, probably 50 or 60. The balance [of downsizing] has come about through normal turnover and natural attrition. (Interviewee, Organisation D)

Employee selection process

Employees in 'non-core' positions that were to be outsourced, who were in lines of work that were to be totally eliminated, or were in functions that were duplication of effort, were advised that their positions had been made redundant. Workers with a history of high performance and who had transferable skills were given the choice of redeployment (to a different location or even, in some instances, a different job altogether) or voluntary redundancy. Employees in redundant positions with low performance and/or non-transferable skills were retrenched and were afforded a retrenchment package. In some cases low-performing employees in retained positions were pressured to choose voluntary redundancy. These were offered a redundancy package of lower worth than those who had been involuntarily retrenched. Finally, throughout the organisation, some positions were left vacant through attrition.

Outcomes

The restructuring process was aimed at achieving bottom-line savings. This was measured in terms of improved quality, improved service, and improved efficiency. The view of the organisation's strategic planners was that most of the goals of the downsizing had been achieved, although a few of the desired outcomes had not been realised. The portions of the restructuring which were not considered to be successful were deemed to be so because of (1) use of short term solutions to longer term problems (2) no follow-up actions to ensure continuing implementation (3) no control processes in place and (4) no ownership of the change process by those who were affected by it.

Loss of key employees

The organisation stated that it had lost some of its employees that it would rather have retained. This seemed to be due to the manner in which the restructuring strategy was implemented, as described by the respondent:

> ... I suppose we try and say it's the job that's gone and it's unfortunate that it's the wrong person in the wrong place at the wrong time. There have been situations like that where, for fairness with the expression of interest process we have had to offer a person the option hoping they don't take it and asking them not to take it but in the end they do. I'm sure we've lost some good people, in fact I know we have with that process. (Interviewee, Organisation D)

The Organisation D process model which graphically shows the

downsizing process is shown as Figure 4.5.
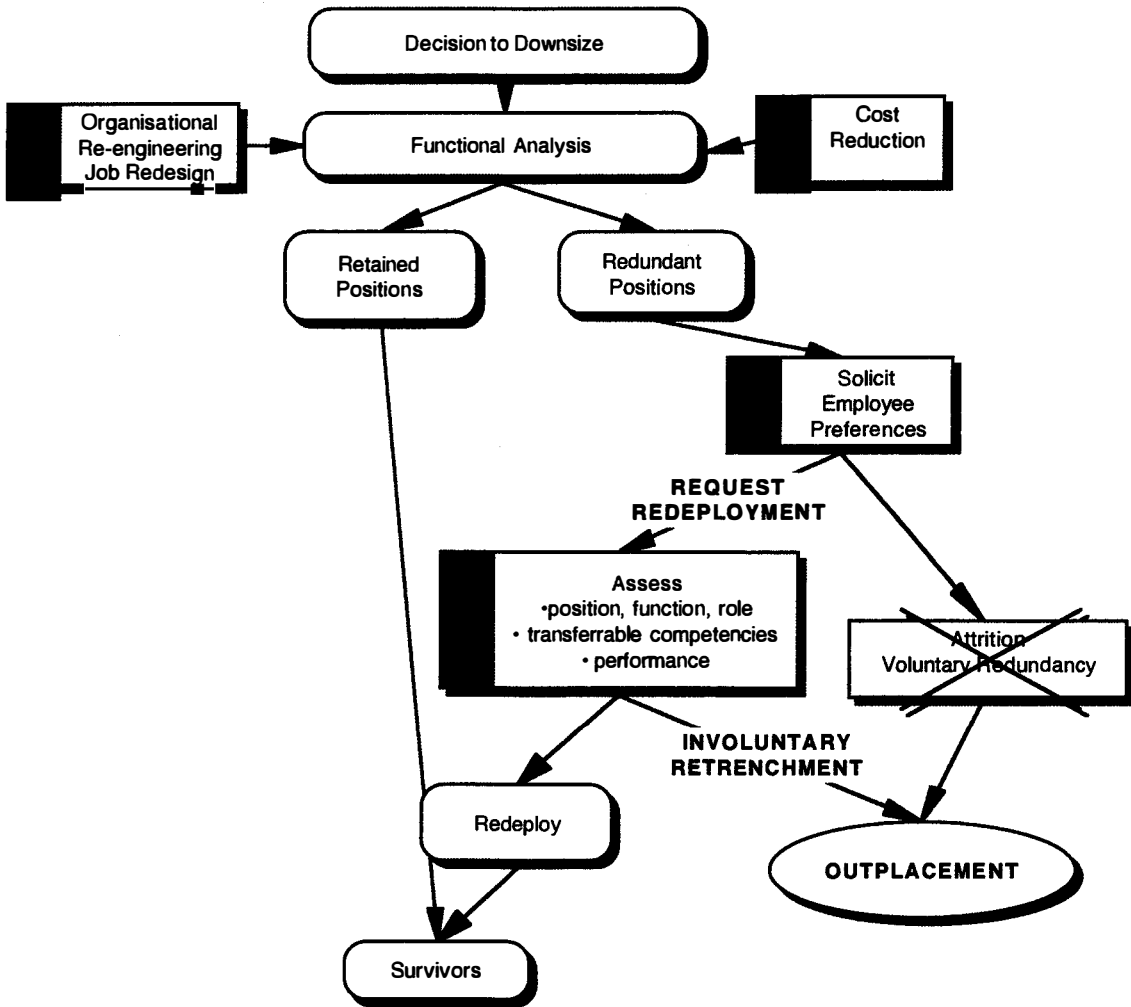
FIGURE 4.5
ORGANISATION D

4.3.5 Organisation E

Downsizing catalyst

Organisation E was restructured as a result of political and budgetary pressures at both the Federal and State levels of government. Prior to the restructuring, there had been a sense of urgency to implement government reform. This resulted in the determination by state government that the agency should be privatized, and that the new organisational structure should be smaller and more cost effective. As outlined by the interviewee,

> The company is autonomous at the present time but all of the overall restructuring decisions were made by the WA government. Implementation of these decisions was to be carried out by the company. (Interviewee, Organisation E)

Downsizing goals

The overriding goal of the organisational restructuring of Organisation E was to enable the organisation to operate within a fixed, shrinking budget. This translated into a need for the organisation to become more efficient in operation. Thus the ultimate aim of the restructuring was cost reduction, the success of which would be measured quantitatively by whether or not the targeted cost reduction figures were achieved. As an added burden, the restructuring had to be accomplished within a short period of time, as stated by the respondent:

There was a tremendous amount of pressure from the state government to reorganise the company within a fixed, limited time span. Not much time was provided for implementing the restructuring. (Interviewee, Organisation E)

Downsizing targets

The targets of the downsizing were to be those services that could be outsourced to the private sector. In order to achieve this, the organisation's functions were analysed and the services provided by the organisation were compared to those that could be provided by the private sector in a process of analysis known as a 'management buyout'. The analysis therefore was a form of benchmarking in that the private sector set the needed standard of relative cost savings needed in order for the privatised organisation to be competitive. As a result of the analysis, it was determined that operational functions (such as planning and operations) were to be considered as core services and were retained. Some support and administrative functions (administrative record keeping, security, information systems) were outsourced.

Employee selection strategies

Under public sector awards in Western Australia, employees cannot be involuntarily retrenched. Thus the organisation must provide either alternate employment or else the employee must voluntarily leave the organisation (i.e.,

resign). As a result of these guidelines, Organisation E used attrition as its primary downsizing strategy. The next most used strategies were voluntary redundancy (with a redundancy package) and voluntary redundancy with job placement in the private sector. In some cases, employees went into a 'pool of redundant employees' and became eligible for lateral transfer to other public sector. In some instances this resulted in inefficiencies in employee utilisation, as workers who had been made redundant were paid although not actually in work.

Employee selection process

Selection of employees in Organisation E was for either retention in the retained position or for placement in the 'redundant employee pool'. Organisation E utilised different means of selection, depending on the level of the position within the organisation. At the lower levels, a process of "like to like" matching was used, in which an employee's competencies were measured against the requirements of the position. If there was a close match, the employee was retained. If not, the employee was either placed in the 'redundant pool' . These workers could be transferred laterally to a position with similar requirements, could opt for resignation, or could be placed in similar positions in the private sector.

For upper levels of management, other supervisors, colleagues, and subordinates were asked to provide 'referee checks' of the manager, as a form of a

subjective 360 degree feedback evaluation process. The options available to the higher managers were similar to those of lower levels: retention in the position or selection for the 'redundancy pool'. In general then, the process consisted of (1) analyse the position and determine key services and functions, (2) evaluate employee competencies (in the case of employees) or assess manager reference checks (in the case of managers), (3) compare competencies and reference checks to the 'new' job, (4) select the employee for the new position or place the employee in the 'redundancy pool'.

Outcomes

From the perspective of Organisation E, the downsizing was successful in that the cost reduction goals of the restructuring were achieved. There was some guidance from state government on the required structure and size of the new organisation and the organisation felt that these goals were also attained. The respondent suggested that the downsizing process could have been more effectively managed had more time been available for planning and implementation. The organisation underwent several simultaneous change processes, including organisational restructuring, downsizing, and a transition from the public to private sector. The limited amount of time set aside by state government (24 months) left little room for long range planning or strategic scanning.

Loss of key employees

At the outset of the restructuring process, it had not been anticipated that ".... [it would be] difficult to retain some of the high calibre senior 'doers and planners'" (Interviewee, Organisation E). Several of the firm's high performing managers left the organisation, taking with them an attractive redundancy package, knowing that they could find worthwhile jobs elsewhere. The result was a loss of several high performing managers at a detriment to the agency.

Public sector organisations have limitations on the employee selection strategies which can be used. Retrenchment, for example, is not as viable an option for the public sector as it might be for the private sector. However, there is some variance in how employees may be selected for retention or placement in the redundancy pool. In the case of Organisation E, selection was on the basis of competency, performance, and peer review.

The targets and goals of the restructuring were driven by cost reduction. Also in this case, much of the strategic planning and goal direction were actually directed by the state government. This meant that the organisation was handed a desired set of cost figures and an organisational structure and was told it had to somehow achieve these aims.

The process model for Organisation E is shown as Figure 4.6.
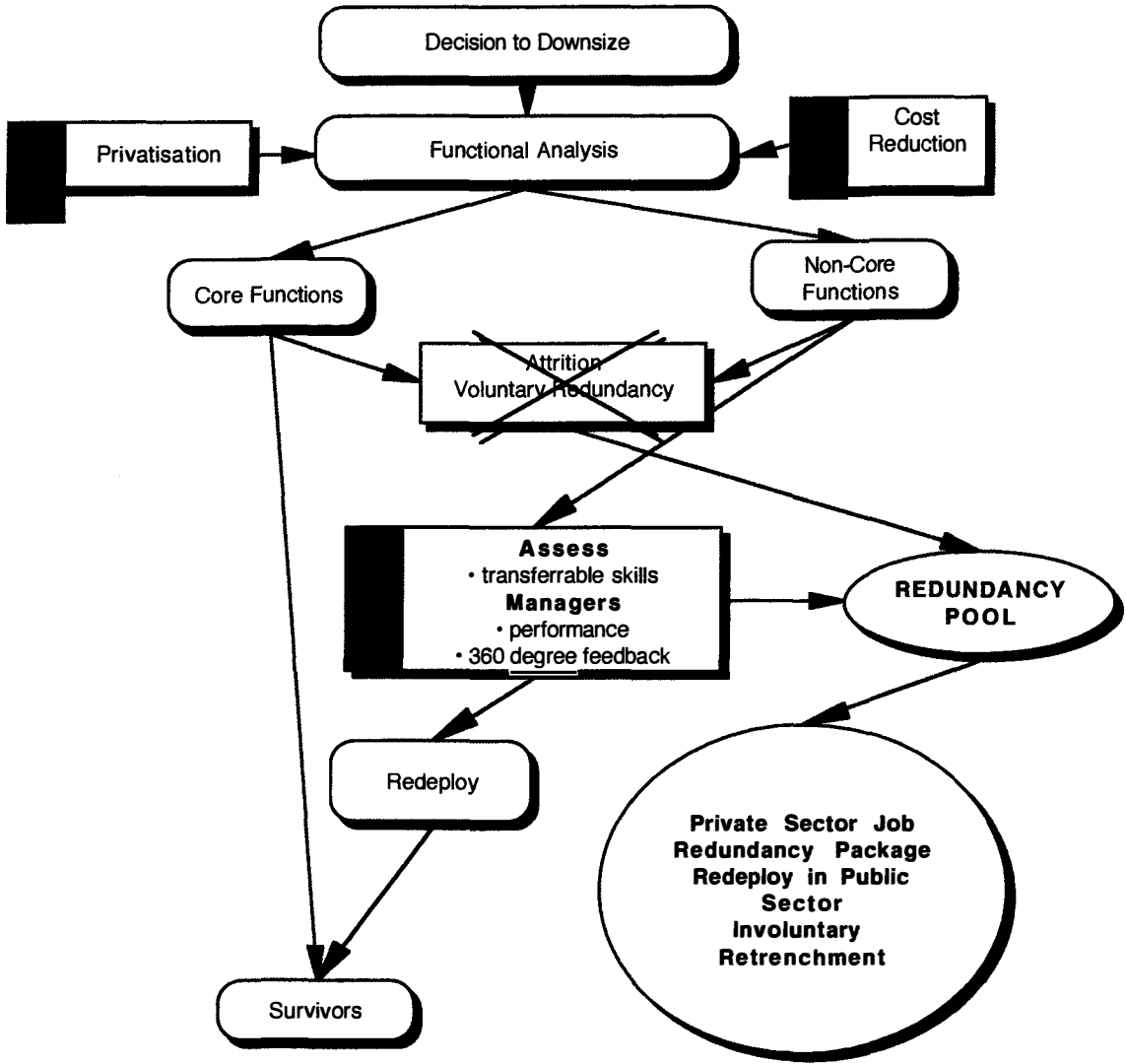
FIGURE 4.6
ORGANISATION E

4.3.6 Organisation F

Downsizing catalyst

As was the case for Organisation E, the primary driving force leading to the restructuring of Organisation F was a shift in government policy. In this case, however, the policy change totally revamped the organisation's role within the state government. Many of the agency's maintenance, construction, and direct labour requirements were deleted, resulting in a shift in emphasis to contract letting and maintenance, and provision of advice to government and other agencies. The organisation has become a "contracting agency", tasked with the assignment of letting and managing contracts for goods, services and building. In addition the organisation provides advice on asset planning to the state government and other agencies. Much of the impetus for the specific structure and makeup of the agency has been based on benchmarking other, like, organisations, notably South Australia. As described by the interviewee, the revamped agency was now

> ... a combined organisation. We were 2 separate organisations until 1 Jul. They've just combined the two agencies into one and there've been some functional changes as a result of that. One of the organisations was quite small, so you might describe it as a "takeover". The new organisation is actually a bit different to both of the original organisations. (Interviewee, Organisation F)

Downsizing goals

The emphasis of the restructuring effort was on achieving staff reduction targets and cost reduction rather than on the determination of which key employees should be retained. As a result of this, the organisation underwent an eighty two percent reduction in workforce. As explained by the respondent,

> We see restructuring as a constant activity. What we talk about is alignment, trying to get increasing alignment between our workforce and our role. (Interviewee, Organisation F)

Downsizing targets

With the elimination of a wide range of roles and functions came a resulting deletion of the positions that serviced those roles. The result was a larger number of employees than positions, so the next stage in downsizing was to determine which of the employees should be retained and which should be transferred.

Employee selection strategies

Because of the legislative arrangements concerning public sector retrenchment, the organisation could not utilise involuntary severance as a means of reducing staff levels. The options available were voluntary severance, willful dismissal (on the basis of non-performance), early retirement, or transferal to

another agency. Voluntary severance became an attractive option for many employees to the point that some key workers were lost to the organisation. From that perspective, the selection of candidates for severance was beyond the control of the organisation. For those employees whose positions had been made redundant, the agency was mandated by legislation to provide secure employment elsewhere or to provide a transition to the private sector organisation which had picked up that particular role. Organisation F utilised attrition, voluntary redundancy (including voluntary retirement), and transfer to other public service agencies and/or to the private sector. In the later stages of restructuring, there seems to have been a playing off by the organisation of severance (as an attractive reward) and reemployment in the government or private sector. Some employees who later requested severance were denied this request, because "severance is not there as the alternative to the private sector". As a counter to the attractiveness of severance packages, the organisation provided a series of two workplace agreements. The purpose of this was to trade increases in pay for employee commitment to the organisation.

There is some evidence of the severance package being viewed as a reward, and in some cases, more employees elected for severance than were deemed viable for the functional operation of the organisation. Selection of employees for retention or severance was a subjective decision process with no formal criteria framework in place. As described by the respondents, specific employees were transferred because of "some kind of peer assessment". In many

cases, "you made these decisions on the run". Employees were selected for transfer if they demonstrated a high incidence of sick leave, were involved in "lots of (industrial relation) agitation", "didn't work as part of the team" and just "sort of demonstrated commitment to the organisation." (Interviewee, Organisation F).

Because more employees requested severance than could be released by the organisation, it was felt that the determination of who should stay or go had been simplified by having a qualified pool of employees still willing to remain. Organisation F therefore had no formal system of performance assessment for objectively determining which employees were high performers.

> The government does not allow involuntary severance. On the other hand we had willful dismissals of people [on the basis of] nonperformance or non-support for rehabilitation programs. There were people in construction who were really not cooperating with a sensible rehabilitation project, sitting at home, not cooperating, not being retrained, not being redeployed in order to maximise [their] payouts. It's involuntary severance, but it was not related to the work, it was related to "we're changing" and people need to work with the change and these people weren't. (Interviewee, Organisation F)

Employee selection process

The selection process, as in Organisation E, was determined by redundancy of job position. Employees whose jobs had been made redundant were no longer needed in the agency, and in the interest of staff reduction, were either asked to take voluntary redundancy, were transferred to other public sector organisations, retired, or were assimilated into the private sector workforce.

Outcomes

The organisation felt that the restructuring process was successful. This success was determined by whether or not "the government was happy" with the outcomes which in turn was predicated on attainment of the new organisational structure and the satisfactory placement of all redundant employees. The indicators of this were the fact that cost reduction and staff reduction targets were met, customer satisfaction was maintained, worker's compensation was held at the same level, and rates of absenteeism were held at the same proportion.

Loss of key employees

The interviewees suggested that there were few employees who left the organisation that the agency would rather have retained. This was so because of the high degree of pressure to meet staff reduction targets and because of the transformation of the organisation to a totally different focus. As explained by the respondent,

> There are some groups that have highly transferable skills, project services, for example. There's a readymade market out there for our architects and engineers who want to go into a consulting role. If you're talking about people who you want to stay in for the long haul, I wouldn't say we've lost too many. (Interviewee, Organisation F)

The organisation surmised that the restructuring process could have been more effectively implemented had there been the option of involuntary severance. Because of the government policy in place at the time, employees who in retrospect should have been retrenched were merely shifted from job to job. The use of attractive severance packages, in some cases, resulted in high performers leaving the organisation to seek better jobs elsewhere, and the retention of some employees who the organisation would have preferred to have left. The process model for Organisation F is shown as Figure 4.7.
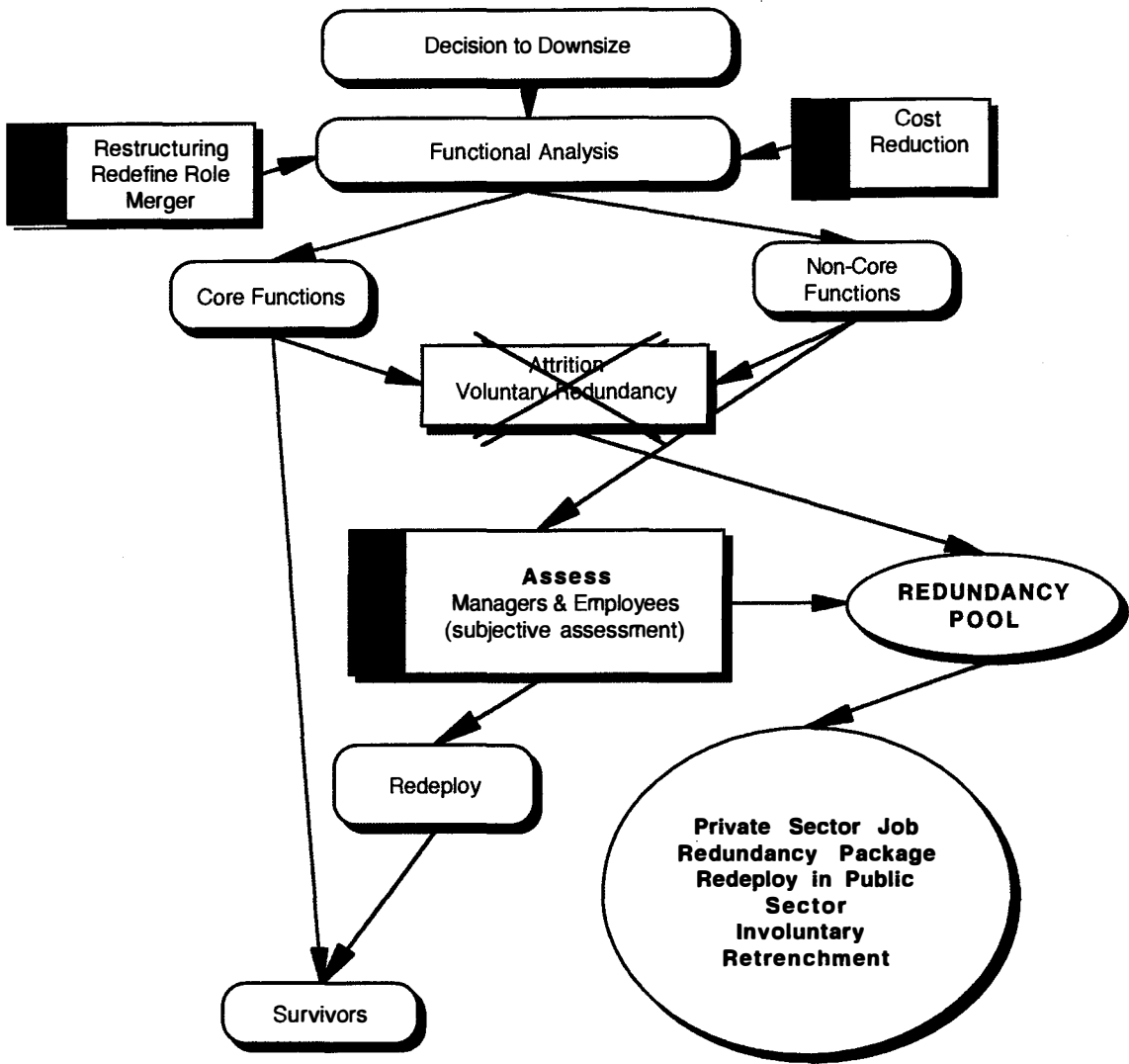
FIGURE 4.7
ORGANISATION F

4.3.7 Organisation G

Downsizing catalyst

The need to restructure was precipitated by a deregulation of the industry

resulting in the need to compete with other Australian telecommunications

providers, and by a government requirement to privatise the organisation. As a

result of these pressures, the company felt that it needed to develop a more

competitive position in the industry. As suggested by the respondent,

> ... with the government being the owner of the organisation that some of the microeconomic reforms drove the deregulation and the changes from within were pretty much reactive to that and the market changes. [The underlying reason for restructuring] basically it has been due to competition. [A competitor] came on the market a couple of years ago. We've known that deregulation has been occurring for a long time. Basically all has been in preparation for competition and to be ready for the inevitable market loss. The current amount of restructure is to do with deregulation of the market in 97 where lots of other entrants will come into the market as well as preparing for the partial sell-off. But we are saying that the official line on that is that deregulation is the big driver regardless of the partial privatisation we would still have to go through the cost reductions.(Interviewee, Organisation G)

Downsizing goals

The overall objective of the restructuring was to come up with a better,

more effective organisation. This could be achieved by a lower cost structure, the

framework for which was developed by benchmarking other best practice communications providers. As explained by the respondent:

> Indicators like the number of lines of service provided, the number of supervisors to frontline employees, service provided, and across the board costs (are benchmarks for) best practice. (Interviewee, Organisation G)

Downsizing targets

With business effectiveness as the focus of attention, the organisation subdivided the regional operations of the business into small business units and shared resource units. These units all had within them their own management systems, financial and administration units, and human resource management cells. This phase of the restructuring initially resulted in a small degree of delayering, but as time went on, the business units began to operate as twenty-two separate businesses. Eventually layers of structure were added at the small business level as local managers began to indulge in 'empire building'. Costs began to increase with little additional adding of value, which led to a second restructuring. The business unit structure was retained but non-core functions were eliminated or outsourced. The eliminated functions at this stage of the restructuring were focused on trades areas such as carpenters, metal workers, and motor mechanics.

