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DOWNSIZING AS A STRATEGIC TOOL FOR CORPORATE PERFORMANCE AND ECONOMIC GROWTH OF NIGERIA: AN EXPLORATORY ANALYSIS

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ABSTRACT

Corporate downsizing has been the biggest fallout of the troubled times the world is witnessing. Companies have to make meaningful contributions to make inroads into a wide range of business endeavours in the new global competitive world. This is being done through the instrumentality of downsizing which is a proactive strategy defined as a process which results in layoffs and the streaming of functions as well as the redesigning of systems. It refers to a process where a company or a firm simply reduces its workforce in order to cut the operating costs and improve efficiency and thus economic growth. Downsizing has become a legitimate option for business growth strategies especially after the 1980s. In Nigeria, downsizing is, in fact, the most preferred option of companies to sustain operating costs and comply with the existing scope of the business. Downsizing, if properly conceived and implemented, has a tremendous potential for organizational survival and futurity and boast for economic growth especially for a developing economy like Nigeria. The study adopts a simple literature survey method and concludes that downsizing strategies are highly necessary for organizational competitiveness and efficiency in the new world order. It further stresses inter alia that downsizing be tailored as both a defensive and offensive strategy in the best interest for any organization in the troubled times that the Nigerian economy is witnessing in the recent past.

Key Words: Downsizing, Corporate performance, Strategy, Organization and economic growth

INTRODUCTION

Downsizing refers to the permanent reduction of a company's workforce and is generally associated with corporate reorganization, or creating a "leaner, meaner" company. Downsizing is undertaken in an effort to trim expenses and anticipated revenue shortfalls. Downsizing such as these are also commonly called reorganizing, reengineering, restructuring, or rightsizing. Regardless of the label applied, however, downsizing essentially refers to layoffs that may or may not be accompanied by systematic restructuring programs, such as staff reductions, departmental consolidations, plant or office closing, or other forms of reducing payroll expenses. Corporate downsizing results from both poor economic conditions and company decisions to eliminate jobs in order to cut costs and maintain or achieve specific levels of profitability. Companies may lay off a certain percentage of their employees in response to certain endogenous or exogenous changes in the economy, such as a slowed economy, merging with or acquiring other companies, the cutting of product or service lines, competitors grabbing a higher proportion of market share, distribution forcing price concessions from supplies, or a multitude of other events that have a negative impact on specific organizations or entire industries. In addition, downsizing may stem from restructuring efforts to minimise efficiency, to cut corporate bureaucracy and hierarchy and thereby reduce costs, to focus on core business functions, and to use part-time and temporary workers to complete tasks previously performed by full-time workers in order to trim payroll costs.

Downsizing generally accompanies some kind of restructuring and reorganizing, either as part of the downsizing plan or as a consequence of downsizing. Since companies frequently lose a large number of employees when downsizing, they usually must reallocate tasks and responsibilities in an effort to increase the amount of work output relative to the amount of work input. Conse-

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quently, downsizing often accompanies corporate calls for concentration on “core capabilities” or “core businesses”, which refers to the interest in focusing on the primary revenue-generating aspects of a business. The jobs and responsibilities that are not considered part of the primary revenue-generating functions are the ones that are frequently downsized. These jobs might then be outsourced or handled by outside consultants and workers on a contract basis.

Another aspect of downsizing in business may include the reduction of bureaucracy and the number of corporate layers. Since dense bureaucracy frequently causes delays in communication and decision-making, the reduction of bureaucracy may help bring about a more efficient and responsive corporate structure that can implement new ideas more quickly.

Apart from laying off workers, restructuring efforts may involve closing plants, selling non-core operations, acquiring or merging with related companies, and overhauling the internal structure of a company. Therefore, we characterize restructuring as the “fundamental rethinking and radical redesign of business processes to achieve dramatic improvement in critical, contemporary measures of performance such as costs, quality, service, and speed.”

In Nigeria, the pervasiveness of restructuring is gaining in popularity. Many Nigerian companies both in the manufacturing and service sectors are looking for ways to streamline their operations and become lean and efficient. Many managers and Chief Executive Officers (CEO’s) have embraced downsizing and restructuring as there are increases in quality and productivity in those organizations that have embraces downsizing. Equally noteworthy is the fact that competitive pressures are forcing many organizations to react to these changes with improved quality services. It is important to stress that corporate downsizing have been the biggest fallout of the troubled times the world is witnessing (Taylor, 1998). Competitive pressures around the world are now prompting organizations to cut costs restructure and reduce their labour force. Akinola (2011) observed too that global economic recession has affected company’s structures and practices while global management has brought companies face-to-face with complex cross cultural issues and competition. To survive this unprecedented period of global economic recession, many Nigerian companies have embarked on corporate downsizing and restructuring to remain relevance in today’s competitive pressures. Accordingly, this study tries to focus on the need for restructuring the Nigerian economy through downsizing. The main trust of this paper is to investigate the downsizing strategies and techniques adopted by Nigerian organizations and the adverse effect of downsizing on economic growth of Nigeria.