Organisation G is presently undergoing a "recentralising" of its business units. Many policies and functions will be centrally managed from the head office, with 9 regional managers providing management process and human resource management functions.

Employee selection strategies

The employee selection strategies used by Organisation G evolved over time. Initially, the organisation operated in conjunction with a Commonwealth Government Redundancy Agreement, which was primarily oriented toward voluntary redundancy provisions. These arrangements proved cumbersome and difficult to manage over the short term, so Organisation G was allowed to develop its own redundancy agreement which allowed for involuntary retrenchment. One of the problems of this new arrangement was the fact that it had the effect of "deskilling the organisation". Employees targeted for retrenchment could laterally transfer to other positions, but there were no provisions in the agreement to match employee skills to job requirements.

Employee selection process

The decision of retrenchment or retention of employees in positions that had been made redundant was left to the line managers. These supervisors did not

always have the planning information needed to make them aware of future skills requirements. As a result, many skills were lost which, in retrospect, should have been retained.

Another problem was the fact that the planning directives provided to line managers seemed to indicate a strong need to reduce the numbers of employees, rather than retain sets of key skills. The result was in the organisation's haste to meet staff reduction quotas, it lost many key employees.

A third problem was the fact that some of the high performers elected to take voluntary redundancy in the knowledge that they could find attractive jobs elsewhere. This resulted from the overlooking of performance as a key means of identifying which employees should stay or leave. One of the Outcomes of this process was the external recruitment, after only two or three months, of the same kinds of employees who had just been retrenched.

> There wasn't any targeting of jobs against poor performers and when the voluntary redundancy process was begun a lot of people who were interested in voluntary redundancy had the skills that were required [for their job] but elected for redundancy because they felt they were employable on the external market. (Interviewee, Organisation G)

Outcomes

Organisation G decided that the restructuring was successful, but that some issues could have been managed better. The restructuring resulted in the removal of a targeted proportion of staff, which from the standpoint of the organisation's strategic planners, meant that the downsizing was a success. The restructuring could have been better managed from the perspective of key skills losses, however. One improvement would have been to provide line managers with the decision-making information necessary to better understand the rationale of the restructuring, rather than providing rough number quotas for cost reduction. As explained by the respondent,

> We started to list technical skills of employees who were taking redundancy and we were watching the internal labour market. In a number of instances we made redundant 40 or 50 technicians in a certain part of the organisation and two or three months later we were recruiting externally for the same type of people. (Interviewee, Organisation G)

Other indicators of the success of the restructuring, such as productivity and profits were positive. The respondent felt that there still existed some problems with customer service, but it was unclear whether or not this was a result of the restructuring.

Loss of key employees

The respondent stated that Organisation G had lost some of its employees that, retrospect, it would rather have retained. As explained by the interviewee,

Some of the business units did surveys to see how many people would be interested in voluntary redundancy and it became a part of the culture of the organisation that if your job became surplus that you had a right to voluntary redundancy even though the agreement didn't read as such. So there was some fairly significant skill loss and at the time it looked as if we could afford to lose those people but we had growth in the amount of work, market growth and there was certainly some instances where we could ill afford to lose people we did. As far as people that weren't performing there wasn't any targeting of jobs against poor performers and when the voluntary redundancy process was implemented, we lost both poor and good performers. It seems to indicate that a lot of people who were interested in voluntary redundancy had the skills that were required and they were interested because they felt they were employable on the external market. (Interviewee, Organisation G)

The process model for Organisation G is shown as Figure 4.8.
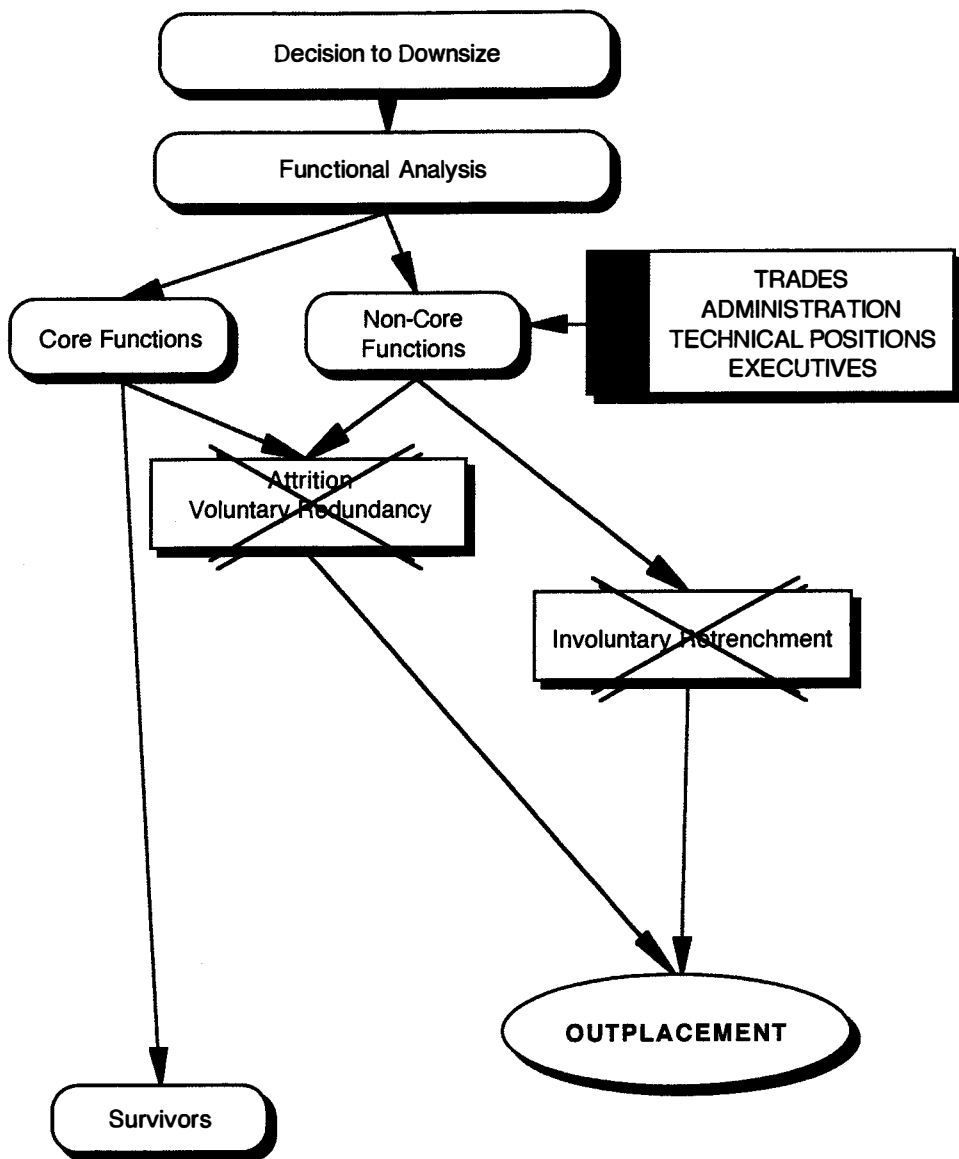
FIGURE 4.8
ORGANISATION G

4.4 Summary of Findings

The case studies outlined in this chapter provide insight into the organisational context of the downsizing process. The summarised results of each site are shown at Appendix M, which provides a summed index matrix for cross-case analysis. The case studies provided a rich contextual framework for development of the survey instrument, and these issues are discussed in more detail below.

4.4.1 Downsizing Catalyst

The event that precipitated the downsizing process varied across the organisations. For one of the financial institutions, the catalyst was a result of environmental scanning, in which the bank decided it necessary to better its competitive position through improved efficiencies. The other financial institution restructured because of a takeover from a larger company, with the resultant duplication of services providing an incentive to eliminate branches and administrative functions. The public sector organisations restructured because of changes in government policy, because of a need to privatise, or as a result in a change in the overall focus of the agency. For the mining companies, the driving force behind the downsizing was a need to improve the firm's financial position. Each of these various driving forces would in turn influence the organisation's strategic planning process and would therefore affect the way in which the organisations downsized. This in turn would influence the selection process of employees

for retrenchment and might also affect whether or not key workers were lost. For these reasons it was decided to incorporate these issues into the survey measurement.

4.4.2 Downsizing Goals

In all instances, the driving, underlying goal of the organisation's downsizing effort was cost reduction. This was moderated, in the case of public sector companies, by the requirement to conform to governmental directives. In some cases, organisations attempted to realise higher levels of efficiency, which meant that cost reductions were required, but that organisational output was to be maintained or improved. If the goal of cost reduction was invariate across organisations, the means whereby these reductions were to be realised, the targets of the downsizing, demonstrated a range of differing interventions. Because this variance of goals across organisations would influence the selection process and thus the loss and retention of key workers, these issues were incorporated into the survey instrument.

4.4.3 Downsizing Targets

Organisations evidenced several different methodologies for achieving their downsizing goals. These included organisation-wide cuts, elimination of non-core functions, elimination of duplication, job redesign, delayering, elimination of specific lines of work, and a re-engineering of the organisation to achieve an entirely different focus of effort. These processes can be categorised as across-the-board cuts,

restructuring, and re-engineering. Each targeting method has implications for how employees are selected for retrenchment or retention. Organisations might use one, two, or even all three methods in an iterative process.

Targeting restructuring

Organisations that focused on restructuring targeted the elimination of jobs. This could occur through the elimination of non-core functions, elimination of layers (delayering), the elimination of duplicated functions (such as multiple support functions or through the merger of two companies), or through the elimination of specific lines of work. Employee selection in these instances might be because of position, in that all workers in those particular lines of work were made redundant because the jobs were redundant. Another means of selecting employees might take into account the need to retain key skills, in which case employees underwent some form of assessment (such as performance or competency) and were redeployed to other, similar jobs elsewhere in the company.

Targeting re-engineering

For organisations undergoing re-engineering, downsizing was based on not only the elimination of some jobs, but also the creation of new, entirely different ones. An example of this might be the shift in organisational focus from the

management of construction to the management of contracts. Selection of employees for retrenchment or retention in these instances often involved some sort of assessment on the basis of performance or competency. In some cases, several employees would "compete" for similar positions, a process similar to that of employee selection of new candidates for a vacant position.

The literature provided some evidence that the target of the downsizing influenced the performance of the organisation. The literature also indicates that some of the targets, such as delayering, are desirable methods of eliminating excess levels in the chain of communications, thus improving the movement of knowledge through the organisation. Because these targeting processes might affect the loss and retention of key employees, and because of the possible follow-on effect on organisational performance, this information was included in the survey instrument.

4.4.4 Selection Strategies

Organisations demonstrated several methods of reducing staff numbers. These included attrition, voluntary redundancy, and involuntary retrenchment. Both voluntary redundancy and involuntary retrenchment were enhanced by the use of incentives, or attractive financial packages. One of the problems inherent in the use of redundancy incentives can be "de-skilling" which can occur if workers who have needed abilities decide to take the package and leave. This effect was documented in several

organisations in this study. In one organisation, redundancy incentives were "scaled", in that the retrenchment package was of much higher value than the redundancy package. The underlying strategy in this instance was to avoid the perception of rewarding employees for voluntarily leaving the organisation. It was decided to incorporate

4.4.5 Selection Processes

The organisations in this study showed a range of methods in how they chose employees for retrenchment or retention. The three primary methods of selection that were found consisted of across-the board cuts, selection by position (redundancy), selection on the basis of employee assessment, and an iterative process which subjected the survivors of the first round of restructuring to a second round of assessment.

Across-the-board cuts

In the case of across-the-board cuts the organisation arbitrarily axed a proportionate number of staff.

Selection by position

In selection by position, employees were made redundant by virtue of the fact that their jobs had been made redundant. A good example of this was Organisation B, in which employees residing in redundant positions were shed

from the workforce, regardless of any other key skills, performance levels, or experience.

Selection by assessment

Selection by employee assessment utilised evaluation criteria such as performance or competency. Generally these positions were "new" jobs in that the organisation had reoriented its primary focus and was staffing a "new organisation". In one instance, selection for retrenchment was on the basis of union activism.

The employee selection process became iterative when the survivors of the first round of downsizing found themselves in positions in which there were more employees than jobs. A second round of selection would then occur in which these workers competed for the remaining positions and were assessed on the basis of experience, competency, or performance. Another way in which iterative selection occurred was in the case of employees who had been classified as redundant, but who had useful skills and competencies. These workers were evaluated for redeployment to other, similar jobs on the basis of "job - skills matching".

4.4.6 Outcomes

It is probably not too surprising that all of the organisations proclaimed they had achieved their downsizing goals. However there was a wide variation of desired outcomes, as for example achievement of cost reduction targets, achievement of desired numbers of staff reduction, and "the state government was happy with the outcome". In one case, the organisation admitted that although the manpower requirements of the restructuring were attained, the restructuring was not successful from the standpoint of the organisation's realisation of its business objectives. Business had fallen off because of a plummet in customer satisfaction. It was concluded from this that although the ultimate goal of restructuring might be to improve financial returns, the means for achieving this was situational and varied widely from organisation to organisation. It was therefore decided that the survey instrument should measure the effect of a wide range of desired downsizing outcomes on loss and retention of key workers and organisational performance.

All of the cases in this sample had either lost employees or managers who the organisation would rather have retained, had lost important skills or competencies that were deemed necessary for organisational performance, had lost employees who were then required when the organisation began to expand, or had lost key employees who were then re-hired in the same roles as before, but as consultants. The fact that all of the case study organisations evidenced loss of key workers provided confirmation that this might indeed be a major issue.

Two of the private sector companies and a partially-privatised government utility organisation retained the services of consulting firms in order to provide expertise and advice in strategic planning for downsizing. It is not clear at this stage just what impact this had on the process, but two of the organisations utilised the same firm. The consultancy advocated use of the same analysis process for both of these firms in determining the goals of the restructuring and the targets for downsizing. Additionally, the strategic planning systems installed by the consultants were retained by both organisations and were used in subsequent restructurings. Over time these auditing processes became warning systems during a series of recurring periods of expansion and contraction. For these organisations, there was a great deal of pressure to downsize in a way that emphasised the reduction of costs as the primary strategy for restructuring. It could be argued that certain styles of strategic planning and restructuring are a direct result of use of the same consultancies. Morris (2000) for example, argues that "…. interventions made by consulting firms are usually based on a generalized and over-rationalistic set of assumptions about how organizations work contained in consultants' knowledge bases" (p. 125). It could be inferred, perhaps, that use of consultants to develop strategic planning for a downsizing organisation might result in a highly structured, highly formatted, stereotypical approach to restructuring. There is the potential for a' one size fits all' approach to strategic planning that does not take into account the differences in various organisations, the situational influences of the organisation's environment, and most importantly a consideration of the importance of key employees to the performance of the organisation.

As a result of these findings, it was decided to further investigate this issue to determine if this affected the loss and retention of key workers in downsizing organisations. Thus, this area of investigation was incorporated into the survey instrument.

The sector of operation of the case study organisations, whether public or private, moderated the range of allowable selection strategies. In the public sector, for example, the nature of the awards structure and the legal framework make it almost impossible to use involuntary retrenchment as a selection strategy. Employees in the public sector must can be laterally transferred to an equivalent job, can be placed in an equivalent job in the private sector, or can elect for voluntary redundancy, but in most cases retrenchment of a given employee is not a viable option. Because of these legal constraints, it was thought that the survey instrument should have a means of taking into account whether or not the organisation operated in the public or private sector and investigate whether or not this affected loss and retention of key employees.

There were variations in the choice and operation of the selection systems used for determining retrenchment or retention of managers and employees. In some cases this was related to the fact that the organisation's performance appraisal system was only utilised for supervisory positions. In other instances, the lower skill levels of employees, as compared to managers, led to a willingness by the organisation to take less care in evaluating the relative worth of employees. These organisations used a double standard in the selection process: one for managers, and a different one for employees. It was

therefore decided that the survey instrument should measure the effect of loss of both managers and employees on organisational performance. This also suggested that the effect of the selection process should be examined for both managers and employees, rather than just one or the other.

Several organisations were very mindful of the industrial relations implications of retrenchment, and in some cases this influenced both the downsizing strategy and the selection process. In one case, evidence of industrial relations activity became one of the criteria which used as justification for retrenchment. The organisation in this case retrenched a large number of employees, some of whom were known to be high performers, in order to ensure that workers who had been involved in industrial relations activity would be sacked along with the larger group. These findings suggested that the survey instrument should examine use of union activism as a selection criterion in downsizing organisations, and that the effect of use of this criterion on loss and retention of key workers and managers should be evaluated.

The process of selection that was observed in the case study organisations was much more complex than that evidenced in the literature. Several organisations, for example, used an iterative process of selection. In at least one case, the first round of restructuring resulted in employees who were retained on the basis of position: they held jobs that the organisation had determined should be retained. In a second round of restructuring, those employees who were in redundant positions were assessed on the basis of performance and competency and were offered the option of lateral transfer to a

similar job. Based on these findings, it was decided that the survey instrument should incorporate measurement processes that enabled a closer examination of iterative, rather than one-time selection processes.

One case study organisation seemed to follow all of what the literature had described as "downsizing best practice". However the firm reported that the restructuring was not successful as assessed on the basis of organisational performance and customer satisfaction. The firm had not focused on the key issues of accounts management and a stable transferal of computer information between branches. This points out the importance of not losing sight of the business issues which are the keys to an organisation's competitive posture. Although this was a key issue in regard to this particular firm, the findings of this were not incorporated into the survey instrument as it relates more directly to good business planning than downsizing best practice.

4.5 Summary

This chapter has outlined the analysis of data resulting from the case study phase of the research study. The data provide several issues for use in the survey phase of the study, including the fact that the selection process varied within and between organisations, the use of consultants may have influenced the strategic planning process in the downsizing organisation, and the fact that each of the organisations measured success or failure of the downsizing process in a different way.

CHAPTER 5

ORGANISATIONAL PERFORMANCE AND LOSS OF KEY EMPLOYEES

5.1 Introduction

This chapter presents the findings of the survey and discusses the more important conclusions resulting from the analysis. The chapter begins with an examination of the characteristics of the respondent organisations followed by a discussion of the organisational and employee performance outcomes that resulted from the downsizing. The next part of the chapter examines the relationship between loss and retention of key workers and organisational performance. The relationship between the selection process and loss of key employees is next examined, followed by analysis of the factors that contribute to loss and retention of key employees and managers. It is found that several variables affect this outcome, including the selection process.

The sampling frame for the survey was the Kompass Australia data base for 1999 which consisted of 26,000 businesses. The companies in this data base included a wide cross section of firms across the entire country, in both the private and public sector. A random sample of these listings resulted in a data base of 1860 organisations which then made up the mailing list for the survey. There were 422 valid responses to the mailout,

for a response rate of 23%. Of these, 304 organisations had actually downsized, and it was this group of respondents that became the subject of data analysis. This was so because the non-downsizing respondents were not relevant to this research and were therefore eliminated from further analysis.

Descriptive statistics were used to analyse the demographic information in the survey. This provided a better understanding of the characteristics of the respondent firms. The next stage of the analysis focused on providing information on the organisational performance of the respondents as a result of downsizing. This was attained through use of factor analysis which was used to simplify the variables measuring organisational performance. The two factors resulting from this analysis were then used to classify the respondent organisations according to performance outcomes with cluster analysis. Multiple discriminant analysis then examined the association between loss and retention of key workers and organisational performance. The information resulting from this stage of the analysis was then, in turn, used to examine whether or not there was a relationship between the downsizing process and loss and retention of key workers. The results of the analysis are explained in detail below, beginning with a discussion of the characteristics of the respondent organisations.

5.2 Characteristics of the Organisations

This section examines the demographic characteristics of the respondent organisations in order to provide a better understanding of the contextual issues of

the research. As stated previously, of the total number of respondents some 72%
of the organisations had downsized, and of these, 83% stated that they would do
so again in the near future

5.2.1 Type of organisation

As can be seen in Table 5.1, most of the respondent organisations were involved
in the manufacturing industry, comprising some 171 of the respondents, or 40.5% of the
companies. The other respondent companies included finance or insurance (33 companies
for 7.8%), mining (28 companies for 6.6%), construction (25 companies for 5.9%), and
transport or storage (22 companies for 5.2%). The representation of type of company for
the sample in this study closely matched that of the overall population, with the exception
of manufacturing companies, which were over-represented (ABS, 2001a).

TABLE 5.1
TYPE OF ORGANISATION

Type of Organisation	Number of Companies	Proportion of Total (%)
Mining	28	6.6
Electricity, gas, water supply	9	2.1
Retail trade	18	4.3
Accommodation, restaurant & cafe	4	0.9
Government administration or defence	18	4.3
Manufacturing	171	40.5
Transport or storage	22	5.2
Education	18	4.3
Forestry or fishing	3	0.7
Wholesale trade	20	4.7
Finance or insurance	33	7.8
Property and business services	17	4.0
Cultural	2	0.5
Construction	25	5.9
Communication/information technology	15	3.6
Health and community services	18	4.3

5.2.2 Other organisational characteristics

As shown in Table 5.2, the majority of organisations in the sample (about 70%)

had a workforce numbering between 250 to 3000 employees. This closely matches the

demographics of Australian companies in the overall population (ABS, 2001b).

TABLE 5.2
SIZE OF ORGANISATION

Number of Employees	Frequency	Proportion of Total (%)
50 or fewer	10	2.4
51 to 100	8	1.9
101 to 250	53	12.6
251 to 500	109	25.8
501 to 1,000	83	19.7
1,001 to 3,000	102	24.2
3,001 to 5,000	26	6.2
5,001 to 10,000	19	4.5
More than 10,000	12	2.8

Table 5.3 shows that about 58% of the respondents reported levels of unionisation

of less than 50% and about 42% stated that they had more than 50% unionisation. This

compares with overall union membership nationwide of approximately 28% in 1999

(ACTU, 2001). The degree of union membership also varies from industry to industry,

with high levels of membership in construction and mining industries, and low

membership in many of the professional and traditionally white-collar industries (ACTU,

2001).

TABLE 5.3
DEGREE OF UNIONISATION

Degree of unionisation	No. of respondents	Proportion (%)
50% or less	167	58.4
More than 50%	119	41.6
Total	286	100

Table 5.4 shows the depth of retrenchment in the respondent organisations, with most of the organisations (some 53%) retrenching from five to twenty-five per cent of their staff as a result of the downsizing process but only 8.3% retrenching more than 30% of their staff. Other Australian research studies suggest a similar result, as for example Littler (1998).

TABLE 5.4
DEPTH OF REDUCTION OF STAFF

Proportion of staff lost	No. of companies	Proportion of total no. (%)
Less than 5%	59	19.9
5 to 9%	60	20.3
10 to 14%	48	16.2
15 to 19%	25	8.4
20 to 24%	28	9.5
25 to 30%	41	13.9
More than 30%	35	11.8
Total	296	100

Table 5.5 shows the degree of use of alternatives to downsizing by the respondent organisations. This was measured because of the possible effect that use of downsizing alternatives might have on the loss and retention of key managers or key employees.

TABLE 5.5
USE OF ALTERNATIVES TO DOWNSIZING

Variable	Response	Frequency	Proportion (%)
Use of job sharing	Yes	183	43.4
	No	239	56.6
Freeze in hiring	Yes	205	48.6
	No	217	51.4
Reductions in pay	Yes	26	6.1
	No	396	93.9
Transfer to lower paying jobs	Yes	51	12.1
	No	371	87.9
Reduction in overtime allowed	Yes	215	50.9
	No	207	49.1
Freeze in pay rises	Yes	101	23.9
	No	321	76.1
Use of job design	Yes	291	69.0
	No	131	31.0

It can be seen from Table 5.5 that nearly three-quarters of the organisations made use of job design, about half of the organisations suspended recruitment and selection during the downsizing process, about half reduced the amount of allowable overtime, around half used job sharing, and almost none of the respondent firms reduced employee pay, froze pay rises, or transferred employees to lower paying jobs.

Finally, in response to the question of whether or not organisations had lost key employees or key managers during the downsizing process, 57.9% of the firms said that they had lost key employees, and 43.4% said they had lost key managers.

5.3 Research Issues

This study was interested in examining two research issues. First, how does the loss and retention of key workers influence organisational performance in downsizing organisations and second, how does the employee selection process affect retention or loss of key workers? In order to examine the relationship between loss of key workers and organisational performance, it was first necessary to develop a methodology to enable measurement of organisational performance. Once this had been achieved, organisations were classified according to organisational performance.

5.3.1 Organisational and employee performance

Classifying and measuring organisational performance

The purpose of the initial stage of analysis was to develop a classification system for organisational performance outcomes. As outlined in chapter 3, performance had been measured through eight Likert scale questions that examined productivity, share price, profit, employee morale, job satisfaction, employee commitment to the organisation, turnover, and employee motivation. Respondents were asked to assess the relative change in each of these variables

with 1 denoting that the criterion decreased greatly, 3 indicating no change, and 5 denoting that the element increased greatly.

The survey respondents themselves determined the degree and value of the organisational performance outcomes. There are both pros and cons for use of self-assessment as a research method and it is acknowledged that this is a limitation to the research. It could be argued, for example, that within each organisation the specific respondent not be the best qualified person to assess the relative value of these variables, and in fact might not even be in a position to know these values at all. It could also be argued that operationalising the performance through an index might provide a quantitative, more objective standard for assessing organisational performance. It could also be argued, however, that the organisation's senior HR manager should be one of the executives most closely involved with this information, and as a member of the organisation's strategic planning process, should be able to provide a valid assessment of the firm's performance. This is a point of view shared by a large number of other researchers and theoreticians (Bechet and Walker, 1993; Buller, 1988; Francis et al, 1992; Hendry and Pettigrew, 1990; Hitt et al, 1994; Labib and Appelbaum, 1993; Mathys and Burack, 1993; Schuler, 1992; Schuler and Walker, 1990).

In assessing these tradeoffs between indexing and self-reporting assessments, it was decided that incorporation of a performance index would have

over-complicated the survey and would thus have adversely affected the response rate. Therefore the determination was made to use a global self-assessment of organisational performance, thus assuming that the respondents would provide valid responses.

Factor analysis was used to determine whether or not the organisational performance variables were inter-related, and if so, whether these relationships could be re-defined as a smaller number of dimensions or factors (Hair et al, 1995). There is an ongoing argument in the literature concerning the most appropriate method of factor extraction (Coakes & Steed, 1999), but the method employed in this study was that of the *principal components* method. This method was chosen because as Hair et al (1995: 376) suggest,

> The component factor model is appropriate when the analyst is primarily concerned about prediction of the minimum number of factors needed to account for the maximum portion of the variance represented in the original set of variables, and when the factor analyst has prior knowledge suggesting that specific and error variance represent a relatively small proportion of the total variance.

The following constraints must be satisfied in order for the component factor model to be considered a valid analysis method:

(1) sample size - a minimum of 5 cases per variable is required. Additionally, a sample of 100 cases is acceptable but sample sizes of 200+ are preferable. In this

instance, the sample size was 304 cases using 8 variables for a ratio of cases to variables of 38:1. (Coakes & Steed, 1999; Hair et al, 1995)

(2) normality, homoscedasticity, and linearity - departures from these apply only to the extent that they diminish the observed correlations. Only normality is necessary if a statistical test is applied to the significance of the factors, but these tests are rarely used (Hair et al, 1995).

(3) multicollinearity and singularity - this assumption is not relevant for principal components factoring (PCF), which was the method used in this instance (Coakes & Steed, 1999).

(4) factorability of the correlation matrix - a correlation matrix that is appropriate for factor analysis will have several sizeable correlations. The assumptions that must be satisfied are:

- correlation matrix - should have several correlations in excess of 0.30

- measures of sampling adequacy (MSA) - displayed on the diagonal of the anti-image correlation matrix. It is recommended that these values be 0.60 or above (Coakes & Steed, 1999; Hair et al, 1995). Variables that fall below 0.50 should be excluded from the analysis.

• Bartlett's test of sphericity should be "large and significant" (Coakes &
Steed, 1999) and the Kaiser-Meyer-Olkin measure should be greater than
0.60. If these conditions are satisfied then factorability is assumed.

Two stages of factor analysis were performed. The first stage focused on
discovering the set of factors that could best describe the inter-relationships
between the variables. The second stage of the factor analysis was performed on
the data set resulting from the first stage, and the purpose of this was both to
confirm the validity of the initial run and also to create a variable set to be saved
for use in the later stages of cluster analysis.

In the first analysis run, the variables of productivity, share price, profit,
employee morale, job satisfaction, employee commitment to the organisation,
turnover, and employee motivation were examined for factorability. To test that
the constraints regarding sampling adequacy and factorability of the correlation
matrix had been satisfied, the correlation matrix, coefficients, KMO and Bartlett's
test of sphericity, and the anti-image matrix were developed and examined. Factor
extraction was based on the principal components method (PCM), and only
eigenvalues greater than 1.0 were retained. An un-rotated factor solution was
generated, together with a scree plot and varimax rotation. The analysis was based
on a maximum of 25 iterations for conversion, missing values were replaced with
means (in order to retain the maximum number of cases), and absolute values less
than 0.30 were suppressed. The anti-image covariance matrix and anti-image

correlation matrices are not shown here but are included as Matrix 1 and Matrix 2, respectively, in Appendix G.

The correlation matrix exhibited a significant number of correlations greater than 0.30, which confirmed that the matrix was suitable for factoring. The Bartlett test of sphericity was significant and the Kaiser-Meyer-Olkin measure of sampling adequacy was 0.86, which satisfies the requirement that the value be far greater than 0.6 (Coakes & Steede, 1999). These results are shown in Appendix H. The anti-image correlation matrix for measures of sampling adequacy (MSA) exhibited all values along the diagonal well above the acceptable value of 0.50. The communalities matrix reported a high level of communality except for the variable of productivity, which was 0.466. The total variance explained matrix, shown in Appendix I, showed that with three factors extracted, the solution could account for 73% of the total variance.

The component matrix, Table 5.6, below, shows the development of factors as the components are extracted during analysis. For this case, Factor 1 included productivity, profit, employee morale, job satisfaction, organisational commitment, and motivation. Factor 2 was made up of the variables of share price and profit. Factor 3 included single variable of turnover. Examination of the component matrix shown below in Table 5.6 shows the variable of profit interacting with both Factors 1 and 2, with a value of 0.404 against Factor 1 and 0.683 against Factor 2.

TABLE 5.6
FACTOR ANALYSIS
COMPONENT MATRIX[a]

	Component		
	1	2	3
productivity	0.656941		
share price		0.787459	
profit	0.403612	0.683461	
employee morale	0.861053		
job satisfaction	0.842393		
organisational commitment	0.850569		
motivation	0.852374		
turnover			0.930956

Extraction method: Principal Components Analysis (PCA)
a.   3 components extracted

Component rotation was performed in order to resolve the interaction of profit

with both Factors 1 and 2. In this case, Varimax rotation with Kaiser

normalisation resolved the interactions, as shown in Table 5.7. The rotated

component matrix shows elimination of the interaction of the variable of profit

with Factor1, resulting in a component value of 0.769 in Factor 2. This produced

an unambiguous model that was based on a three-factor solution.

TABLE 5.7
FACTOR ANALYSIS
ROTATED COMPONENT MATRIX[a]

	Component		
	1	2	3
productivity	0.568214		
share price		0.833229	
profit		0.769151	
morale	0.880451		
job satisfaction	0.862865		
organisational commitment	0.878072		
motivation	0.84533		
turnover			0.958151

Extraction method: Principal Component Analysis (PCA)
Rotation method: Varimax with Kaiser Normalisation
a. Rotation converged in 4 iterations

Plotting the eigenvalues against the factor number, or scree plot, provides a graphic indication of the eigenvalues for each factor. The point at which the slope of the connecting curve begins to decrease is an indication of the number of factors that best explain the interrelationships between the variables. The scree plot is shown as Figure 5.1 below.
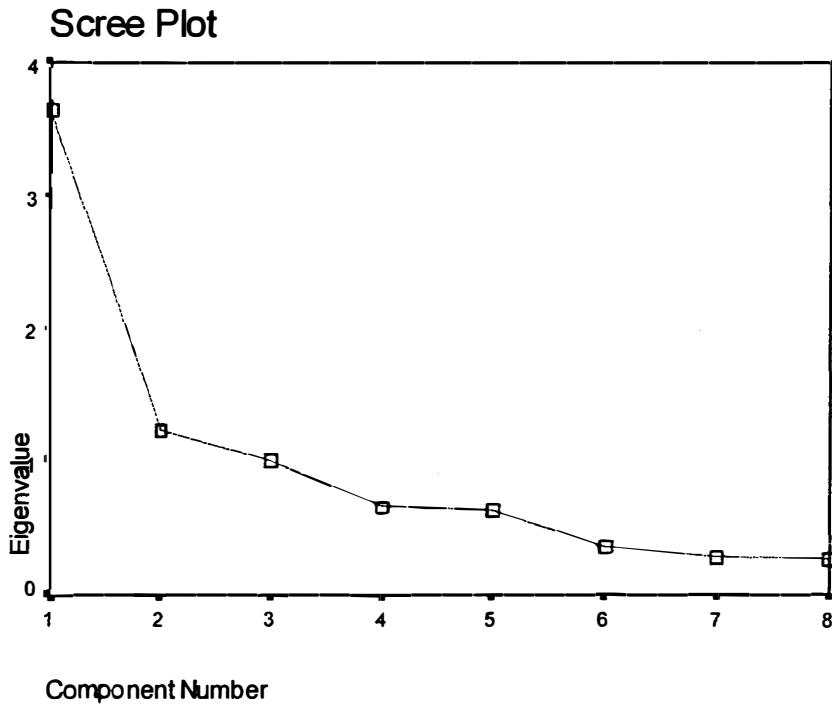
FIGURE 5.1
SCREE PLOT: EIGENVALUE VS COMPONENT NUMBER

According to Hair, Anderson, Tatham and Black (1998, p. 104), "The

scree test is used to identify the optimum number of factors that can be extracted

before the amount of unique variance begins to dominate the common variance

structure. The point at which the curve first begins to straighten out is considered

to indicate the maimum number of factors to extract." Further (p. 105), "Most

researchers seldom use a single criterion in determining how many factors to

extraact. Instead, they initially use a criterion such as the latent root as a guideline

for the first attempt at interpretation." In this case, the latent root (eigenvalue = 1)

criterion falls between a two- and three-factor solution and the scree test (which

generally accepts a higher number of variables than the latent root) flattens at the two-factor solution. For these reasons, the two factor solution was chosen as best representing the data structure. This argues for a two-factor solution as best describing the interactions between variables and so the three-factor solution was eliminated from further analysis. The two-factor solution was saved as a variable for the next stages of the analysis and the variable turnover, which was the single member in Factor 3, was excluded from the set of variables.

A second factor analysis run was conducted with the remaining two factors but excluding turnover. The same assumptions as stated above were still valid and are not repeated here. The correlation matrix of the second run again reported a significant number of correlations greater than 0.30. The anti-image matrices also showed all values along the diagonal as being much greater than 0.60. Once again the variable productivity had the lowest communality (0.437) as shown by the communalities matrix. With two factors extracted, the total variance explained matrix produced a cumulative variance of 68.6%, meaning that the two-factor solution accounted for 68.6% of the total variance. The scree plot indicated a large influence of a single factor on the overall variance. The component matrix once again suggested that the variable profit was a complex variable interacting with both Factor 1 and Factor 2, but the rotated component matrix demonstrated a converged unambiguous rotation in 3 iterations. Thus the best solution was two factors, with Factor 1 including productivity, morale, organisational commitment, job satisfaction, and employee motivation. Factor 2 was comprised of price and

profit. The factor scores that were derived from the analysis were saved as

variables to be used in later data analysis. The correlation matrices and scree plot

for this stage of the analysis are shown in Appendix J.

TABLE 5.8
TOTAL VARIANCE EXPLAINED - TWO FACTOR MODEL

Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Component	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	51.2	51.2	3.4	48.3	48.3
2	17.3	68.6	1.4	20.3	68.6

Extraction method: Principal Components Analysis
Rotation Method: Varimax with Kaiser Normalisation
2 components extracted

TABLE 5.9
COMPONENT MATRIX – TWO FACTOR MODEL

	Component Matrix		Rotated Component Matrix	
Variable	Component		Component	
	1	2	1	2
productivity	0.653		0.594	
share price		0.780		0.827
profit	0.400	0.689		0.776
employee morale	0.861		0.883	
job satisfaction	0.845		0.863	
organisational commitment	0.854		0.875	
motivation	0.857		0.838	

Extraction method: Principal Components Analysis
Rotation Method: Varimax with Kaiser Normalisation   2 components extracted

In summary, two factors were found to contribute 68% of the variation in organisational performance and these were financial performance (Factor 1) relating to changes in profit and share price, and employee performance (Factor 2) relating to changes in motivation, morale, organisational commitment, and job satisfaction. Productivity was found to be a complex variable, linked to both financial and employee performance, but relating most strongly to the employee performance factor. A third factor, turnover was found to be a complex variable which interrelated with both the other two factors but which made little contribution to organisational performance. This third factor was eliminated from further analysis.

The next stage in the analysis examined the data set to see if the respondent organisations could be grouped according to their performance outcomes.

Classifying organisations by performance outcomes

The two factors measuring organisational performance were next analysed using cluster analysis in order to determine if organisations could be grouped according to their performance outcomes. Cluster analysis has no essential constraints other than the scales for the variables must be the same, or if dissimilar, must be standardised (Hair et al, 1995). However it is important to use

dissimilar, must be standardised (Hair et al, 1995). However it is important to use care in selecting the variables within each data set for analysis, especially if there are internal relationships between the dimensions. For example if there are two variables relating to job satisfaction in a survey and three relating to employee selection, but only one employee selection variable is used in the cluster analysis, the resultant group membership solution will be biased toward the job satisfaction dimension.

The Ward method was used for cluster generation, a process in which the similarity used to join clusters is calculated from the sum of the squares between the two clusters summed over all of the variables. The intervals between observations are calculated by assessing the squared euclidean distance (SED) and clusters with the greatest similarity are combined at each stage. As suggested by Hair et al (1995) this method tends to combine clusters having a small number of observations, a limitation that it was felt would not greatly influence the results in this study. The Ward method is also biased toward the production of clusters containing approximately the same number of observations.

In order to examine the proximities of the variables within and between clusters, both an agglomeration schedule and proximity matrix were generated. In order to determine (1) the distance of separation between clusters, which is important in determining the number of significant groupings and (2) the degree of separation at the stages of differentiation between groups, dendogram and icicle

displays were also generated. These are useful as suggested by Diekhoff (1992) "because the distances listed in the schedule become progressively larger from stage to stage, [and] there will often occur a point at which the distance shows a sudden, exceptionally large increase" (cited in Coakes & Steed, 1999, p. 248). It is at this position within the clustering process that a new grouping of categories is formed, and this provides evidence of the appropriateness of the number of clusters that are developed. The results, as shown by the agglomeration table (Appendix K), suggested a three-cluster solution as the model best describing the groups of organisations as clustered by organisational performance.

Determining cluster differences

The next step in the analysis was to determine whether or not the displayed clusters were different in a way that was both reliable and statistically significant. It was decided to use Multiple Discriminant Analysis (MDA) with cluster membership as the grouping variable and the two organisational performance factors as predictor variables. This methodology was chosen because it can determine the differences in the nature of the clusters, but more importantly, can also test these differences for significance. In addition, the MDA results can indicate whether or not the groups are significantly discriminatory on the basis of all or some of the predictor variables.

As explained by Hair et al (1995, p. 182), the MDA technique identifies "... the variables with the greatest differences between the groups and derives a discriminant weighting coefficient for each variable to reflect these differences. MDA then uses the weights and each individual's ratings on the characteristics to develop the discriminant score for each respondent and finally assigns each respondent to a group according to the discriminant score." (Hair et al, 1995, p. 182). In other words, MDA is primarily interested in what characterises the groups that are being examined and assesses whether group membership can be predicted from a set of predictor measures.

The results indicated that both of the predictor variables were able to discriminate between groups to a degree that was statistically significant. This was evident through simple F-tests (Appendix L), which showed all three clusters differing significantly across both variables. This result is confirmed by the Classification Results Table that shows that the cluster analysis correctly predicted 94.4% of the original grouped cases. Appendix 4 also shows the functions at each group centroid, and in this case, Group 1 displays negative values for both functions, Group 2 evidences a negative value for function 1 and positive value for function 2, and Group 3 shows positive values for both functions.

A scatter plot of the canonical discriminant functions that graphically indicates group membership within the three clusters is shown below as Figure

5.2. Figure 5.2 shows Factor 1, along the X-axis, measuring the degree of change in employee attitudes and values as measured by the variables of productivity, motivation, morale, organisational commitment, and job satisfaction. Factor 2, along the Y-axis, measures changes in the financial indicators, profit and share price. Group 1, consisting of 156 organisations, exhibited a decrease in both employee performance indicators (Factor 1) and financial performance indicators (Factor 2). Group 2, comprising 46 organisations, reported improved financial performance and declining employee performance. Group 3, some 102 organisations, evidenced improvement in both financial and employee performance.

Canonical Discriminant Functions

Function 1   Employee Performance ⟶
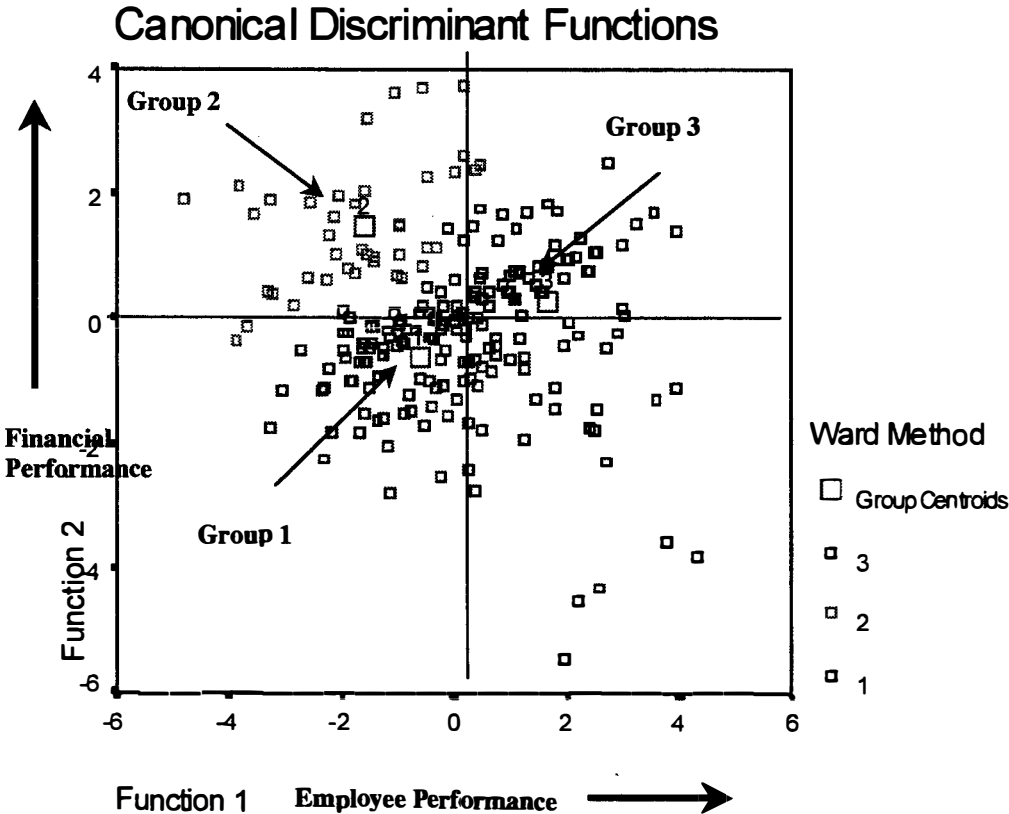
FIGURE 5.2
SCATTER PLOT OF CANONICAL FUNCTIONS

A typology for cluster membership: the "Good", the "Bad", and the "Ugly"

A study by Guest and Hoque (1994) suggests a useful typology for

categorising the organisations by cluster membership. This research examined the

effect of human resource practices on organisational performance for greenfield

organisations and found evidence of organisations that deliberately used low-

performance HRM practices but did not lose productivity or product quality.

These companies were categorised as "Ugly" organisations in that although

productive, they were not pleasant places in which to work (Guest, 1997).

The Group 2 cases resulting from cluster analysis in this study could be

categorised as "Ugly", in that they too evidenced improved financial performance

but declining employee performance. The Group 3 organisations reported

improvements in both financial and employee indicators, and are assigned the

label "Good". Conversely, the companies that suffered declines in both employee

and financial performance are categorised as "Bad" organisations. This

classification system is used throughout the remainder of the discussion in this study.

5.3.2 Loss of key workers and organisational performance

The next stage of the analysis examined the association between loss and retention of key workers and organisational performance. As previously discussed in chapter 3, the survey had been structured such that respondents were asked to provide data through nominal scaled questions as to whether or not any employees, or managers, had been lost who, in retrospect, the organisation would rather have retained. Because the survey instrument used nominal scales to measure loss and retention of key workers, the analysis was conducted using chi-square tests for relatedness.

The loss of key managers and key employees due to the downsizing process was a statistically significant influence on group membership within the three clusters of organisations. For employees, the Pearson Chi-Square significance was .013, with about 66% of "Bad" organisations reporting loss of key employees as a result of the downsizing selection process. About half of both "Good" and "Ugly" organisations reported a loss of key employees. The relationship was also statistically significant for loss of key managers, with a Pearson Chi-Square significance of .018. The "Good" organisations reported that only a third (32%) lost key managers and about half of the "Bad" and "Ugly" organisations lost key managers. The results of this analysis are shown below in Tables 5.10 through 5.13.

TABLE 5.10
LOSS OF KEY EMPLOYEES AND CLUSTER MEMBERSHIP
CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.629	2	.013
Likelihood Ratio	8.665	2	.013
Linear-by-Linear Association	8.013	1	.005
N of Valid Cases	299		

a 0 cells (.0%) have expected count less than 5. The minimum expected count is 18.96.

TABLE 5.11
LOSS OF KEY EMPLOYEES AND CLUSTER MEMBERSHIP
CROSSTAB

		Ward Method			Total
		GROUP 1 - BAD	GROUP 2 - UGLY	GROUP 3 - GOOD	
were key employees lost	YES	101 66%	23 49.5%	49 51%	173
	NO	52 34%	22 49.5%	52 51%	126
Total		153	45	101	299

TABLE 5.12
LOSS OF KEY MANAGERS AND CLUSTER MEMBERSHIP
CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.072	2	.018
Likelihood Ratio	8.213	2	.016
Linear-by-Linear Association	7.279	1	.007
N of Valid Cases	297		

a 0 cells (.0%) have expected count less than 5. The minimum expected count is 19.98.

TABLE 5.13
LOSS OF KEY MANAGERS AND CLUSTER MEMBERSHIP
CROSSTAB

		Ward Method			Total
		GROUP 1-BAD	GROUP 2-UGLY	GROUP 3-GOOD	
were key managers lost	YES	75 50%	22 48%	32 32%	129
	NO	76 50%	24 52%	68 68%	168
Total		151	46	100	297

Of the two factors that measured organisational performance (Factor 1, employee performance and Factor 2, financial performance), loss of key workers had a statistically significant effect on the factor measuring employee performance and a less significant effect on financial performance. This was true whether organisations lost key managers or key employees. As shown in Table 5.14 below, independent samples t-tests showed a statistically significant relationship between loss of either key managers or key employees and the factor measuring employee performance at the 95% confidence level. However the relationship between loss of key managers or employees and financial performance was not statistically significant. This is consistent with the findings in the factor analysis stage of the research that indicated that employee performance, rather than financial performance, was the largest contributor to the change in organisational performance.

TABLE 5.14
INDEPENDENT SAMPLES T-TESTS
LOSS OF KEY WORKERS AND ORGANISATIONAL PERFORMANCE

	Loss of Key Managers	Loss of Key Employees
	Sig. (2-tailed)	Sig. (2-tailed)
Factor 1 (Employee performance)	0.00	0.00
Factor 2 (Financial performance)	0.84	0.34

The results therefore suggest that for this study, organisational performance in downsizing organisations can be categorised on the basis of two dimensions, employee performance and financial performance. Organisational downsizing performance was in turn affected by whether or not the organisation lost or retained its key managers and key employees. "Bad" organisations lost a large proportion of their key employees, whereas "Good" organisations were able to retain a large majority of their key managers. About half of the "Ugly" organisations reported loss of both key employees and key managers. As was graphically shown in Table 5.8, the loss of key workers affected organisational performance primarily through the employee performance dimension (about 51% of the variance), rather than through financial performance (about 17% of the variance).

In the next stage of analysis, the relationship between the downsizing process and loss of key employees or managers was examined and this is discussed in more detail in the following section.

5.3.3 Downsizing process and the loss of key workers

Organisational demographics and the loss of key workers

The demographic variables measured the type of organisation, size of organisation, the proportion of workforce that was downsized, and the use of alternatives to downsizing. The relationship between these variables and loss and retention of key employees or key managers was examined through chi-square

tests for relatedness (Table 5.15). For key employees, there was no statistical significance in the association between the type (role) of the organisation and loss of key employees. As shown in Table 5.16, there was, however, a statistically significant association between type of organisation and loss and retention of key managers, with a Pearson's chi-square significance of .026. Mining companies and electricity, gas, and water companies lost nearly three quarters of their managers during the downsizing process. Finance and insurance companies lost around two thirds of their managers, and government administration and defence organisations lost around half of their managers. On the other hand, both retail and wholesale trade organisations were able to retain from two thirds to three quarters of their managers, and manufacturing, transport and storage companies, education organisations, property and business services, and construction companies retained around 60% of their key managers. Communications services providers, together with information technology, health, and community services organisations were able to retain over 80% of their key managers.

TABLE 5.15
TESTS OF SIGNIFICANCE
LOSS OF KEY WORKERS

VARIABLE	KEY MANAGERS Pearson's Chi-Square	KEY EMPLOYEES Pearson's Chi-Square
Type of organisation	.026*	.264
Size of organisation	.002*	.013*
Job re-design	.053	.111
Job sharing	.164	.329

Freeze on hiring	.235	.748	
Reductions in pay	.189	.192	
Transfer to lower paying job	.001*	.009*	
Reductions in overtime	.078	.066	
Reduction in working hours	.120	.020*	
Freeze in pay rises	.303	.118	
Proportion of staff reduction	.003*	.013*	

- significant at the .05 level

TABLE 5.16
LOSS OF KEY MANAGER VS. TYPE OF ORGANISATION

Type of Organisation	managers lost	managers retained	Total Orgs	Proportion lost (%)
mining	15	6	21	71.4%
electricity, gas, water	5	2	7	71.4%
retail trade	2	6	8	25.0%
accommodation, café, restaurant		3	3	0.0%
government administration, defence	7	6	13	53.8%
manufacturing	52	74	126	41.3%
transport, storage	7	9	16	43.8%
education	5	10	15	33.3%
forestry, fishing	1		1	100.0%
wholesale trade	5	10	15	33.3%
finance, insurance	16	9	25	64.0%
property & business services	4	6	10	40.0%
cultural	1		1	100.0%
construction	5	9	14	35.7%
communications, IT	2	9	11	18.2%
health & community services	2	9	11	18.2%

It is perhaps not too surprising that certain types of organisations tended to lose key managers through the downsizing process while others did not. It was found in the interview stage of the research, for example, that some mining companies retrenched large numbers of employees in order to "get at" certain groups of industrial relations activists. These same companies showed a penchant for retrenching large numbers of relatively low-skilled workers knowing that should the need arise, it would be possible to re-hire more employees with the same skills. It is quite possible that for those industries that are comprised of large numbers of relatively low-skilled workers it is seen to be expedient to retrench these employees in order to reduce costs. This same perception toward low-skilled employees might be carried over to managerial positions, resulting in a willingness to sack not only employees but also middle managers.

One of the interviewees (the HR manager of a local mining company) suggested that it was cost-effective to reduce the number of workers, while keeping the workload the same:

> " ...if you've got people doing a job and they may be productive for 70% of the week, if you leave them alone they'll generate more work, not necessarily quality work, but they'll look productive 90% of the week. So I think work expands to fill the gap that's left for it ... " (Interviewee, Organisation B)

Managers in resource or product-related organisations might be seen to have "generic", replaceable managerial skills, whereas those in more technically

oriented industries, such as communications or technology, might be viewed as more crucial to the organisation.

As shown in Table 5.15 above, there was also a statistically significant association between the size of the organisation and the loss of both key managers and key employees. For key employees the Pearson Chi-Square significance was .013, and for managers the value was .002. As the size of the organisation increased, the likelihood of loss of both key managers and key employees also increased. It is quite possible that this was caused by several factors, including the fact that in larger companies there is a very real possibility that key managers get "lost in the crowd" and are not recognised as crucial to the organisation's performance. As an example of this phenomenon, Organisation G had resized from a peak of around 95,000 full time employees to around 65,000 employees, had again gradually increased in size to around 73,000 employees. As suggested by a senior human resources manager, it was time to restructure again:

"I don't think we have really achieved the flattening of the structure that we have always aimed to do. Currently one of our business units has 23,000 employees and they have 1600 people in supervisory or management positions. I don't think those ratios have really changed much over the years. We certainly are recognising at the moment that our cost structure and our overheads are about 30% above where we would like them to be. We have too many administrative staff, too many middle managers still." (Interviewee, Organisation G)

It is quite possible when an organisation deals with numbers of managers and employees of this magnitude that it doesn't even know who its key managers are. It would stand to reason that crucial staff leave during the restructuring process but their absence is not noticed until a critical function is inadequately performed.

There was also a relationship between the proportion of workers retrenched and the loss of both managers and employees. As shown in Table 5.15 above, the significance for managers at the .05 level was .003 (Pearson's chi square) with an F-value of 19.790 and 6 degrees of freedom. For employees, the Pearson's chi square significance was .013 with an F-value of 16.180. As the proportion of retrenched workers increased, so too did the likelihood that the organisation lost key employees and managers. This might have occurred for a variety of reasons, as for example, employees being "lost in the crush" or through perceptions of inequity in selection for redundancy.

The use of alternatives to downsizing, such as job redesign, job sharing, freezes in hiring, reduced overtime, freezes on pay rises, and reductions in pay did not have a statistically significant association with loss of key managers or employees. There was, however, a statistically significant association between use of transfer to lower paying jobs and loss of both key employees and key managers (Pearson's chi-square significance of .009 and .001, respectively). Transfer to a lower paying job might be viewed by management as a way of retaining key

workers, but might also be viewed by employees as a reduction in prestige, worth. Employees who have critical skills and are high performers might be tempted to look for work elsewhere, in a position in which they earn what they feel they are worth.

There was also an association between use of reduced working hours and loss of key employees, although this was not evident for managers. The use of reduced working hours as an alternative for cost reduction in lieu of downsizing reported a Pearson's chi-square significance of .020. Of the organisations that used this measure, 76% reported a loss of key employees. Employees seek work elsewhere, especially the high performers, because they know they can find good jobs that will pay them what they are worth (Brockner, 1992; Hitt, 1994; Mone, 1994).

Downsizing catalyst

Multiple discriminant analysis (MDA) was used to examine the relationship between the downsizing catalyst and loss and retention of key managers or employees, with the loss and retention of key managers or key employees as the dependent variable. The independent variables were economic turnaround, merger or takeover, improvement of competitive position, and conformance to government policy. Again, the analysis included measurement of the effects on both key managers and key employees.

The association between downsizing catalyst and loss of key employees was statistically significant (Wilks' Lambda of .033). The two primary contributors of variability to the model of this dimension were the variables of economic turnaround (structure matrix value of .569) and merger or takeover (value of .621). Representing the association of variables using this model resulted in 60.2% of the original grouped cases being correctly classified. For the case of employee retention or loss, organisations that downsized because of a need to achieve economic turnaround or as a result of merger or takeover had a high likelihood of losing key employees. These results are displayed in Tables 5.17 through 5.19 below.

TABLE 5.17
LOSS OF KEY EMPLOYEES AND DOWNSIZING CATALYST
TEST OF SIGNIFICANCE- WILKS' LAMBDA

Test of Function(s)	Wilks' Lambda	Chi-square	df	Significance
1	0.965	10.499	4	0.033

TABLE 5.18
LOSS OF KEY EMPLOYEES AND DOWNSIZING CATALYST
STRUCTURE MATRIX

Variable	Function
	1
merger or takeover	0.621
economic turnaround	0.569
conform to govt. policy	0.380
improve competitive position	0.251

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions Variables ordered by absolute size of correlation within function.

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TABLE 5.19
LOSS OF KEY EMPLOYEES AND DOWNSIZING CATALYST
CLASSIFICATION RESULTS

		Predicted Group Membership		Total
	were key employees lost	1	2	
Count	Yes	152	21	173
	No	98	28	126
	Ungrouped cases	3	2	5
%	Yes	87.9	12.1	100
	No	77.8	22.2	100
	Ungrouped cases	60	40	100

60.2% of original grouped cases correctly classified.

If the driving force underlying organisational restructuring is economic turnaround, it would make sense that the company would be preoccupied with the achievement of cost reduction targets. As a result, the firm might overlook the importance of retaining "soft" areas such as crucial skills, competencies, experience, or corporate memory. The result of focusing on cost reduction targets might well be the loss of key employees whose competencies and experience are important to the long-term performance of the organisation.

If the catalyst for restructuring is merger or takeover, one of the first considerations in the restructured company might be the elimination of redundancy and duplication. This would require knowledge of who the key people are and this might not be evident if two organisations are being combined into one. Depending on which organisation's HR functions are being used to assess employees, the human resource management department of one organisation

might not be familiar with the key players in the other organisation.

For loss of key managers, Wilks' Lambda returned a significance of .007, which suggests a statistically significant relationship. The structure matrix for this stage of the analysis showed an association between the two variables of conformance to government policy (value of .728) and the need to achieve economic turnaround (value of .453) with the loss and retention of key managers. Using these two variables as the primary source of classifying variation resulted in 61.3% of the original grouped cases being correctly classified. These results are shown in Tables 5.20 through 5.22, below.

TABLE 5.20
LOSS OF KEY MANAGERS AND DOWNSIZING CATALYST
TEST OF SIGNIFICANCE- WILKS' LAMBDA

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	0.953	14.096	4	0.007

TABLE 5.21
LOSS OF KEY MANAGERS AND DOWNSIZING CATALYST
STRUCTURE MATRIX

Variable	Function
·	1
conform to govt. policy	0.728
economic turnaround	0.453
merger or takeover	0.322
improve competitive position	0.222

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions
Variables ordered by absolute size of correlation within function.

TABLE 5.22
LOSS OF KEY MANAGERS AND DOWNSIZING CATALYST
CLASSIFICATION RESULTS

Original		Predicted Group Membership		Total
Count	were key managers lost	1	2	
	Yes	37	92	129
	No	23	145	168
%	Ungrouped cases	3	4	7
	Yes	28.682	71.318	100
	No	13.690	86.310	100
	Ungrouped cases	42.857	57.143	100

61.3% of original grouped cases correctly classified.

These results suggest that if the catalyst for downsizing is the need to conform to government policy or the need to achieve economic turnaround, there is a high likelihood that the organisation will lose key managers. The focus of an organisation on economic turnaround could result in loss of key managers for the

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organisation on economic turnaround could result in loss of key managers for the same reasons as the case of key employees.

If the organisation restructures as a means of conforming to government policy, it is possible that retrenchment could be keyed to issues that are actually irrelevant to the retention of key managers. This was evident in the interview stage of this study in which it was found that one of the respondent organisations restructured to conform to a government mandate. The organisation changed its entire focus from construction management to contract management, reducing from 2,100 to 650 employees over an 18-month timeframe.

Downsizing goal

It has been suggested by some that when a downsizing organisation has as its primary goal the elimination of a proportion of staff or the elimination of layers of the organisation, it will lose key workers through the downsizing process (Cameron et al 1991; Cameron, 1994b, Freeman & Cameron, 1993). Conversely when the primary aim of restructuring is to change the organisational culture, key workers will be retained. In this study, multiple discriminant analysis (MDA) found a statistically significant relationship between the use of organisational delayering and the loss both managers and employees. For key employees, the results produced a Wilks' Lambda of significant value (value of .035), and the structure matrix indicated that the primary contributor of variability was the

flattening of the organisational structure (Structure Matrix value of .843). Using

this model as a predictor of association correctly predicted 61.2% of the original

grouped cases, as shown in Tables 5.23 through 5.25 below. Many researchers

and practitioners view delayering as an effective way to improve communication

and efficiency (Cameron et al, 1991). However there is a very real potential of

losing key managers and employees. If an employee happens to occupy a position

in a defunct layer of the organisation, when the job goes so to does the employee.

TABLE 5.23
LOSS OF KEY EMPLOYEES AND DOWNSIZING GOAL
TEST OF SIGNIFICANCE- WILKS' LAMBDA

Wilks' Lambda

Test of Function(s)		Wilks' Lambda	Chi-square	df	Sig.
	1	0.966	10.356	4	0.035

TABLE 5.24
LOSS OF KEY EMPLOYEES AND DOWNSIZING GOAL
STRUCTURE MATRIX

Variable	Function
	1
flatten org. structure	0.843
new business focus	0.261
change org. culture	-0.110
eliminate proportion of staff	0.095

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions
Variables ordered by absolute size of correlation within function.

TABLE 5.25
LOSS OF KEY EMPLOYEES AND DOWNSIZING GOAL
CLASSIFICATION RESULTS

		Predicted Group Membership		Total

Original	were key employees lost	1	2	
Count	Yes	144	29	173
	No	87	39	126
	Ungrouped cases	4	1	5
%	Yes	83.237	16.763	100
	No	69.048	30.952	100
	Ungrouped cases	80	20	100

61.2% of original grouped cases correctly classified.

For the case of loss of key managers, Wilks' Lambda for flattening the organisational structure was significant (at 0.00) as a strong contributor to loss and retention of key managers, with a pooled within-groups correlation of 0.944 between discriminating variables and standardised canonical discriminant functions. Using this model provided a framework in which 61.2% of the original cases were correctly classified.

There was no significant relationship between the goals of elimination of a proportion of staff or changing the organisational culture and the loss and retention of either key managers or key employees. It is therefore concluded that when a downsizing organisation's primary goal in restructuring is to flatten the organisational structure, there is a high probability that key managers and key employees will be lost. These results are shown in Tables 5.26 through 5.28.

TABLE 5.26
LOSS OF KEY MANAGERS AND DOWNSIZING GOAL

TEST OF SIGNIFICANCE- WILKS' LAMBDA

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	0.929	21.579	4	0.000

TABLE 5.27
LOSS OF KEY MANAGERS AND DOWNSIZING GOAL
STRUCTURE MATRIX

Variable	Function
	1
flatten org. structure	0.944
new business focus	0.196
change org. culture	0.109
eliminate proportion of staff	0.022

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions
Variables ordered by absolute size of correlation within function.

TABLE 5.28
LOSS OF KEY MANAGERS AND DOWNSIZING GOAL
CLASSIFICATION RESULTS

		Predicted Group Membership		Total
Original Group Membership	were key managers lost	1	2	
Count	Yes	71	58	129
	No	56	112	168
	Ungrouped cases	0	7	7
%	Yes	55.039	44.961	100
	No	33.333	66.667	100
	Ungrouped cases	0	100	100

61.6% of original grouped cases correctly classified.

Downsizing target

For the variable measuring the target of the downsizing, the independent variables were geographic locations, specific sites, organisational areas, elimination of organisational layers, specific jobs, and no specific target. Cross-tabs and chi-square tests reported no statistically significant relationship between the downsizing target and loss of key employees or managers except for when organisations targeted specific sites. These firms reported a Pearson's chi-square significance of .019 for employees and .005 for managers, as shown in Tables 5.29 and 5.30 below. Sixty-five per cent of the organisations that targeted specific sites for downsizing reported that they lost key employees. Conversely, 65% of the organisations reporting that they did NOT target specific sites for downsizing also reported that they did NOT lose key managers. There are possibly many reasons for this phenomenon, but for many organisations, closing a plant may result in the loss of the high performers in that plant unless the organisation provides the opportunity for cross-transfer to other areas of the firm.

TABLE 5.29
DOWNSIZING TARGET VS LOSS OF KEY EMPLOYEES
CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	5.540	1	.019		
Continuity Correction	5.000	1	.025		
Likelihood Ratio	5.552	1	.018		
Fisher's Exact Test				.019	.013
Linear-by-Linear Association	5.521	1	.019		
N of Valid Cases	298				

a Computed only for a 2x2 table
b 0 cells (.0%) have expected count less than 5. The minimum expected count is 59.98.

TABLE 5.30
DOWNSIZING TARGET VS LOSS OF KEY MANAGERS
CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided
Pearson Chi-Square	7.955	1	.005		
Continuity Correction	7.307	1	.007		
Likelihood Ratio	8.007	1	.005		
Fisher's Exact Test				.005	.003
Linear-by-Linear Association	7.928	1	005		
N of Valid Cases	296				

a Computed only for a 2x2 table
b 0 cells (.0%) have expected count less than 5. The minimum expected count is 61.01.

5.3.4 Employee selection and the loss of key workers

The next stage of the analysis examined the relationship between the downsizing

strategy that was used for employee selection for retrenchment or retention, and the loss

of key employees or managers. Selection was examined from several different perspectives, including whether managers and employees were made redundant as a result of job redundancy or through a competitive process, whether or not selection was performed as a single action or in multiple stages, the effect of the type of selection strategy that was used on loss and retention of key workers, and the effect of selection criteria on loss and retention of key workers. The relationships were examined through multiple discriminant analysis (MDA) in order to determine the significance of the relationships, if any, and whether or not there was evidence of interaction between the variables.

Downsizing selection as a competitive process

There was no significant relationship between loss of key workers and whether or not this occurred as a result of job redundancy or from a competitive selection process. There was also no significant relationship between loss of key workers and whether or not the organisation's selection process was in single or iterative stages.

Downsizing selection strategy

The strategy used by the downsizing organisation to select managers for retention or retrenchment evidenced a statistically significant association with the loss of key managers, with a Wilks' Lambda significance of .010. The structure

matrix for this model showed across the board cuts as the largest contributor to loss of key managers (correlation value of .686) with the second largest contributor the use of involuntary retrenchment (structure matrix correlation value of .403). This model was able to correctly classify 59.3% of the original grouped cases. The results of this part of the analysis are shown in Tables 5.31 through 5.33. The results of this analysis therefore argue that the use of across the board cuts as the determining factor for selection has been shown to be an indiscriminate process, resulting in loss of key managers.

TABLE 5.31
SELECTION STRATEGY FOR MANAGERS VS LOSS OF KEY MANAGERS
TEST OF SIGNIFICANCE - WILKS' LAMBDA

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.949	15.162	5	.010

TABLE 5.32
SELECTION STRATEGY FOR MANAGERS VS LOSS OF KEY MANAGERS
STRUCTURE MATRIX

Variable	Function
	1
across the board cuts	.686
involuntary retrenchment	.403
· voluntary redundancy	.270
attrition	.257
early retirement	-.150

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions Variables ordered by absolute size of correlation within function.

TABLE 5.33
SELECTION STRATEGY FOR MANAGERS VS LOSS OF KEY MANAGERS

CLASSIFICATION RESULTS

Original Group Membership	were key managers lost	Predicted Group Membership		Total
		1.00	2.00	
Count	Yes	45	84	129
	No	37	131	168
	Ungrouped cases	0	7	7
%	Yes	34.9	65.1	100.0
	No	22.0	78.0	100.0
	Ungrouped cases	.0	100.0	100.0

a 59.3% of original grouped cases correctly classified.

The association was also significant for loss of key employees (Wilks' Lambda of .024). The variable "voluntary redundancy" was the primary source of influence, with a Structure Matrix correlation of .648. This model, using voluntary redundancy as the primary source of variation, resulted in correct classification of 60.9% of the original grouped cases. These results are shown below in Tables 5.34 through 5.36.

TABLE 5.34
SELECTION STRATEGY FOR EMPLOYEES VS LOSS OF KEY EMPLOYEES
TEST OF SIGNIFICANCE - WILKS' LAMBDA

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.957	12.972	5	.024

TABLE 5.35
SELECTION STRATEGY FOR EMPLOYEES VS LOSS OF KEY EMPLOYEES

STRUCTURE MATRIX

Variable	Function
	1
voluntary redundancy	.648
early retirement	-.353
across the board cuts	.296
attrition	.158
involuntary retrenchment	.032

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions Variables ordered by absolute size of correlation within function.

TABLE 5.36
SELECTION STRATEGY FOR EMPLOYEES VS LOSS OF KEY EMPLOYEES
CLASSIFICATION RESULTS

		Predicted Group Membership		Total
Original Group Membership	were key employees lost	1.00	2.00	
Count	Yes	139	34	173
	No	83	43	126
	Ungrouped cases	3	2	5
%	Yes	80.3	19.7	100.0
	No	65.9	34.1	100.0
	Ungrouped cases	60.0	40.0	100.0

a 60.9% of original grouped cases correctly classified.

Finally, there is some research (Cameron, Freeman, & Mishra, 1991) to

suggest that successful downsizing organisations implemented both short-term

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(workforce reduction) and longer-term (redesign and systemic change) strategies as they downsized. The writers go on to argue that these organisations used both across-the-board and targeted downsizing. The research in this study agreed with the first proposition, stated above, that successful downsizing resulted for those organisations that had as goals both of the strategies of across the board cuts and changes to the organisational culture. Seventy-six organisations stated they intended to accomplish both goals and these reported improvement in both employee and financial performance (means for Factor 1= .282 and Factor 2= .211). These 76 organisations would therefore be classified as "Good" in that they improved in both dimensions.

The second proposition above suggests that successful downsizing organisations use both across-the-board cuts and retrenchment as selection strategies. The research in this study did not agree with this proposition. Organisations that reported use of both across the board cuts and retrenchment (targeted selection) exhibited decreases in both financial and employee performance. All of the organisation would therefore be classified as "Bad". Forty-two organisations reported use of both strategies for managers with performance means of -.281 for Factor 1 and -.061 for Factor 2. For employees, 47 organisations had used both strategies and these companies reported means for -.202 for Factor 1 and -.087 for Factor 2.

Loss and retention of key managers and key workers was also affected by

the strategy in the same way as organisational performance. Those organisations that used both across-the-board cuts and retrenchment as selection strategies reported that 55% of these companies using the above strategies for managers lost key managers and 57% using these strategies for employees lost key employees.

Based on this stage of the analysis, it is concluded that the organisation's choice of downsizing strategy has a statistically significant effect on the loss and retention of both key employees and key managers, with the use of across the board cuts contributing to loss of key managers, and voluntary redundancy to the loss of key employees. The use of a combination of strategies, across the board cuts and retrenchment, had a negative effect on retention of key managers and key employees, and also was evidenced by declines in the organisational performance factors of employee performance and financial performance.

Selection criteria

The association of selection criteria with loss and retention of key managers was next examined. Analysis was conducted using multiple discriminant analysis (MDA), using as independent variables, selection on the basis of job performance, skills and abilities, experience, age, and industrial relations activity. The score for Wilks' Lambda indicated a statistically significant relationship (.015), and the structure matrix suggested that two variables, skills and abilities (correlation of .829), and experience (correlation of .599), were

strong contributors to the retention or loss of key managers. This model was less

rigorous than the others, correctly classifying only 48.1% of the original grouped

cases. These results are shown in Tables 5.37 through 5.39.

TABLE 5.37
SELECTION CRITERIA FOR MANAGERS VS LOSS OF KEY MANAGERS
TEST OF SIGNIFICANCE - WILKS' LAMBDA

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.919	14.078	5	.015

TABLE 5.38
SELECTION CRITERIA FOR MANAGERS VS LOSS OF KEY MANAGERS
STRUCTURE MATRIX

Variable	Function
	1
skills/abilities	.829
experience	.599
IR activity	.246
job performance	.179
age	.127

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions Variables ordered by absolute size of correlation within function.

TABLE 5.39
SELECTION CRITERIA FOR MANAGERS VS LOSS OF KEY MANAGERS
CLASSIFICATION RESULTS

			Predicted Group Membership		Total
		were key managers lost	1.00	2.00	
Original	Count	Yes	100	29	129
		No	125	43	168
		Ungrouped cases	7	0	7

	%	Yes	77.5	22.5	100.0
		No	74.4	25.6	100.0
		Ungrouped cases	100.0	.0	100.0

a 48.1% of original grouped cases correctly classified.

The results were inconclusive in determining the association of selection criteria with loss and retention of key employees. The independent variables were the same as for managers and demonstrated a Wilks' Lambda significance of .505. From this it was concluded that although the selection criteria influenced loss and retention of key employees, the relationship was not statistically significant.

The results therefore suggest that the criteria used in selecting employees for retention or retrenchment were not associated with loss and retention of key employees in downsizing companies. However it was found that the selection criteria used in managerial selection did affect loss and retention of key managers. The criteria that best predicted loss and retention of key managers were skills and abilities, and experience.

5.4 Summary

5.4.1 Organisational performance and the loss of key workers

Clearly the loss and retention of key managers and key employees is associated with organisational performance in downsizing organisations. Nearly two thirds of the

organisations in this study that exhibited declines in both employee and financial performance reported that they had lost key employees because of the downsizing process. Conversely, only about one third of the companies that improved both employee and financial performance lost key managers.

The results suggest a relationship between the size of the downsizing organisation and loss of key workers. The larger the organisation, the greater the likelihood of loss of both key managers and key employees. Additionally, there was a statistically significant association between the size (proportion) of workforce reduction and the loss of both key managers and employees. Organisations that retrenched a large proportion of their workforce tended to lose both key employees and key managers.

The use of what are known as alternatives to downsizing also contributed to loss of key workers. For example, organisations that transferred workers to lower paying jobs, rather than retrenching them, stood to lose both key employees and key managers. Some organisations reduced working hours as a cost saving measure, and this was associated with loss of key managers although not with loss of key employees.

The association between downsizing catalyst and loss of key employees was statistically significant. Organisations that downsized because of a perceived need to achieve economic turnaround tended to lose both key managers and key employees. If the organisation downsized in response to a merger or takeover, there was a tendency to lose key employees. Finally, organisational restructuring in order to conform to government

policy tended to result in a loss of key managers.

The intended goal of the downsizing process was also associated with loss and retention of key workers. When the purpose of the organisational restructuring was to flatten the organisational structure, or delayer, a significant proportion of organisations reported that they lost both key managers and key employees. There was no significant relationship between the goals of elimination of a proportion of staff or changing the organisational culture and the loss and retention of either key managers or key employees.

Organisations that targeted specific sites reported that they lost key employees. Conversely, 65% of the organisations reporting that they did NOT target specific sites for downsizing also reported that they did not lose key managers.

There was no significant relationship between loss of key workers and whether or not this occurred as a result of job redundancy or from a competitive selection process. There was also no significant relationship between loss of key workers and whether or not the organisation's selection process was in single or iterative stages.

The organisation's choice of downsizing strategy had a statistically significant effect on the loss and retention of both key employees and key managers, with the use of across the board cuts contributing to loss of key managers, and voluntary redundancy to the loss of key employees.

The criteria used in selecting employees for retention or retrenchment were not associated with loss and retention of key employees in downsizing companies. However it was found that selection criteria for managerial selection did affect loss and retention of key managers. Of the criteria, the use of skills and abilities, and experience were most closely associated with loss and retention of key managers.

The study suggests that the link between the selection process and organisational performance is indirect, with loss and retention of key workers acting as an intervening variable. There are a number of factors associated with loss and retention of key workers, but these same factors did not appear to directly relate with either organisational performance or membership in the three groups of organisations. Some types of organisation seemed to have a tendency to lose key workers more so than others. For example, mining companies tended to lose key managers while communications and information technology companies retained them. There was a more direct association between size of the organisation and the proportion of workforce that was retrenched and the loss of key workers. Table 5.40 shows the factors that influenced the loss and retention of key workers.

TABLE 5.40
FACTORS INFLUENCING LOSS OF KEY WORKERS

FACTOR	MANAGERS	EMPLOYEES

Type of company	X	X
Size of company	X	X
Proportion of staff reduction	X	X
Transfer to lower paying jobs	X	X
Reduced working hours		X
Economic turnaround	X	X
Conform to government policy	X	
Merger /takeover		X
Delayering	X	X
Close specific sites	#	X
Across the board cuts	X	
Voluntary redundancy		X
Selection criteria: skills & abilities	*	
Selection criteria: experience	*	

Notes:
X organisations using these factors lost key workers
organisations reporting they did not close specific sites retained their key managers
* inverse relationship: use of these criteria improved retention of key managers

5.4.2 Downsizing: The Good, The Bad, and The Ugly

The ways in which the clustered organisations differed in their approach to organisational restructuring can provide insight into why organisational performance varied across the groupings. The following figures provide plots of the mean responses to the Likert scale variables which although not statistcally significant, are provided for information. Figure 5.3 ishows that the organisations varied in the reason for downsizing (catalyst). Figure 5.4 shows the differences between organisational types and the desired outcome to the restructuring (goal). Good organisations were similar to Bad and Ugly organisations in their propensity to restructure as a means of achieving economic turnaround. The Good organisations, however were least likely to restructure as a result of merger or takeover, and were more likely than Bad organisations, but less likely than Ugly organisation, to view restructuring as a way of achieving a stronger competitive position. Both Good and Ugly organisations were less likely to restructure as a means of

conforming to changes in government policy.

Downsizing Catalyst
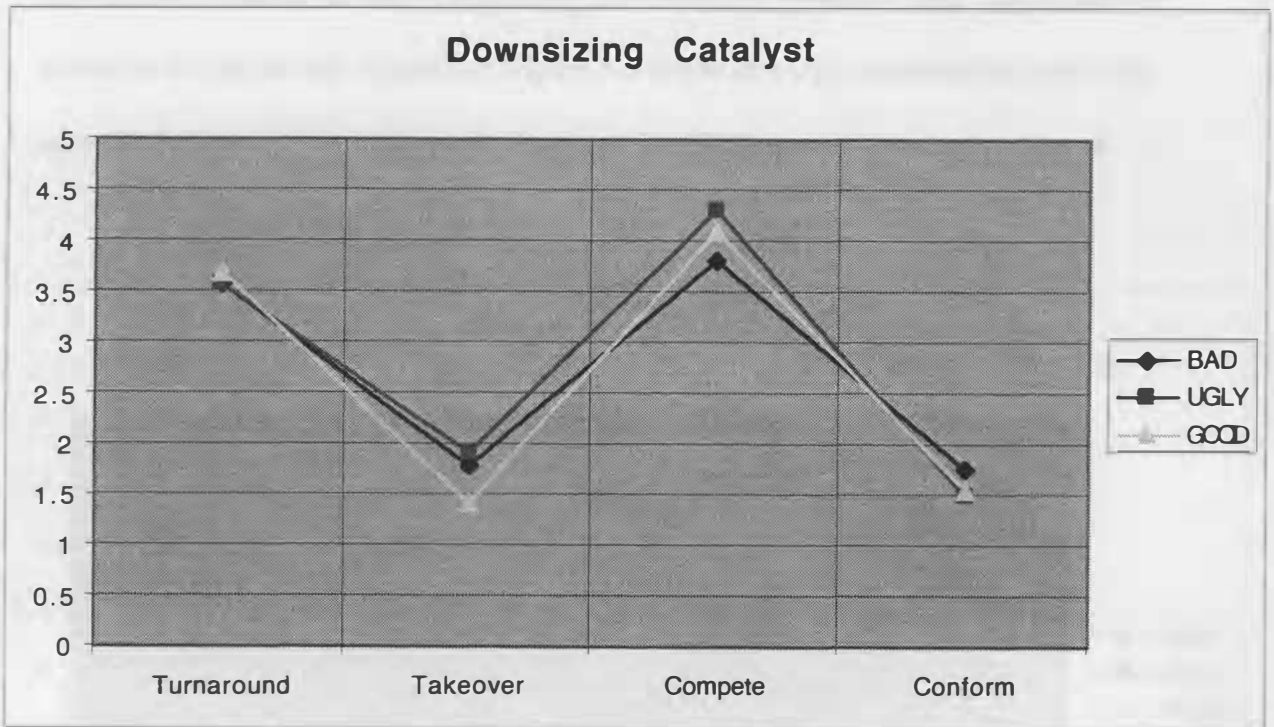
FIGURE 5.3
DOWNSIZING CATALYST
MEANS PLOT

Figure 5.4 shows the relationship between cluster membership and the goal of the
downsizing. Good organisations were least likely to have as a goal the retrenchment of a
proportion of their workforce and but were equivalent to Bad organisations in the
likelihood of delayering their organisational structure. Of the three groups, the Good

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organisations were the most likely to implement downsizing in order to reorient the

organisation's culture. All three groups of organisations were closely aligned in their use

of the re-orientation of business focus as a goal for downsizing, although Good

organisations were least likely to use this as compared to the other two groups. The

relationship between the use of delayering and loss of key managers and employees was

shown to be statistically significant. Figure 5.4 shows that Ugly organisations were the

most likely to use delayering, while Good and Bad firms were equivalent in the use.
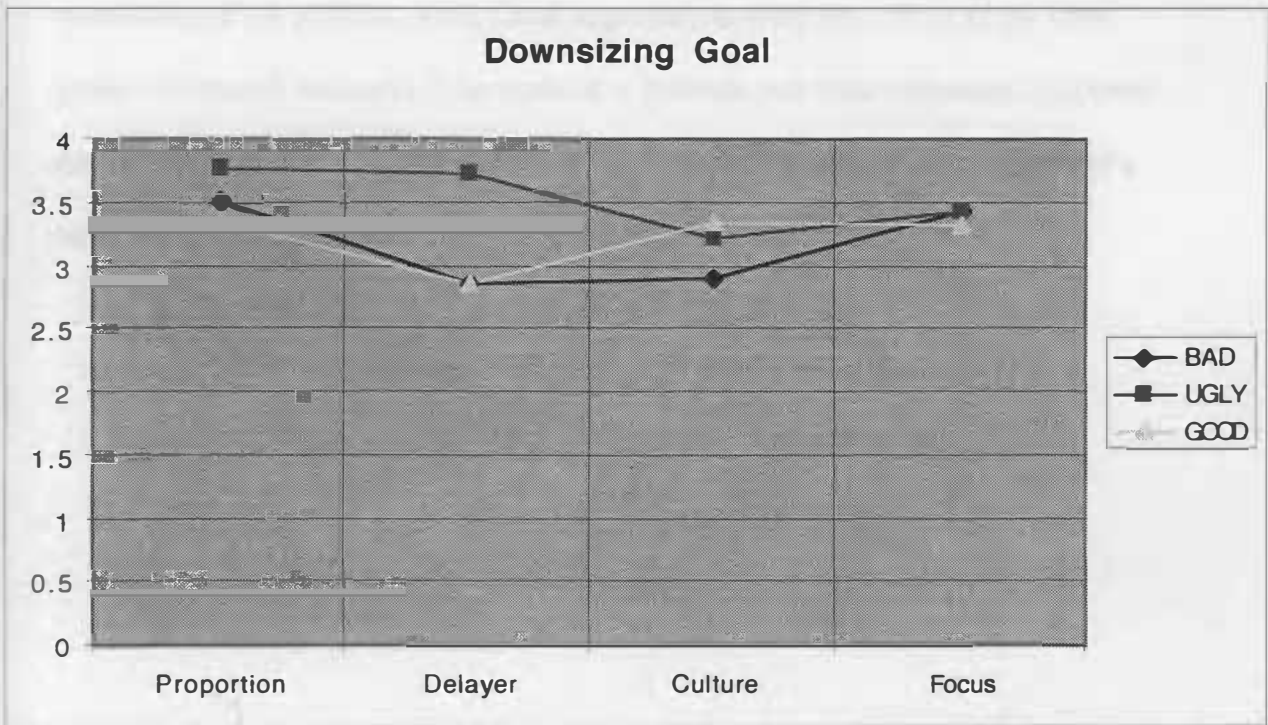
FIGURE 5.4
DOWNSIZING GOAL
MEANS PLOT

As shown in Figures 5.5 and 5.6, the organisations also varied in the way in which managers and employees were selected for retrenchment or redundancy (selection strategy). For managers, the groups were equivalent in use of across the board cuts and voluntary redundancy as a strategy for downsizing managerial staff. Ugly organisations tended to use attrition, involuntary retrenchment, and early retirement to achieve staff reductions in manager numbers, while both Good and Bad organisations were less likely to use these strategies. Ugly organisations linked retrenchment of managers to redundancy of the position, while Good organisations were least likely of the three groups to retrench managers if the position in question was made redundant. All three groups were equivalent in selecting for retrenchment or redundancy on the basis of a competitive selection process.

Manager Selection Strategy
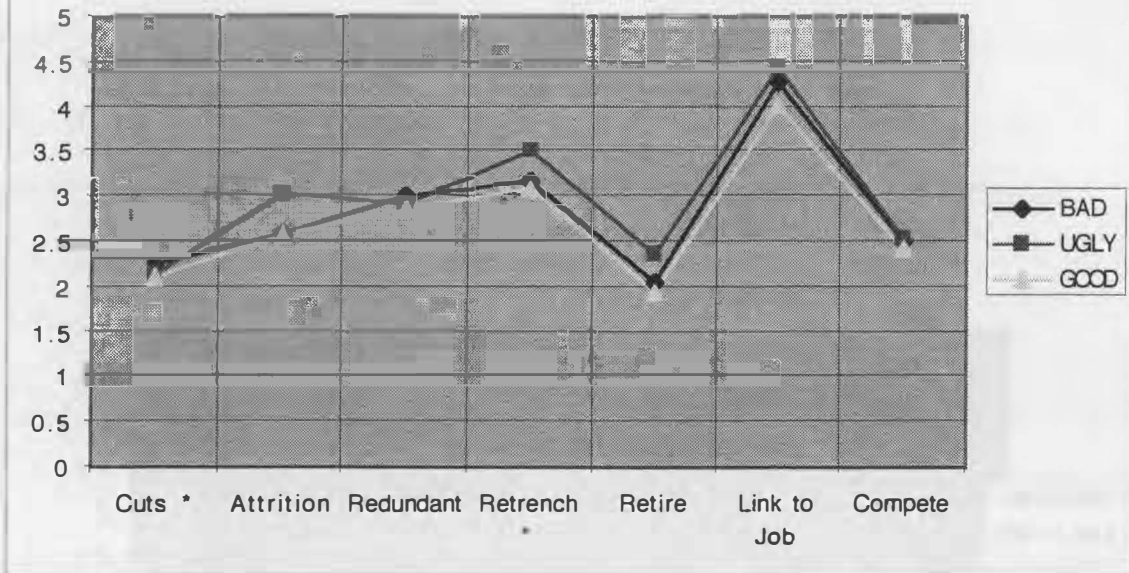
FIGURE 5.5
DOWNSIZING SELECTION STRATEGY
MEANS PLOT FOR MANAGERS

For employees, both Good and Bad organisations were less likely to reduce staff numbers through across the board cuts and involuntary retrenchment. Good organisations, however, showed a greater propensity for use of attrition and voluntary redundancy, and a lesser reliance on closely linking the retrenchment of employees to positional redundancy. Ugly organisations, interestingly, were more willing to select employees for retrenchment or redundancy on the basis of a competitive selection process than either Good or Bad organisations.

The figure shows a means plot titled "Employee Selection Strategy" with three lines (BAD, UGLY, GOOD) plotted across selection criteria categories.

Employee Selection Strategy

Y-axis values from 0 to 5 (in increments of 0.5).

X-axis categories: Cuts, Attrition, Redundant #, Retrench, Retire, Link to Job, Compete

Legend: BAD, UGLY, GOOD
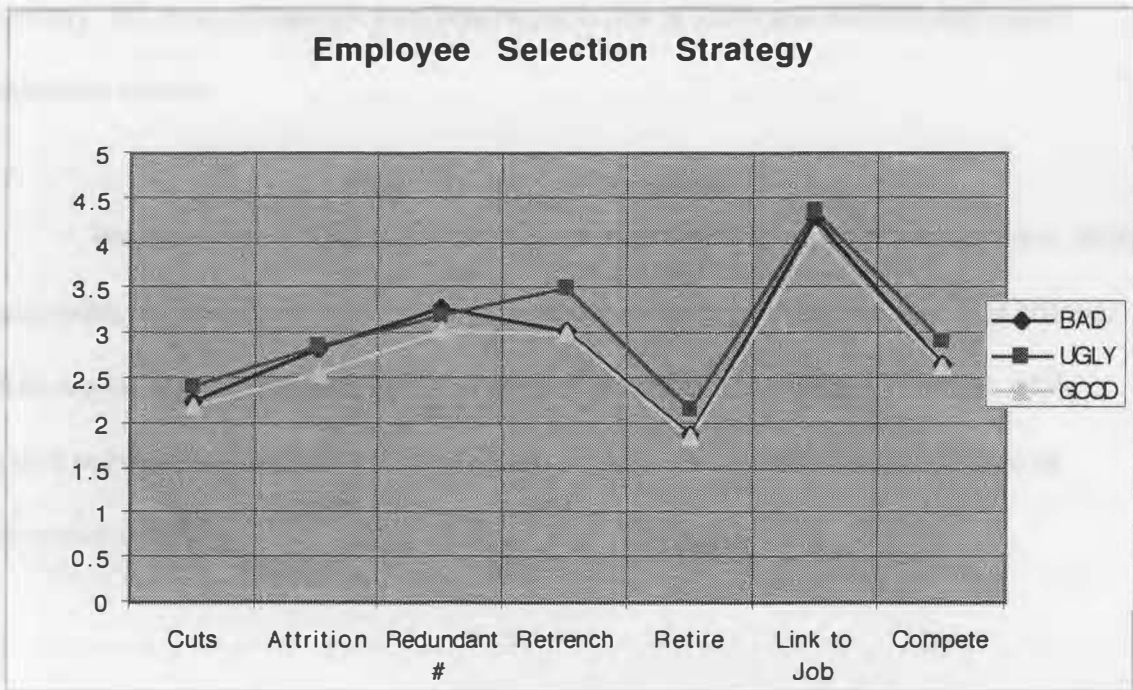
FIGURE 5.6
DOWNSIZING SELECTION STRATEGY
MEANS PLOT FOR EMPLOYEES

There was variation in the criteria used by organisations for selecting both

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managers and employees for retrenchment. In the case of managerial selection, Good organisations tended to rely on the managerial performance, while bad organisations placed the least reliance on performance as a selection criterion. Ugly organisations selected managers for retrenchment on the basis of experience and industrial relations activity. All three groupings were equivalent in use of skills and abilities and age as selection criteria.

For employees, Ugly organisations reported the highest use of performance, skills and abilities, experience, and industrial relations activity as employee selection criteria. Bad organisations were least likely to use performance as a selection criterion, while Good organisations reported the lowest use of skills and abilities and experience as selection criteria.

CHAPTER 6

SUMMARY AND CONCLUSIONS

6.1 Introduction

This chapter discusses the conclusions and implications resulting from the analysis of data presented in chapters 4 and 5. The findings from each research question are examined first within the context of the research in this study and then in reference to the previous research outlined in chapter 2. This discussion then provides the context for the next section, which focuses on the qualitative findings regarding the research problem developed in this study, including insights discovered in the case studies.

The third section of this chapter then examines the implications of this study for the wider body of knowledge, including not only the parent fields but also other related disciplines that were not covered in chapter 2. Following this, the implications of this research for practitioners are examined in the next section, which includes checklists for managers that incorporate the research findings. The final sections of this chapter discuss the limitations to research that became evident during the progress of the study and the implications of this study for further research.

6.2 Conclusions About the Research Questions

The research questions examined in this study were:

(1) Are retention and loss of key employees and key managers associated with organisational performance in downsizing organisations?

(2) What downsizing selection processes in downsizing organisations are associated with the loss and retention of key employees and key managers?

The following sections examine these research questions, beginning with a discussion of the findings in regard to organisational performance in downsizing organisations.

6.2.1 Organisational Performance

This study found that in the majority of companies, organisational downsizing does not improve an organisation's financial performance. Thus the findings differ with the view that downsizing is an effective tool for achieving economic turnaround (Robbins & Pearce, 1992; Pearce & Robbins, 1994; Bunning, 1990; Hambrick & Schecter, 1983) and confirms other research that suggests that downsizing does not improve financial performance (Morris et al, 1999; Barker & Mone, 1994; Cascio, 1994; Henkoff, 1990).

This study also concludes that in the majority of companies, organisational downsizing does not improve employee performance. The results of this research thus support the inference, based on anecdotal evidence, that downsizing adversely affects employee performance in most organisations (Baily, 1996; Kets de Vries & Balazs, 1997; Labib & Appelbaum, 1993).

6.2.2 Loss of Key Workers and Organisational Performance

This study provides empirical evidence that the loss of key employees and managers adversely affects both financial and employee performance in downsizing organisations. It has been suggested by several writers (Brown, 1994; Hitt et al 1994; Isabella, 1989), largely based on anecdotal evidence, that downsizing can result in the loss of key workers. What has not been substantiated, until now, is that the loss of key managers and employees adversely affects both financial and employee performance. This result is important for both theoretical and practical reasons. Much of the justification for downsizing is based on the perception that organisational restructuring is a necessary intervention that is required in order for a firm to achieve financial turnaround (Raum and Soniat, 1993; Robbins and Pearce, 1992; Pearce and Robbins, 1994; Grinyer and McKiernan, 1990). Many theoreticians and researchers have acknowledged that downsizing may be needed in order for a firm to extricate itself from a financial crisis, but that the restructuring must be done in such a way as to enable the organisation to perform over the longer term (Arogyaswamy, Barker, and Yasai-Ardekani, 1995; Arogyaswamy and Yasai-Ardekani, 1997; Weitzel and Jonsson, 1989).

The results of this study suggest a means of combining these short-term and longer-term strategies. The implication of this research is that downsizing may indeed provide an avenue for cost reduction, but further that the organisation must ensure that the employees and managers who leave the firm are not the ones needed for longer-term performance.

This study also provides a means of reconciling the dichotomy of employee treatment when hiring as compared to downsizing. The results of this study suggest that those workers who are crucial to long-term organisational performance are strategic assets to be nurtured and developed as much during periods of organisational restructuring as in times of expansion. This is an important finding and the implications of this discovery are discussed in more detail in following sections.

6.2.3   Selection Process and the Loss of Key Workers

Employees in downsizing organisations decide to stay or leave for a variety of reasons. In some cases the factors influencing this decision are controlled by the employee, while in others they are driven by the organisation. This study defined the stay or leave decision process as "the selection process" and took the view that the selection process includes actions that occur at a variety of decision points throughout the downsizing process , beginning with the catalyst that initiates the organisation's decision to downsize, and including the goals of the downsizing process, the targets of the downsizing, the strategies used to accomplish staff reductions, and finally, the way

in which specific employees are selected, or the selection process itself. Each of these dimensions was examined in this study in order to determine the association between the variables that made up these dimensions and the loss and retention of key managers and key employees. These selection process dimensions are examined in more detail in the following paragraphs, beginning with the first one, the downsizing catalyst.

Downsizing catalyst

The loss of key workers was associated with the downsizing catalyst dimension, but this relationship varied between managers and employees because of different variables within the dimension. For managers, two variables were associated with managerial loss with the largest contributor being that of downsizing in response to a requirement to conform to government policy . The second greatest contributor for managers was a need to achieve economic turnaround. For employees, there was a statistically significant association between loss of key employees and those organisations that initiated downsizing as a means to achieve economic turnaround.

Downsizing goal

Previous research (Cameron et al 1991; Cameron, 1994; Freeman & Cameron, 1993) had argued that organisations that downsize in order to attain longer term, systemic change are more likely to achieve downsizing success than

those having short-term economic goals. These researchers argue that for most organisations, if the goal of the downsizing is to eliminate a proportion of staff, the downsizing process will be unsuccessful. On the other hand, for most organisations, the downsizing process is successful if the goal of the restructuring is to change the organisational culture. This study found no significant relationship between loss and retention of key workers as a result of the goals of elimination of a proportion of staff or changing the organisational culture. The study did find, however, that organisations lost key workers and key managers when the aim of the downsizing was the elimination of layers of organisational structure, or delayering.

Downsizing target

There has been little empirical research on the relationship between the choice of downsizing target and whether or not this has an influence on loss and retention of key workers. The results of this study indicated a statistically significant association between the targeting of specific sites for closure and the loss of both key managers and key employees. There was no statistically significant association between loss and retention of key workers and the targeting of geographic locations, organisational areas, or specific jobs.

Competitive selection process

The interview stage of this study had shown that selection of workers during organisational restructuring could be a complex, iterative process. The survey stage provided evidence that there was no significant relationship between loss of key workers and whether or not this occurred as a result of job redundancy (employees closely linked to their jobs) as contrasted with a competitive selection process (employees not linked to jobs so much as linked to selection criteria). There was also no evidence that use of an iterative selection process affected loss and retention of key workers.

Selection strategy

Previous research (Cameron et al 1991; Cameron, 1994; Freeman & Cameron, 1993) has argued that the use of attrition as a selection strategy has a deleterious effect on the success of the downsizing process. This study found no evidence to substantiate this conclusion. There were differences in outcomes between managers and employees and the study was able to conclude that the use of across the board cuts and involuntary retrenchment contributed to the loss of key managers and the use of voluntary redundancy contributed to the loss of key employees. These results, at least in the case of employees, confirm the conclusion of other research that use of voluntary redundancy leads to declining organisational performance (Brown, 1994; Hitt et al, 1994.

Selection criteria

The results of this study also suggested a relationship between the selection criteria used in the selection process and whether or not key managers were retained or lost during downsizing. There was a statistically significant association between the criteria of skills and abilities, and experience in predicting loss and retention of key managers. There were no statistically significant correlations for employees.

6.3 Emergent Issues from the Study

This section explores the implications of the research for furthering understanding of the research questions that emerged during the course of the study. The discussion included in this section incorporates qualitative findings about the research problems that were developed in the case studies and which were then used to inform the survey, and also discusses those insights derived from the survey stage of the research that had not been evident in the interviews.

6.3.1 Case Study Results and Research Issues

There were several issues that emerged from the case studies that had not been evident in the literature and which were then used to inform the development of the survey. The first of these was the fact that for many organisations, employee selection for retrenchment or retention was often an iterative, rather than a one-time, process.

Many organisations used several different procedures as they went about the process of downsizing. For example, based on a review of an organisation's core competencies, sets of jobs might be made redundant and the incumbent employees in these jobs might then be retrenched. The organisation might then examine the remaining job sets for duplication and inefficiency, determining that some of these jobs should be eliminated. Faced with the problem of "more people than jobs", a competitive selection process would then be used to screen the remaining employees for retention or retrenchment. Some organisations added other strategies to the process, eliminating additional positions to achieve targeted reductions in overall staff numbers.

Process of downsizing

The case studies concluded that there were variations in the downsizing strategies that were used and there were differences in how these strategies were applied. This resulted in several different process models. Although all of the cases began the downsizing process with an analysis of core functions, from that point on the downsizing process varied between organisations.

Downsizing catalyst

The case studies provided evidence that the catalyst, or trigger, that convinced the organisation that it should downsize, also became the methodology for the organisation's retrenchment process. Thus the catalyst became a selection

process in itself. For example, an organisation that had recently merged or been subjected to takeover could expect large scale restructuring as a result of elimination of duplicated functions within the merged companies. Public sector companies, as evidenced by Organisation E, might be restructured in response to government policy directives, changing not only the number and types of workers, but also the entire strategic focus. This was not viewed as a significant issue by the case study organisations but was measured in the survey. The survey found that the catalyst was, in fact, a strong contributor to the selection process in that it affected loss and retention of key workers.

Effect of consultant participation in planning

It was discovered in the case studies that several organisations had made use of the same consultants in order to facilitate the downsizing planning process. It was thought that this might influence how downsizing was carried out by the organisation in that the consultants might recommend a "one size fits all" downsizing process for all companies, regardless of differences in organisational characteristics. This dimension was incorporated into the survey, but the results of the survey suggested that there was no association between use of consultants and the loss and retention of key workers and that the use of consultants was not associated with organisational performance subsequent to the downsizing.

Industrial relations activity as a selection criterion

One of the organisations in the interview stage of the study used industrial relations activity as a selection criterion for employee retrenchment. The purpose of this was to retrench employees who, it was felt by the organisation, inhibited organisational performance because of their industrial relations activity. This element was incorporated into the survey and although there was some association between use of industrial relations activity as a selection criterion and membership in the "Good"- "Bad"- "Ugly" grouping, the correlation was not statistically significant because of the small number of organisations reporting they used this measure.

Downsizing in a turbulent environment

One of the public sector organisations stated that the downsizing process had been implemented in the midst of several other, major, organisational changes that involved changing the organisational culture, adapting the organisational structure to a new, government-determined protocol, and privatising the department. The result of this was a disruptive period of change in the organisation's structure, workforce makeup, and strategic focus. The manager in this case suggested that it was very difficult to attribute cause and effect in to the downsizing process in that several change processes were in work simultaneously. This issue should be more closely examined in further research with an aim to

isolating the impact of the various processes when organisations undergo substantial change.

Loss of key employees, downsizing targets, and selection strategies

Only a few of the case study organisations provided evidence that they had lost key employees as a result of the downsizing process. Those organisations that did lose key workers suggested that this did not harm organisational performance.

The case study organisations varied in what they targeted for downsizing. Some of these targets included elimination of non-core functions, outsourcing of support activities, elimination of duplicated jobs, and elimination of departments or sections that no longer fitted the government-directed structure. The interview respondents did not view the target of the downsizing as relevant to the success or failure of the downsizing process.

Selection strategies also varied among the interview respondents but this was not viewed by the organisation as a significant issue.

6.3.2   Survey Results and Research Issues

This section examines the results of the survey and discusses how these data fit the research issues developed from the literature and the issues that were evident in the interview stage of the research. Several items, such as demographic information, were measured in order to provide background to the study. It was found, however, in the

course of the analysis, that some of these demographic variables were associated with the loss and retention of key managers and employees. Although these had not been included as research issues, the results are discussed in this study in order to provide a further understanding of the downsizing process. It was found, for example, that some three-quarters of certain kinds of organisations, such as mining companies, and utility providers (gas, electricity and water) lost key managers during downsizing. Some two thirds of the finance and insurance companies lost key managers and around half of government administration and defence organisations lost key managers. On the other hand, some 60% of other types of organisations, such as retail and wholesale companies, reported loss of key managers. A very large proportion, over 80%, of communications and information technology-related organisations reported that they retained their key managers.

There was also found to be an association between the proportion of retrenched workers and the likelihood of loss of key workers. This was evident for both managers and employees and was evidenced as a direct relationship. Additionally, there was a statistically significant relationship between the size of the organisation and loss of key workers.

The catalyst that resulted in the decision to downsize was associated with loss and retention of key workers. This had not been evident in the interviews and is an issue that requires further research. This is discussed in some detail in section 6.2.3

The downsizing goal had not been seen as a significant contributor to success of the downsizing process. The survey results, however, suggested that this was, in fact,

highly associated with whether or not an organisation lost key workers. This is covered more fully in section 6.2.4.

There was no evidence in the interviews that the target of the downsizing affected loss and retention of key workers. However the survey results showed that delayering resulted in loss of both key employees and key managers.

Although there was evidence in the interviews that some organisations used a single procedure of restructuring while others underwent an iterative process, this was not seen in as statistically significant in the survey as a predictor of loss of key workers.

The use of industrial relations activity as a criterion for employee retrenchment was discovered to be operative in one of the interview organisations. Although this had not been evident in any of the other case study companies, the variable was included in the survey. It was thought that this might be found to be a significant predictor of loss of key workers particularly in industries having a significant proportion of lower skilled workers. The survey found that use of industrial relations activity as a selection criterion was a discriminator at a statistically significant level, but few organisations admitted to using this as a selection criterion. Because of the small sample size, this should not be seen as a valid predictor of key worker loss, but should be examined more closely in further research.

The interviews provided no evidence of use of seniority as a criterion for employee selection for retrenchment or retention and this was not included as a survey variable. However several companies showed evidence of a policy of "first in last out", particularly in highly unionised sectors. Seniority was used as a criterion in order to avoid union criticism of the selection process. The results of analysis, however were not

statistically significant because of the small respondent sample, but this issue should be examined in further research. It is possible that the industrial relations stance of certain industrial areas, and indeed some areas within the public sector, may have a significant effect on how the organisation goes about downsizing.

6.3.3 Contributions to Knowledge

The research in this study has provided a contribution to knowledge in three primary areas. These include discovery of the close relationship between retention of key workers and successful downsizing, the development of a theoretical framework that helps provide a better understanding of the downsizing process, and the differentiation of the contribution of managers versus employees to organisational performance subsequent to downsizing. These issues are discussed in more detail below.

The issue of greatest contribution to knowledge that results from this research study is the discovery that a downsizing organisation's ability to retain its key workers and managers directly influences its performance subsequent to downsizing. Another important contribution is the determination of a link between the employee selection process and retention or loss of key workers.

Another important contribution to knowledge is the development of a research framework that provides a basis for furthering the understanding of the processes at work when organisations restructure. This research framework can be seen to now include selection as an important contributor to organisational performance and retention of key workers. Additionally, several variables have been shown to act upon the selection process, including the catalyst that precipitates the downsizing, the goals of the

downsizing, the targets of the downsizing, the downsizing selection strategies, the selection process, and the criteria used in selection.

Another useful contribution is the classification system that has been derived in this research to categorise organisational performance. The two factors of employee performance and financial performance constitute a meaningful way in which organisations can be classified according to performance.

The results of this study are also unique in that the research examines both managers and employees. Previous research has tended to emphasise only the contribution of managers to organisational performance and has overlooked the performance of employees. The fact that employees and managers influence organisational performance in different ways and are affected in turn by a range of differing influences is a new contribution to knowledge.

6.4 Implications for Theory

This section provides a broader picture of the research findings within the body of knowledge that is provided in the previous. The discussion in this section focuses on two main areas, examining first the implications of this research for the theoretical framework developed by Kozlowski et al (1993). It should be recalled that the theoretical model developed by Kozlowski et al (1993) was the basis for the interview structure and for the survey. The second consideration for theoretical implications is in the area of human resource management theory.

6.4.1 Implications for the Theoretical Framework

This section examines the implications of the research for the theoretical model developed in Kozlowski et al (1993). The model is shown in chapter 2 and is reproduced here as Figure 6.1. The Thornhill and Saunders (1999) and Kozlowski et al (1997) downsizing models describe the restructuring process as a series of events that begin with the organisation's determination to downsize. This decision is influenced by the characteristics of the organisation and the depth and focus of environmental scanning. After scanning the environment, the organisation then establishes a strategy for the downsizing process, including the determination of downsizing targets (such as individual plants, geographic locations, or specific work areas) and downsizing strategies, which, in the context of the theoretical framework and within this study, comprise the way in which the organisation goes about reducing staff numbers.
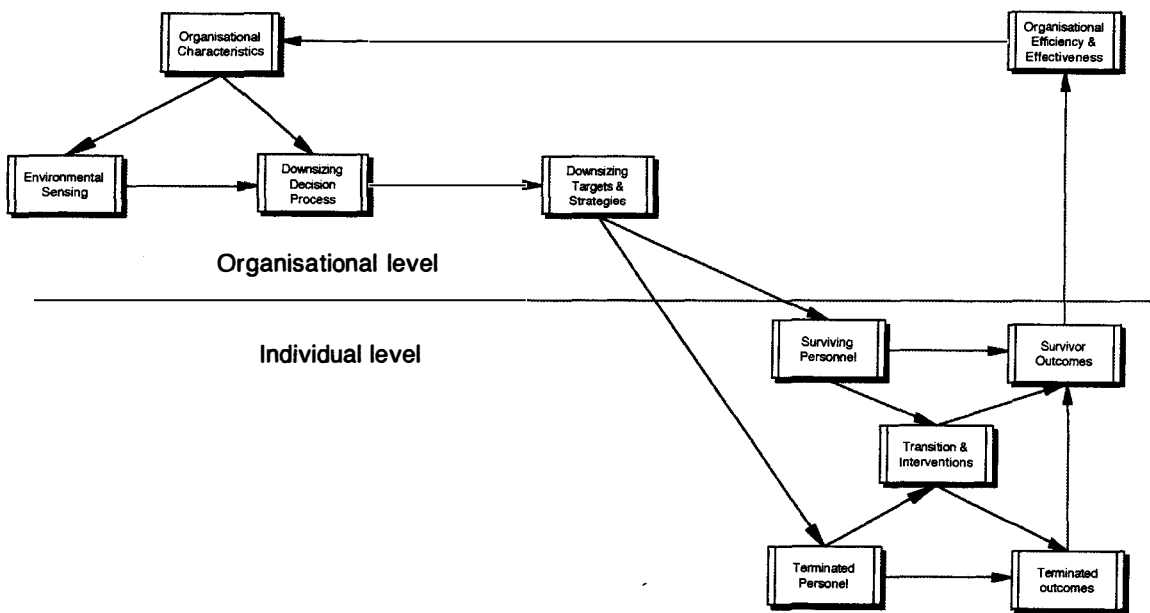
Figure 6.1
Thornhill and Saunders,
Kozlowski et al Conceptual
Framework

The downsizing process results in two groups of workers: the survivors of the

downsizing and terminated personnel. The emphasis of research in this model is on

minimisation of the negative impacts of the downsizing on the surviving employees. If

this is successful, the model theorises, the result is organisational effectiveness and

efficiency.

The research outcomes of this study suggest several important modifications to

these models. The revised conceptual framework is shown as Figure 6.2, with

modifications to the model numbered and shown in bold. The numbers signify the

chronological sequence of events in the downsizing process. The results of this study

suggest an interrelationshp between the catalyst that precipitates the downsizing decision

and the retention or loss of key workers. The results also argue for an association

between the type of goal established for the restructuring, the selection methods that are

used, and the selection process (which is defined as encompassing all of the

interventions that affect the retention or loss of key workers).
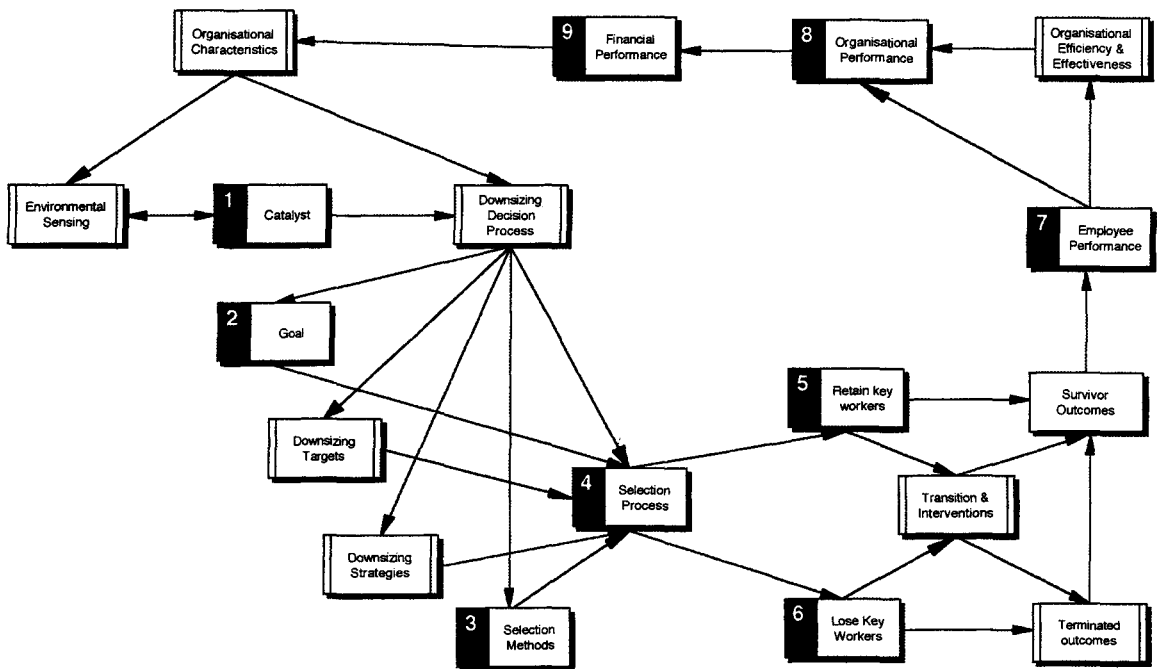
Figure 6.2
Revised Conceptual
Framework

The association between the selection process and the loss and retention of key

workers is incorporated in the revised conceptual model. This is shown as an intervening

variable between the downsizing decision process and the outcomes for survivors and

terminated employees. The Kozlowski model takes into account the importance of

survivor performance subsequent to downsizing and denotes interventions that are

designed to ensure a minimisation of negative impact on the survivors. The results of

this study show the importance of retaining key workers and not just ensuring that the

survivors are minimally affected by the downsizing. It is important that the organisation

proactively targets those workers whose performance is crucial to organisational function well prior to beginning the downsizing process.

The revised model also provides a better understanding of the dimensions that make up the organisation's performance subsequent to downsizing. The Kozlowski Model does not address the dimensions that make up organisational performance except as being characterised by organisational efficiency and effectiveness. This is an important issue and has been debated in several arenas, including the literature addressing the value-adding potential of human resource management (Guest, 1993; Legge, 1995; Singh, 1996), and in discussion of measurement of downsizing success (Morris et al, 1999).

The results of this study suggested a two-factor model of organisational performance based on employee variables and financial indicators. Because the underlying assessment of organisational performance is based on financial indicators, this research thus takes the position that employee performance intervenes between organisational performance and human resource management practices. It is the implementation of employee motivation, organisational commitment, job satisfaction, and productivity that then results in organisational performance. This may also explain the findings of other researchers (Morris et al, 1999) and confirmed in this research, that much of the variation that made up the differences in organisational performance is attributable to employee performance factors. This could explain the relatively large impact of employee performance, compared to financial performance in the variation making up the differences in the cluster composition found in this research study. Although most organisations did not improve their financial performance, the

predominant variation in cluster membership was attributable to employee, rather than financial, performance.

Thus the revised version of the conceptual model shows the survivor outcomes of downsizing as leading to changes in employee performance, and thus resulting in modifications to organisational efficiency and effectiveness (as shown in the Kozlowski model). The outcomes of these variables then affect organisational performance and finally financial performance.

Kozlowski et al (1993) argue that successful downsizing is reliant in large measure on a sophisticated HRM system. The research in this study substantiates this proposition . If a downsizing organisation is to successfully retain its key workers through the restructuring process, the firm must know who its key workers are before it announces that it is going to downsize. Thus an organisation must have in place a system of human resources planning that is able to pinpoint core competencies and skills, and is able to target which individuals have them. The firm must also be able to measure employee performance on the job and qualitative assign value to its employees' contribution to the company's bottom line. The HR function in this model also must contain a sophisticated employee staffing system that is able to predict job performance in a meaningful way. The same processes that are used for employee selection are thus brought to bear on the issue of organisational restructuring.

The revised conceptual framework is therefore an integrated model showing the relationships between the downsizing decision process, the employee selection process, the retention or loss of key workers, and organisational performance.

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6.4.2 Implications for Human Resource Management Theory

There has been an ongoing critical discussion regarding human resource management theory and the development of a theoretical research framework (Storey, 1995; Singh, 1996; Legge, 1995). It has been suggested (Guest, 1997) that the theories on HRM can be classified as strategic, descriptive, and normative. Guest (1997) argues that although each of these three approaches to HRM theory has a foundation in a theoretical basis, none of the approaches is able to quantify the dimensions of HRM policy and practice in a way that is conducive to empirical research (Guest, 1997).

Another, alternative model of HRM, the position taken by this research study, is that the paradigm adopted by an organisation's HRM function is determined by how the organisation perceives its employees. This conceptual view suggests there are two ways of valuing employees, known as the "hard option" and the "soft option" (Guest, 1987). The "hard" version of human resource management could be described as "utilitarian instrumentalism" (Legge, 1995, p. 66). In this paradigm, employees are one of several factors that are involved in production, along with materials and capital. In this view, workers are one of several expenses that are involved with doing business.

The "soft" version of HRM can be described as "developmental humanism" (Legge, 1995, p. 66). In this version of HRM, employees are viewed as valued assets, helping an organisation attain competitive advantage through their commitment, flexibility, and the quality of their competencies. Both of these HRM models see the importance of a close 'fit' between an organisation's business strategies and its human resource management strategies and policies.

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The research results in this study strongly suggest that organisational performance in downsizing organisations is closely associated with whether or not the firm retains or loses its key employees. This argues, in turn, a confirmation of the 'soft' or humanistic view of HRM. The research in this study has shown that when organisations perceive employees as costs to be retrenched in order to achieve economic targets, the odds of achieving successful downsizing performance are greatly reduced. On the other hand, when organisations are aware of who and where their crucial employees and managers are positioned, and when these organisations take proactive measures to ensure retention of these workers during restructuring, the chances of an effective downsizing process are much improved. Therefore the research in this study supports the premise that employees should be viewed as assets, rather than costs.

This study reinforces the view of the implicit theory of human resource management in arguing that effective organisational performance is achieved through valuing employees as strategic organisational resources, rather than costs. This adds weight to the suggestion by Guest (1997) that measurement of organisational performance is a central issue to the formulation of a theoretical basis for HRM and that effective organisational performance is achieved through effective utilisation, rather than exploitation, of human resources.

In summary, this research reinforces the view in human resource management theory that high organisational performance results when employees are valued as assets to be nurtured and developed rather than costs to be rationalised in order to achieve economic targets.

6.5   Implications for Policy and Practice

This section looks at the implications that the research provides for policy and practice. The practical implications for managers are covered in section 6.5.1. and the strategies that lead to retention of key workers are covered in section 6.5.2.

6.5.1 Implications for Management

The selection process is a complex issue, in that either employees or the organisation may make the selection decision, and the employee decision may in turn be affected by organisational influences, such as attractive redundancy packages. It could be surmised that the employee decision to voluntarily leave a downsizing company would be affected by how and when the organisation announces its intent to downsize, whether or not voluntary redundancy is offered, and the individual employee's perception of the attractiveness of redundancy packages. Additionally, employees might quit the organisation at the first sign of restructuring, regardless of the availability of redundancy packages. These could be key workers, with marketable skills, knowing that they can find good jobs elsewhere.

In addition to being offered at the outset of organisational restructuring, voluntary redundancy may be used later on in the downsizing process. This might occur in the case of specific jobs, particular job areas, or even specific employees. Again, attractive redundancy packages might be used to influence the decision to leave the organisation, and this might result in the loss of key workers.

Conversely, the organisation may control much of the selection decision process. For example if the primary goal of organisational restructuring is to eliminate a proportion of staff or eliminate organisational layers, key workers might be lost if they hold positions within those areas. The choice of downsizing strategy might affect the loss of key workers, as in for example, the use of involuntary retrenchment, by not offering redundancy packages, by not allowing voluntary redundancy, by offering voluntary redundancy but only in selective jobs or areas, or by use of a competitive selection process.

The results of this study also bring into question the practice of having employees re-apply for their old jobs in order to select the higher performers. This practice may lead to problems in several areas. First, high-performing employees may decide to leave the organisation for more attractive jobs elsewhere. It might be determined that if one is to be subjected to re-application for one's present position, why not apply elsewhere at a position in which the organisation values employees more? Secondly, the organisation should already know who its key workers are before the restructuring is announced to its workforce. Having incumbent workers re-apply for their old jobs sends several mixed signals and can result in loss of key workers.

One of the case studies in this study argued that theirs was a successful downsizing process based on the fact that the restructuring did not use voluntary redundancy packages. High performing employees were specifically targeted:

> High performers were targeted early and because of the cultural survey, broad areas of motivation (based on the culture of the particular organisation) and knowledge of each manager enabled the organisation to discuss with the employee the "vision" of the "new [organisation]" in order to convince the employee to stay. There were no attractive

redundancy packages or early retirement options, so employees who left were on their own. Conversely, no incentives were offered beforehand to try to retain key employees. This was stated up front, early on. (Interviewee, Organisation C)

Organisation C did not offer redundancy packages in order to make voluntary redundancy attractive, nor was it pro-active in offering retention incentives for high performing employees. It should also be noted that the bank made use of an evaluation system (or what was termed a "cultural survey") to pinpoint high performing employees. This process was developed especially for the restructuring process and thus was not in place prior to the organisation's realisation of the need to downsize. It is possible, however that there was some carry-over of already known information from the performance appraisal system that had already been in place prior to deciding to restructure.

It's not how many employees are retrenched that is related to downsizing effectiveness, but rather how the process is carried out (Cameron et al, 1993). Others have suggested that " .... "core" employees ....[should] enjoy greater employment security (similar to the life time employment policy of many Japanese firms), be retained by the firm over large variations in output level and be protected from typical cyclical and seasonal fluctuations common to many businesses (Niensted, 1989, cited in Mathys and Burack, 1993).

6.5.2 Implications for Human Resources Managers

Probably the most obvious conclusion to be reached as a result of this study is that an organisation must know who its key workers are well in advance of the decision to

downsize. The firm must know where these employees and managers reside within the company, and most importantly, must know why they are key workers. Once the downsizing decision is made, it is too late to begin to measure employee performance and start classifying core strategic workers. At the first hint that an organisation is to undergo restructuring, a firm's high performing employees will begin to seek jobs elsewhere, knowing that their skills and abilities will be of use to other firms. The human resource management implication of this conclusion is the requirement to have a performance measurement system in place that is integrated with the organisation's strategic business plans, thus enabling identification of the employees who possess the firm's core competencies.

Research has shown that the reasons for employees leaving an organisation are not necessarily the same as the reasons for staying (Mone, 1994). In the case of downsizing organisations, much of the reason for leaving a company has to do with the employee's sense of job insecurity (Stum, 1999). Employees will begin to look for jobs elsewhere if it is perceived that their jobs may be at stake when the firm restructures. Unfortunately, the employees who are the highest performers may be the ones most tempted to leave, as they know they can find good jobs elsewhere (Appelbaum et al, 1999; Brown, 1994). Conversely, it is the sub-standard employees who may be tempted to dig in their heels and remain, knowing that it may be difficult to find another like job with a different company. The organisation must therefore be proactive in ensuring that its core employees and managers perceive that their jobs are secure. One way of limiting the turnover of key workers is through the proactive offering of inducements to not leave

the organisation, and to only offer redundancy packages to employees whose performance is substandard or whose competencies no longer fit the needs of the company (Allan, 1997). This fits with the results of this and other studies, in which the use of across-the-board redundancy packages served to encourage not just low-performing employees to leave, but high-performers. (Hitt et al, 1994) The result was a diminishing of the organisation's performance subsequent to the downsizing due to loss of key skills.

Based on the results of this study, a checklist can be developed for retention of both key managers and key employees. These are shown in more detail below:

CHECKLIST FOR RETENTION OF KEY MANAGERS

Prior to downsizing
The organisation must have:
- Performance evaluation system
- Development of core competencies analysis system
- Awareness of who key managers are, where they are employed, and why they are important to the organisation
- managerial selection process for retention to core competencies

When the decision is made to downsize
Be aware of the following at risk organisations that show a disproportionate loss of key managers:

Mining
Electricity
Gas
Water
Finance
Insurance
Government administration
Defence organisations

Be aware of the effect on loss of key managers due to:
- a preoccupation with economic turnaround
- conformance to government policy
- size of organisation: the larger the organisation, the more likely the loss of key managers
- proportion (depth) of staff reductions

During the implementation of downsizing
Avoid the following:
- Transfer to lower paying jobs
- Across the board redundancy payouts

If delayering or closing specific plant sites, provide for retention of key managers in redundant positions by offering incentives to stay and by transferring to other positions

Selection strategies
- Avoid across the board cuts
- Avoid involuntary retrenchment

Select managers to be retained using
- Competencies, key skills and abilities
- Experience
- Targeted selection and redundancy packages

Other issues
- Policy to ensure job security for key managers
- Communicate the policy prior to downsizing

FIGURE 6.3
CHECKLIST FOR RETENTION OF KEY MANAGERS

CHECKLIST FOR RETENTION OF KEY EMPLOYEES

Prior to downsizing
The organisation must have:
- Performance evaluation system
- Development of core competencies analysis system
- Awareness of who key managers and employees are, where they are employed, and why they are important to the organisation
- Link employee/managerial selection process for retention to core competencies

When the decision is made to downsize
- Be aware of the impact of the size of the organisation on loss of key employees
- Be aware of the effect of merger or takeover on loss of key employees
- If delayering or closing targeted sites, develop proactive incentives to retain key employees and if in redundant positions, transfer them to other positions so that their core competencies can be retained

Avoid the following alternatives to redundancy
Transfer to lower paying jobs

Selection strategies
Avoid voluntary redundancy

Other issues
- Policy to ensure job security for key managers
- Communicate the policy prior to downsizing

FIGURE 6.4
CHECKLIST FOR RETENTION OF KEY EMPLOYEES

In summary, this study shows that in large part the way in which the process is carried out is measured by whether or not the organisation lost or retained its key workers. In other words, the downsizing should be aimed at eliminating work, not people or more specifically, at eliminating effort, and not necessarily jobs or employees.

6.6 Limitations

Section 1.7 outlined major limitations of the research that were designed into the research and are thus boundaries to the research problem. This section discusses other limitations that became apparent during the progress of the research.

The sampling frame for this study resulted in an over-representation of manufacturing companies. This is a limitation to the research in that there is a potential for sampling bias influencing the analysis of data. This in turn inhibits the ability of the survey to provide a generalisable result across differing types of organisation due to the small number of responses from those types of firms.

Although the survey queried the use of redundancy packages, no differentiation was made between severance pay (involuntary retrenchment), targeted retrenchment, and voluntary redundancy packages. A large proportion of downsizing organisations used redundancy packages, but because of the way in which the survey was structured, the study was unable to determine if this was associated with loss of key managers or employees. The use of severance pay would not influence loss of key employees given that only those who had been involuntarily retrenched would receive a payout. On the

other hand, previous research has suggested that attractive redundancy packages designed to foster voluntary redundancy result in the loss of key workers (.

The survey did not operationalise the dimensions of what is considered to be a key worker and instead used a global definition as set by the organisation. This uses both self-assessment by the organisation, which is a subjective, qualitative measurement, and a global definition, as opposed to operationalising the elements of the variable. This is a limitation to the research in that the definition of what is meant by a "key employee" or "key manager" is left to the organisation to determine. The issues involved in this type of measurement have already been discussed in chapter 5, but it is acknowledged that this can constitute a limitation to the research.

The survey did not specify a particular timeframe for measurement of the organisational performance outcomes. Previous research has shown that although many organisations exhibit short-term improvements in financial performance, over the longer term they often suffer from declines in performance (Morris et al, 1999). Without a specific time window to anchor the response, the period of time in question was therefore left up to the organisation to determine. It is quite possible that the responses to this question were short-term, long-term, or even a combination of the two. This constitutes an acknowledged limitation to the research.

Previous research (Cameron, 1993) has suggested that organisations downsized more effectively when they used both short term (across-the-board cuts) and long term (attrition) strategies. The survey examined the use of short term and longer-term strategies individually but did not directly measure the use of combinations of strategies.

6.7 Implications for Further Research

This study has examined the downsizing process from a strictly Australian perspective. Additional studies, using a methodology similar to that in this research, are needed in order to provide a comparison across global industries. For example, Australia has a strong industrial relations basis that could affect organisational outcomes. Other issues that could affect the performance of a downsizing organisation include the legal framework, the human resource management perspective, government intervention, and the national culture.

Further research is required in order to analyse the effects of short term and longer-term downsizing strategies. Cameron et al (1991) noted the effects of the combining of these two strategies and argued that successful downsizing was usually associated with the use of both short term and longer-term strategies. Organisations usually downsize in response to economic stress, and this often results in strategies oriented toward short-term interventions designed to achieve economic turnaround. However, companies did not generally improve their financial performance in the longer term (Morris et al, 1999) and downsizing success was related more closely to the reason for restructuring rather than to the size of staff cuts.

Guest and Hoque (1994) discovered the existence of organisations that evidenced no differences in productivity and product quality despite the deliberate use of poor HRM and employment relations practices. While it can be argued that these "ugly organisations" might have been much more successful had they utilised what is commonly described as "best practice" human resource management, the fact remains

that these companies were high performers despite the fact that they were not pleasant places in which to work . The results of this study pointed to a similar cluster of organisations, ones that reported low commitment, lessened motivation, and lowered job satisfaction but were still able to attain improved financial performance. This suggests a need for further research in this area in order to investigate the relationships between employee and organisational performance.

Several researchers have argued the case for delayering (Cameron, Freeman & Mishra, 1991; Cascio, 199. The proponents of this strategy suggest that removing extra layers in the organisational structure can improve communication, can provide a climate for increased employee participation, and can result in a stronger sense of organisational commitment (Cameron, Freeman & Mishra, 1991). The results of this study, however challenge that conclusion and suggest that delayering is associated with declining organisational performance. Further research is needed in this area, based on longitudinal studies in a controlled environment, in order to study the long-term effects of delayering and to develop a better understanding of this phenomenon.

The results of this study suggest an association between the process of employee selection and the retention or loss of key workers. The study also suggests an association between loss of workers and organisational performance. Further research is needed in order to provide a better understanding of the relationships between selection and organisational performance. It is quite possible that additional intervening variables provide a link between selection, loss of workers and organisational performance and that this research framework will lead to a better understanding of the downsizing process.

The results of this study did not provide insight into the relationship between the use of attractive redundancy packages and organisational performance. It is known that when organisations use redundancy payouts as a means of fostering voluntary redundancy, many high performing employees leave because they know they can find high paying jobs elsewhere (Brockner, 1992; Hitt, 1994; Mone, 1994). This study provides the inference of a relationship between voluntary redundancy packages and organisational performance in that key employees, as well as other workers, might take advantage of voluntary redundancy knowing that they can find other jobs. This would lead to a loss of key workers and would result in reduced organisational performance. However this premise was not directly examined in this study and should be the subject of further research.

There was evidence in this study of the use of employee seniority as a selection criterion. The practice was particularly evident in organisations subject to a high degree of union activity and was utilised in order to defuse any controversy that might result from retrenchment of union members. The underlying premise was one of "last in first out", and retrenchment of the least senior employees was seen as a way of providing a semblance of equity. However the relationship between use of seniority as a selection criterion and organisational performance was not examined in this study and should be the subject of further research.

One of the case study organisations candidly admitted fact that employees who were notorious as industrial activists were among the first workers to be retrenched. The use of union activism as a selection criterion was included in the survey and although few organisations admitted to the practice, the results were statistically significant as a

predictor of organisational performance. This issue should be investigated in further research, particularly in view of the association of use of this criterion with declining organisational performance.

There was some evidence in this study of a linkage between retrenchment selection and the relative skill levels of the retrenched employees. Organisations seemed willing to retrench large numbers of workers in order to achieve economic aims if those employees were relatively unskilled. It is possible that this may be industry-specific, in that certain industrial sectors, such as manufacturing or mining, may have large numbers of unskilled workers who are subject retrenchment in times of economic downturn.

One of the public sector case study organisations examined in this study had undergone several simultaneous organisational changes in a relatively short period of time. The advice of the interviewee was that a company should not attempt several simultaneous change processes because of the disruptiveness of the procedure. Further research is needed in this area in order to ascertain the interrelationships between multiple change processes and the possible effects these may have on loss and retention of key employees.

6.8 Conclusions

This research study sought to discover whether or not there was a relationship between the employee retrenchment selection process, the loss and retention of key workers, and the effect that this loss and retention might have on organisational performance. The study discovered several issues, the most important of which was the

fact that organisational performance in downsizing companies is directly associated with the loss and retention of key workers. This has relevance for the way in which human resource management is practiced, the processes used by organisations for downsizing, and the way in which organisations should view their employees as strategic assets to be nurtured and developed rather than costs to be rationalised.

The study shows the differences and similarities in interventional strategies in downsizing organisations between managers and employees. The study also points out the importance of selection as a means of ensuring retention of key workers.

However, several additional questions remain. Further research, using longitudinal studies, is needed into the effect of redundancy packages on loss and retention of key workers. Additionally, research is needed into the relationship between the selection process and loss and retention of key workers. Further, more data are needed on the role of the human resource management function and organisational restructuring.

This study confirms the findings of others that organisational restructuring generally does not improve an organisation's financial performance. The study, however, adds to the knowledge of the phenomenon in that it shows why this might be so.

The main finding resulting from this study is that it is no longer possible to use downsizing as an excuse to marginalise employees through economic rationalism. Even in periods of economic downturn and organisational restructuring, an organisation's key workers should be viewed as core, strategic assets, essential to the performance of the

firm, and should be nurtured and developed rather than rejected as just another cost of doing business.

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APPENDIX A
CASE STUDY INTERVIEW COVER LETTER

<div align="right">

C.A. Clabaugh
Faculty of Business
School of Management
Edith Cowan University

</div>

DATE

ORGANISATION
Dear   ,

The purpose of this letter is to discuss the research which I propose to conduct at your organisation. The research will involve a single interview with a senior human resource management representative and will be of approximately one-half hour in duration.

The purpose of this study will be to investigate the issues which surround the selection of employees for retrenchment or retention in downsizing organisations.

There have been few empirical studies of downsizing best practice and only a limited number of studies in the Australian context. Of these studies, nearly all have been concerned with downsizing strategies and the correlation of strategy to economic outcome.

The research which I am conducting will examine the human resource management interventions which occur in downsizing organisations. In order for organisational restructuring to be effective, the use of best-practice downsizing strategy must be linked to appropriate human resource management strategies. In addition, these human resource strategies must be implemented through effective human resource management practices. The method whereby individual employees are retrenched or retained is key to an analysis of the effectiveness of the downsizing process.

Should you have any queries in regard to this research, please contact me at the above number.

Allen Clabaugh

FORM OF DISCLOSURE AND INFORMED CONSENT FOR RESEARCH

Downsizing: An Analysis of Organisational Strategies and Human Resource Management Outcomes

The purpose of this study is to investigate the human resource management interventions which are utilised when an organisation undergoes restructuring. Management perspectives will be sought by way of interviews. The information gained from this study will be of great use in helping practitioners and researchers understand downsizing best practice.

If you have any questions about the study, please ask the interviewer at any stage. You may decline to participate if you so desire. The interview will be kept confidential, and only aggregate results are sought. Your identity and that of the organisation will be held confidential unless otherwise authorised by you and the appropriate organisational authority.

Any questions concerning the project entitled: *Downsizing: An Analysis of Organisational Strategies and Human Resource Management Outcomes* can be directed to:

> Allen Clabaugh BA MSc CMAHRI (Principal Investigator)
> Edith Cowan University
> School of Management

I (the participant) have read the information above and any questions I have asked have been answered to my satisfaction. I agree to participate in this activity, realising that I may withdraw at any time.

I agree that the research data gathered for this study may be published provided that neither I nor the organisation are identifiable as participating in the research.

.

_____   _____

Participant or authorised representative   Date

I, the principal investigator acknowledge the above conditions and agree to abide to the terms thereof:

_____

Investigator   Date

Interviews: contextual information

Date: _____

Organisation: _____

Respondent: _____   Position: _____

Responsiblities _____

1. Type of organisation
        Public/private

        Organisation's function

        Is your organisation part of a larger company?

        Where are the decision-making functions located? (in the local office or
elsewhere?)

2. How many employees does your organisation have?

How many managers vs. employees?

3. Why did your org014sation restructure? (pressures to downsize came from ....)

pro-active
competition
cut costs

4. What was the timeframe (when did the restructuring occur)?

5. What was the intended goal (result) of the restructuring? [specifically ask each]

        overall restructuring of the organisation
        merger/acquisition/takeover
        change organisational culture
        cut costs

cut staff
eliminate layers

6. How would you know that your restructuring had been successful?

short term

long term

7. What was the extent of the restructuring (number of employees)?

what sections of the organisation

which jobs

which employees

8. How was the restructuring to be accomplished (strategy)?

eliminate positions

combine functions

eliminate jobs

across the board cuts

9. What kinds of strategies were utilised in order to reduce staff numbers? [specifically ask about each one]

attrition

transfer

early retirement

voluntary retrenchment

involuntary retrenchment

10. How did you determine which specific employees would be retrenched/retained? [funnel]

strategic planning process

HR planning process

employee selection on the basis of

skills

performance

job/position

11. What was the involvement of the HR function in the downsizing process?

12. Were any key (important, crucial) employees lost to the organisation? (funnel: experience, skill, networks, leadership)

     what types of employees

14. How did it become evident that important employees were lost to the organisation.

15. How has the organisation since dealt with this loss of key employees?

outsourcing (skills, employees, jobs)

was outsourcing an intended or unintended result?

16. Did you keep any employees who should've been retrenched?

17. Was the restructuring successful?

18. How was this determined? [what determined successful restructuring]

19. What, in your opinion, were the HR implications of the restructuring?

20. In retrospect, what could have been done differently [perspective: HRM decisions]

optional --

18. Sophistication of the HRM system

     (1) does the organisation have these processes
     (2) were the processes applied to the restructuring process

links with the organsation's strategic planning process

job/competency analysis

performance appraisal

human resources management planning

career development

training and development

    .

ORGANISATIONAL RESTRUCTURING

1. Which of the following statements best describes the primary role of your organisation?

☐ mining   ☐ forestry and fishing

☐ electricity, gas or water supply   ☐ wholesale trade

☐ retail trade ☐ finance or insurance

☐ accommodation, cafe, or restaurant   ☐ property and business services

☐ government administration or defence   ☐ cultural

☐ manufacturing   ☐ construction

☐ transport or storage   ☐ communication services

☐ education ☐ health and community services

☐ other (please describe) _____

2. Which statement best describes the size of your organisation?

☐ 50 or less employees   ☐ 251-500   ☐ 3,001-5,000

☐ 51 - 100   ☐ 501-1,000   ☐ 5,001-10,000

☐ 101 - 250   ☐ 1,001-3,000   ☐ more than 10,000 employees

3. Has your organisation utilised any of the following in the last 7 years?

You may tick more than one box:

☐ job redesign   ☐ reduced overtime

☐ job sharing   ☐ reduced working hours

☐ freeze on hiring   ☐ freeze on pay increases

☐ reductions in pay

☐ transfer of employees to lower paying jobs

4. Has your organisation downsized in the last 7 years?

☐ Yes

☐ No

If you answered 'Yes' to question 4, please go to question 5.

If you answered 'No' to question 4, No further responses are needed. Your response in this survey will provide valuable information . Thank you for your participation in this questionnaire.

5. If you answered 'Yes' to question 4, by approximately what proportion did you decrease the size of your workforce?

☐ fewer than 5%   ☐ 20-24%

☐ 5-9%   ☐ 25-30%

☐ 10-14%   ☐ more than 30% (please specify:) _____

☐ 15-19%

6. Which statement(s) best describe(s) the role of your HRM function in the restructuring process?

      You may tick more than one box.

☐ participation in the strategic planning of the process
☐ developing downsizing strategies
☐ co-ordinating downsizing activities
☐ implementing the downsizing requirements

7. Please tick (√) the box which best describes the degree of union representation within your organisation:

☐ less than 5%   ☐ 20-24%

☐ 5-9%   ☐ 25-30%

☐ 10-14%   ☐ more than 30% (please specify:) _____

☐ 15-19%

8. Why did your organisation to decide to downsize? Please circle the number which best describes the relative importance of the following on a three point scale (1: not important; 2: somewhat important; 3: very important):

	not important		very important
urgent need to achieve economic turnaround	1	2	3
merger or takover by another organisation	1	2	3
need to improve competitive position in the medium term	1	2	3
conform to government policy	1	2	3
other (please describe briefly)	1	2	3

_____

_____

9. What did your organisation hope to accomplish through downsizing? Please circle the number which provides the importance of the following on a three point scale (1: not important; 2: somewhat importatnt; 3: very important):

	not important		very important
eliminate a proportion of staff	1	2	3
eliminate layers of organisational structure	1	2	3
change the organisation's culture	1	2	3
new business focus or direction	1	2	3
other (please describe)	1	2	3

_____

_____

10. Did you make use of consultants to effect your downsizing?

☐Yes ☐No

11. If you answered yes to question 10, what was the role of the consultants?

_____

_____

_____

12. What areas of your organisation were targetted for restructuring?

You may tick more than one box.

☐geographic locations (eg:countries or regions)

☐specific sites (eg: corporate headquarters, obsolete plants)

☐organisational areas (eg: administrative functions, research & development, HRM)

☐elimination of organisational layers

☐specific jobs

☐no specific areas were targeted

☐other areas (please describe briefly)

_____

_____

13. What was the relative degree of use of the following strategies for MANAGERS AND SUPERVISORS in your organisation's downsizing? Please indicate the use of the strategy on a five point scale:

MANAGERS AND SUPERVISORS	not used				primary strategy
across the board cuts (proportion of staff)	1	2	3	4	5
attrition	1	2	3	4	5
voluntary redundancy	1	2	3	4	5
involuntary retrenchment	1	2	3	4	5
early retirement	1	2	3	4	5
other strategy (please describe briefly)	1	2	3	4	5

14. What was the relative degree of use of the following strategies for EMPLOYEES in your organisation's downsizing? Please indicate the use of the strategy on a five point scale:

EMPLOYEES	not used			primary strategy	
across the board cuts (proportion of staff)	1	2	3	4	5
attrition	1	2	3	4	5
voluntary redundancy	1	2	3	4	5
involuntary retrenchment	1	2	3	4	5
early retirement	1	2	3	4	5
other strategy (please describe briefly)	1	2	3	4	5

15. Did your organisation provide redundancy packages for employees who were retrenched or made redundant?

MANAGERS ☐Yes ☐No
EMPLOYEES ☐Yes ☐No

16. Did your organisation use a system of outplacement for retrenched/redundant employees?

MANAGERS   ☐Yes ☐No
EMPLOYEES   ☐Yes ☐No

17. Which statement *best* describes the process used for selecting employees for redundancy or retention?

☐employees were selected in a single assessment

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☐employees were made redundant in several stages as an iterative process

☐neither of the above (briefly explain)

_____

_____

18. As a result of the restructuring process, were employees:

    transferred laterally   ☐Yes ☐No

    promoted to higher positions   ☐Yes ☐No

    demoted   ☐Yes ☐No

19. How were MANAGERS AND SUPERVISORS selected for retrenchment or retention? Please indicate the relative degree of use of the strategy on a five point scale:

	method not used				primary method
job redundancy (job redundant and employee retrenched)	1	2	3	4	5
competitive process with other employees who were similarly placed	1	2	3	4	5

20. If the selection process for MANAGERS AND SUPERVISORS was competitive, how were they selected for retrenchment or retention? Please indicate the relative degree of use on a five point scale:

	method not used				primary method
performance	1	2	3	4	5
skills/ abilities	1	2	3	4	5
experience	1	2	3	4	5
age	1	2	3	4	5
industrial relations activity	1	2	3	4	5
some other method (please describe)	1	2	3	4	5

21. How were EMPLOYEES selected for retrenchment/retention? Please indicate the relative degree of use on a five point scale:

	method not used				primary method
job redundancy (job redundant and employee retrenched)	1	2	3	4	5
competitive process with other employees who were similarly placed	1	2	3	4	5

22. If the selection process for EMPLOYEES was competitive, how were they selected for retrenchment or retention? Please indicate the relative degree of use on a five point scale:

	method not used				primary method
performance	1	2	3	4	5
skills/ abilities	1	2	3	4	5
experience	1	2	3	4	5
age	1	2	3	4	5
industrial relations activity	1	2	3	4	5
some other method (please describe)	1	2	3	4	5

23. Please assess the results of the restructuring on the basis of the following outcomes:

	decreased greatly		no change		increased greatly
productivity	1	2	3	4	5

share price	1	2	3	4	5
profits	1	2	3	4	5
employee morale	1	2	3	4	5
job satisfaction	1	2	3	4	5
employee commitment to the organisation	1	2	3	4	5
turnover	1	2	3	4	5

24. Were any EMPLOYEES lost who, in retrrospect, you would rather have retained?

☐Yes ☐No

25. If yes, what could you have done to retain these employees?

_____

_____

_____

_____

26. Were any MANAGERS AND SUPERVISORS lost who, in retrrospect, you would rather have retained?

☐Yes ☐No

27. If yes, what could you have done to retain these managers?

_____

_____

_____

_____

28. Do you anticipate that you will restructure again within the next 3 years?

⬛Yes ⬛No

29. What advice would you give to another organisation which is contemplating downsizing?

_____

_____

_____

<u>End of survey.</u>

Thank you for taking the time to complete the survey.

Churchlands
Western Australia 6018
Telephone ı
Facsimile

ORGANISATIONAL RESTRUCTURING

Questionnaire Survey

Although a great many Australian organisations have downsized in the last decade, the available evidence indicates that it has been difficult for these organisations to manage the restructuring process. Many companies report that employee morale suffers, that high performing employees tend to leave the organisation, and that oftentimes employee productivity and performance suffer This survey is part of a national research project which will examine the human resource management issues of downsizing, focusing on the following areas of interest:

• What role does human resource management have in organisational restructuring?
• How do organisations go about determining which employees are to be retrenched or retained?
• How can this process be more effectively managed?

The answers to these questions can provide a great deal of insight into how organisational restructuring may be more effectively managed. The research results will be published in a paper which will include discussion of the managerial and human resource management implications of organisational restructuring. Your support of this research will greatly improve our knowledge of an issue which, although often used as a turnaround strategy, is little understood. We urge your support by completing this questionnaire and returning it at your earliest convenience in the postage paid envelope which has been included with this survey. In order for us to begin our analysis, returning the survey by 15th December 1998 would be deeply appreciated.

Thanking you in advance,

Allen Clabaugh, AFAHRI
School of Management
Edith Cowan University

ORGANISATIONAL RESTRUCTURING

1. Which of the following statements <u>best</u> describes the <u>primary</u> role of your organisation?

1☐mining   *9*☐forestry and fishing

2☐electricity, gas or water supply   *10*☐wholesale trade

3☐retail trade   *11*☐finance or insurance

4☐accommodation, cafe, or restaurant   *12*☐property & business services

5☐government administration or defence   *13*☐cultural

6☐manufacturing   *14*☐construction

7☐transport or storage   *15*☐communication services

8☐education   *16*☐health & community services

2. Which statement best describes the size of your organisation?

1☐50 or less employees   *4*☐251-500   *7*☐3,001-5,000

2☐51 - 100   *5*☐501-1,000   *8*☐5,001-10,000

3☐101 - 250   *6*☐1,001-3,000   *9*☐more than 10,000 employees

3. Has your organisation utilised any of the following in the last 7 years?

You may tick more than one box:

☐job redesign   ☐reduced overtime

☐job sharing   ☐reduced working hours

☐freeze on hiring   ☐freeze on pay increases

☐reductions in pay

☐transfer of employees to lower paying jobs

4. Has your organisation downsized in the last 7 years?

1☐ Yes

$_2\square$ No

If you answered 'Yes' to question 4, please go to question 5.

If you answered 'No' to question 4, No further responses are needed. Your response in this survey will provide valuable information . Thank you for your participation in this questionnaire.

5. If you answered 'Yes' to question 4, by approximately what proportion did you decrease the size of your workforce?

$_1\square$ fewer than 5% $\qquad$ $_5\square$ 20-24%

$_2\square$ 5-9% $\qquad$ $_6\square$ 25-30%

$_3\square$ 10-14% $\qquad$ $_7\square$ more than 30% (please specify:) _____

$_4\square$ 15-19%

6. Which statement(s) best describe(s) the role of your HRM function in the restructuring process?

   You may tick more than one box.

$\square$ participation in the strategic planning of the process
$\square$ developing downsizing strategies
$\square$ co-ordinating downsizing activities
$\square$ implementing the downsizing requirements

7. Please tick ($\sqrt{}$) the box which best describes the degree of union representation within your organisation:

$_1\square$ less than 5% $\qquad$ $_5\square$ 20-24%

$_2\square$ 5-9% $\qquad$ $_6\square$ 25-30%

$_3\square$ 10-14% $\qquad$ $_7\square$ more than 30% (please specify:) _____

$_4\square$ 15-19%

8. Why did your organisation to decide to downsize? Please circle the number which best describes the relative importance of the following:

	not important				very important
urgent need to achieve economic turnaround	1	2	3	4	5
merger or takeover by another organisation	1	2	3	4	5
need to improve competitive position	1	2	3	4	5
conform to government policy	1	2	3	4	5
other (please describe briefly)	1	2	3	4	5

_____

_____

_____

_____

9. What did your organisation hope to accomplish through downsizing? Please circle the number which provides the relative importance of the following:

	not important				very important
eliminate a proportion of staff	1	2	3	4	5
eliminate layers of organisational structure	1	2	3	4	5
change the organisation's culture	1	2	3	4	5
new business focus or direction	1	2	3	4	5
other (please describe)	1	2	3	4	5

_____

_____

10. Did you use consultants to assist in the planning or implementation of your downsizing?

1   *2*

☐Yes ☐No

11. If you answered yes to question 10, what was the role of the consultants:

You may tick more than one box.

☐analysing core functions of the company
☐developing a cost reduction process
☐participation in the strategic planning of the process
☐developing downsizing strategies
☐co-ordinating downsizing activities
☐implementing the downsizing requirements

12. If you answered yes to question 10, how satisfied were you with the consultants' performance?

very unsatisfied				very satisfied
1	2	3	4	5

13. What areas of your organisation were targeted for restructuring?

You may tick more than one box.

☐geographic locations (eg:countries or regions)
☐specific sites (eg: corporate headquarters, obsolete plants)
☐organisational areas (eg: administrative functions, research & development, HRM)

☐ elimination of organisational layers
☐ specific jobs
☐ no specific areas were targeted
☐ other areas (please describe briefly)

_____

_____

_____

14. What was the relative degree of use of the following strategies for MANAGERS AND SUPERVISORS in your organisation's downsizing? Please indicate the use of the strategy on a five point scale:

MANAGERS AND SUPERVISORS	not used				primary strategy
across the board cuts (proportion of staff)	1	2	3	4	5
attrition	1	2	3	4	5
voluntary redundancy	1	2	3	4	5
involuntary retrenchment	1	2	3	4	5
early retirement	1	2	3	4	5
other strategy (please describe briefly)	1	2	3	4	5

_____

15. What was the relative degree of use of the following strategies for EMPLOYEES in your organisation's downsizing? Please indicate the use of the strategy on a five point scale:

EMPLOYEES	not used				primary strategy
across the board cuts (proportion of staff)	1	2	3	4	5
attrition	1	2	3	4	5
voluntary redundancy	1	2	3	4	5
involuntary retrenchment	1	2	3	4	5
early retirement	1	2	3	4	5
other strategy (please describe briefly)	1	2	3	4	5

_____

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16. Did your organisation provide redundancy packages for employees who were retrenched or made redundant?

	1	*2*
MANAGERS	☐Yes	☐No
EMPLOYEES	☐Yes	☐No

17. Did your organisation use a system of outplacement for retrenched/redundant employees?

	1	*2*
MANAGERS	☐Yes	☐No
EMPLOYEES	☐Yes	☐No

18. Which statement *best* describes the process used for selecting employees for redundancy or retention?

1☐employees were selected in a single assessment
2☐employees were made redundant in several stages as an iterative process
3☐neither of the above (briefly explain)

_____

_____

_____

_____

_____

19. As a result of the restructuring process, were employees:

	1	*2*
transferred laterally	☐Yes	☐No
promoted to higher positions	☐Yes	☐No
demoted	☐Yes	☐No

20. How were MANAGERS AND SUPERVISORS selected for retrenchment or retention? Please indicate the relative degree of use of the strategy on a five point scale:

	method not used				primary method
job redundancy (job made redundant and employee retrenched)	1	2	3	4	5
competitive process with other employees who were similarly placed	1	2	3	4	5

21. If the selection process for MANAGERS AND SUPERVISORS was competitive, how were they selected for retrenchment or retention? Please indicate the relative degree of use on a five point scale:

	method not used				primary method
performance	1	2	3	4	5
skills/ abilities	1	2	3	4	5
experience	1	2	3	4	5
age	1	2	3	4	5
industrial relations activity	1	2	3	4	5
some other method (please describe)	1	2	3	4	5

_____

_____

22. How were EMPLOYEES selected for retrenchment/retention? Please indicate the relative degree of use on a five point scale:

	method not used				primary method
job redundancy (job made redundant and employee retrenched)	1	2	3	4	5
competitive process	1	2	3	4	5

with other employees
who were similarly placed

23. If the selection process for EMPLOYEES was competitive, how were they selected for retrenchment or retention? Please indicate the relative degree of use on a five point scale:

	method not used				primary method
performance	1	2	3	4	5
skills/ abilities	1	2	3	4	5
experience	1	2	3	4	5
age	1	2	3	4	5
industrial relations activity	1	2	3	4	5
some other method (please describe)	1	2	3	4	5

_____

_____

24. Please assess the results of the restructuring on the basis of the following outcomes:

	decreased greatly		no change		increased greatly
productivity	1	2	3	4	5
share price	1	2	3	4	5
profits	1	2	3	4	5
employee morale	1	2	3	4	5
job satisfaction	1	2	3	4	5
employee commitment to the organisation	1	2	3	4	5
turnover	1	2	3	4	5
employee motivation	1	2	3	4	5

25. Were any EMPLOYEES lost who, in retrospect, you would rather have retained?

1   *2*

☐Yes ☐No

26. If you answered yes to question 25, to what reason do you attribute this loss?

	not important				predominant reason
attractive redundancy packages	1	2	3	4	5
early retirement	1	2	3	4	5
laws on unfair dismissal	1	2	3	4	5
across the board staff cuts	1	2	3	4	5
found better jobs elsewhere	1	2	3	4	5

26. Were any MANAGERS AND SUPERVISORS lost who, in retrospect, you would rather have retained?

1   *2*

☐Yes ☐No

27. If you answered yes to question 26, to what reason do you attribute this loss?

	not important				predominant reason
attractive redundancy packages	1	2	3	4	5
early retirement	1	2	3	4	5
laws on unfair dismissal	1	2	3	4	5
across the board staff cuts	1	2	3	4	5
found better jobs elsewhere	1	2	3	4	5

28. Do you anticipate that you will restructure again within the next 3 years?

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APPENDIX G
FACTOR ANALYSIS: THREE FACTOR SOLUTION
ANTI-IMAGE MATRICES

MATRIX 1: ANTI-IMAGE COVARIANCE

	productivity	share	profit	morale	satisfaction	commitment	turnover	motivation
productivity	0.697	-0.041	-0.103	-0.018	-0.110	-0.011	0.090	-0.065
share	-0.041	0.853	-0.250	0.025	-0.001	0.027	-0.075	-0.086
profit	-0.103	-0.250	0.819	-0.012	0.008	-0.019	0.080	-0.027
morale	-0.018	0.025	-0.012	0.348	-0.119	-0.105	0.050	-0.116
satisfaction	-0.110	-0.001	0.008	-0.119	0.399	-0.109	-0.004	-0.046
commitment	-0.011	0.027	-0.019	-0.105	-0.109	0.366	0.000	-0.120
turnover	0.090	-0.075	0.080	0.050	-0.004	0.000	0.945	-0.019
motivation	-0.065	-0.086	-0.027	-0.116	-0.046	-0.120	-0.019	0.388

MATRIX 2: ANTI-IMAGE CORRELATION

	productivity	share	profit	morale	satisfaction	commitment	turnover	motivation
productivity	0.908a	-0.053	-0.136	-0.036	-0.208	-0.021	0.111	-0.126
share	-0.053	0.646 a	-0.299	0.045	-0.002	0.049	-0.083	-0.149
profit	-0.136	-0.299	0.770 a	-0.022	0.014	-0.035	0.091	-0.048
morale	-0.036	0.045	-0.022	0.857 a	-0.320	-0.294	0.087	-0.317
satisfaction	-0.208	-0.002	0.014	-0.320	0.876 a	-0.286	-0.006	-0.117
commitment	-0.021	0.049	-0.035	-0.294	-0.286	0.865 a	0.000	-0.318
turnover	0.111	-0.083	0.091	0.087	-0.006	0.000	0.771 a	-0.032
motivation	-0.126	-0.149	-0.048	-0.317	-0.117	-0.318	-0.032	0.872 a

Notes - a: values along the diagonal (shown in bold) satisfying assumption requirements

APPENDIX H
FACTOR ANALYSIS CORRELATION MATRIX: THREE FACTOR SOLUTION
ORGANISATIONAL PERFORMANCE VARIABLES
VALUES GREATER THAN 0.30

	productivity	share	profit	morale	satisfaction	commitment	motivation
productivity	1.00	0.17	0.27	**0.44**	**0.48**	**0.42**	**0.46**
share	0.17	1.00	**0.34**	0.11	0.12	0.11	0.22
profit	0.27	**0.34**	1.00	0.22	0.20	0.22	0.26
morale	**0.44**	0.11	0.22	1.00	**0.71**	**0.72**	**0.71**
satisfaction	**0.48**	0.12	0.20	**0.71**	1.00	**0.69**	**0.64**
commitment	**0.42**	0.11	0.22	**0.72**	**0.69**	1.00	**0.70**
motivation	**0.46**	0.22	0.26	**0.71**	**0.64**	**0.70**	1.00

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.857212
Bartlett's Test of Sphericity	Approx. Chi-Square	535.8253
	df	28
	Sig.	0

APPENDIX I
FACTOR ANALYSIS: THREE FACTOR SOLUTION
TOTAL VARIANCE EXPLAINED

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings					
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	
1	3.626	45.320	45.32	3.626	45.32	45.320	3.366	42.077	42.077
2	1.215	15.187	60.51	1.215	15.19	60.506	1.408	17.604	59.681
3	1.002	12.527	73.03	1.002	12.53	73.034	1.068	13.352	73.034
4	0.648	8.094	81.13						
5	0.624	7.801	88.93						
6	0.349	4.365	93.29						
7	0.278	3.473	96.77						
8	0.259	3.233	100						

Extraction Method: Principal Component Analysis.

Correlation Matrix – Two factors retained								
		productivity	share price	profit	morale	satisfaction	commitment	motivation
Correlation	productivity	1.000	.166	.270	.436	.484	.421	.455
	share price	.166	1.000	.337	.112	.122	.112	.216
	profit	.270	.337	1.000	.218	.203	.217	.257
	morale	.436	.112	.218	1.000	.709	.723	.709
	satisfaction	.484	.122	.203	.709	1.000	.694	.641
	organisational commitment	.421	.112	.217	.723	.694	1.000	.705
	motivation	.455	.216	.257	.709	.641	.705	1.000

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.860
Bartlett's Test of Sphericity	Approx. Chi-Square	527.156
	df	21
	Sig.	.000
a Measures of Sampling Adequacy(MSA)		

Communalities		
	Initial	Extraction
change in productivity	1.000	.437
change in share price	1.000	.686
change in profit	1.000	.635
change in employee morale	1.000	.783
change in job satisfaction	1.000	.750
change in organisational commitment	1.000	.769
change in motivation	1.000	.739

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.585	51.213	51.213	3.585	51.213	51.213	3.380	48.286	48.286
2	1.214	17.346	68.559	1.214	17.346	68.559	1.419	20.273	68.559
3	.688	9.825	78.384						
4	.625	8.933	87.317						
5	.349	4.989	92.306						
6	.278	3.975	96.281						
7	.260	3.719	100.000						

Extraction Method: Principal Component Analysis.

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Scree Plot

Component Matrix

	Component	
	1	2
change in productivity	.653	
change in share price		.780
change in profit	.400	.689
change in employee morale	.861	
change in job satisfaction	.845	
change in organisational commitment	.854	
change in motivation	.857	

Extraction Method: Principal Component Analysis.
a 2 components extracted.

Rotated Component Matrix

	Component	
	1	2
change in productivity	.594	
change in share price		.827
change in profit		.776
change in employee morale	.883	
change in job satisfaction	.863	
change in organisational commitment	.875	
change in motivation	.838	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 3 iterations.

Component Transformation Matrix

Component	1	2
1	.956	.294
2	-.294	.956

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

APPENDIX K
CLUSTER ANALYSIS

AGGLOMERATION SCHEDULE – LAST 10 STAGES

	Cluster Combined		Coefficients	Stage Cluster First Appears		Next Stage
Stage	Cluster 1	Cluster 2		Cluster 1	Cluster 2	
294	1	9	87.682854	281	285	297
295	2	23	99.848282	288	290	298
296	5	16	115.24776	292	289	301
297	1	4	135.64754	294	287	300
298	2	31	161.56349	295	286	302
299	20	132	189.96786	291	284	301
300	1	6	228.87341	297	293	302
301	5	20	311.61029	296	299	303
302	1	2	426.20245	300	298	303
303	1	5	606	302	301	0

ANOVA – 3 CLUSTER SOLUTION

		Sum of Squares	df	Mean Square	F	Sig.
BART factor score 1 for analysis 1	Between Groups	162.2758	2	81.13791	173.5488	0
	Within Groups	140.7242	301	0.467522		
	Total	303	303			
BART factor score 2 for analysis 1	Between Groups	132.1139	2	66.05695	116.3532	0
	Within Groups	170.8861	301	0.567728		
	Total	303	303			

MULTIPLE DISCRIMINANT ANALYSIS (MDA)
THREE CLUSTER SOLUTION

Wik's Lambda and Univariate F-Ratio

Tests of Equality of Group Means					
	Wilks' Lambda	F	df1	df2	Sig.
BART factor score 1 for analysis 1	0.46	173.55	2	301	0.0000
BART factor score 2 for analysis 1	0.56	116.35	2	301	0.0000

Classification Results Table

		Predicted Group Membership			Total
	Ward Method	1	2	3	
Count	1	143	1	12	156
	2	0	46	0	46
	3	2	2	98	102
%	1	91.67	0.64	8	100
	2	0	100	0	100
	3	1.96	1.96	96	100

Note: 94.4% of original grouped cases correctly classified.

Functions at Group Centroids

Ward Method	Function 1	Function 2
1	-0.63	-0.62
2	-1.62	1.48
3	1.69	0.29

Unstandardised canonical discriminant functions evaluated at group means

APPENDIX M
CROSS-ORGANISATION MATRIX

Organisation	Type	DOWNSIZING GOALS			DOWNSIZING TARGETS			
		Reduce costs	Efficiencies	Govt directive	Organisation wide	Restructure	Reengineer	#attrition
A: 1st	mining	√	√			√		3
A: 2nd	mining	√				√		3
B	mining	√	√			√		2
C	bank	√	√			√	√	1
D	bank	√	√			√	√	1
E	public svc	√		√	√	√	√	2
F	public svc	√		√	√	√	√	2
G	*public svc	√	√	√	√	√	√	3

Notes: * telecommunications provider   # rank order

Organisation	Type	SELECTION STRATEGIES					SELECTION PROCESS					
		#Voluntary redundancy		#Involuntary retrenchment			Position	Perf	Comp	R	Redeploy	2nd round
		incentive	no incentive	incentive	no incentive	across-the-board						
A: 1st	mining	1		2		√	√					√
A: 2nd	mining	1		2		√	√		√			√
B	mining	1		3		√	√			√		√
C	bank	2		3			√	√	√		√	√
D	bank		2	3			√		√		√	√
E	public svc	1		3			√		√		√	
F	public svc	1		3		√	√				√	√
G	*public svc	2		1		√	√		√		√	√

Notes: * telecommunications provider   #rank order