REVIEW OF RELATED LITERATURE

Downsizing is one of the modern key concepts of manpower planning. It is generally associated with corporate re-organization to create a more efficient and leaner company. Downsizing is the systematic reduction of a workforce through an internationally instituted set of activities by which organizations aim to improve efficiency and performance (Cameron, 1994a; Cascio, 1993). De Meuse (1994), defined downsizing as “a large permanent, reactive layoffs, a streamlining of functions, a redesign of systems, a redefinition of policies aimed at cutting costs and a proactive strategy.” On their part, Band and Tustin (1995) posited that downsizing is one tactic within a corporate strategy for shifting the organizational structure from what it is now to what it has to be in order to sustain competitive edge and satisfy customer’s needs. They contended that, downsizing should be referred to as “downsizing” particularly when it is not done as a part of a company’s strategy but strictly as a cost saving measure with little thought devoted to long-term implications.

The phenomenon of downsizing has lately become a recurrent issue in the public sector (Lloyds and Weissman, 2001). Over the past decades, the public services had been dramatically transformed through downsizing at a great human cost (Frederickson and Perry, 1998). In the opinion of Mhone, (2003), the governments modernization initiatives were processes used to reduce cost through workforce reduction and organizational restructuring.

Downsizing is certainly not limited to the advanced countries of Europe and America but is a worldwide phenomenon that began in the 1980s and continued through the 1990s and even through the twenty-first century. During industrial development, recessions increased operational costs and economic changes involve risks such that no organization can unconditionally guarantee security of employment of its workers. Employees are constantly advised of their continued relevance and usefulness in the organizations (Obinatus, 2002). Regrettably, in the last few years, business organizations have learned to strategise how they can be more successful by growing their market share, sales and earnings, but not their organizations or staffing strength. They have reshaped their companies for future success by downsizing their corporate bureaucracies (Tomasko, 2002).

According to Appelbaum (1991), the issue of corporate downsizing has assumed a central position in the recent times. Companies are attempting to reposition themselves so as to gain a competitive advantage in an uncertain market place. To do this, corporations are undergoing organizational change.

In Nigeria, the environment in which business organizations operate today is changing rapidly. As a result of this, companies have been more or less forced to cut out wasteful and unproductive activities and concentrate resources in the areas of core competence in order to achieve sustainable competitive advantage. The reason advanced for downsizing, according to Bureau of Public Service Reform (2006) is to improve service delivery and promote good governance. (the method is involuntary workforce reduction, early retirement, termination of appointment on the basis of the officers considered as medically unfit, without entry qualifications and officers whose line of duties had been outsourced and redundant etc), and the outcome is several thousands of workers losing their jobs while others remain as survivors.

The spate of mass retrenchment that accorded the civil service reforms of 1975 and 1984 in Nigeria, coupled with cases of staff dismissal in different states of the federation that followed minimum wage increment in 1999/2000 can attest to this fact. At the federal government level, organizational restructuring is the first on the list under operation and system, which is the fourth cardinal point of the public service reforms in Nigeria (Adegoroye, 2006). The other three are privatization, liberalization, and restructuring of government spending. The reforms were targeted at improving service delivery and promoting good governance.

STRATEGIES AND TECHNIQUES FOR DOWNSIZING

Downsizing has caught the imagination of the government, trade unions and the private sector the world over. In Nigeria, virtually every sector of the economy has engaged in one form of downsizing or the other. In the face of this downsizing environment and mandate, the need to investigate the best way to downsize organization becomes crucial because the success of organizations that have downsized in the past has not been particularly laudable (Henkoff, 1990).

Most organizations didn't consider their downsizing efforts to have been effective. One explanation is that downsizing has not been managed effectively in many firms, and therefore, the intended cost reduction and efficiencies have not been achieved (Huber and Glick, 1993).

According to them firms adopt three common strategies for downsizing which are as follows;

1. Workforce Reduction Strategy: This includes transfers, outplacements, retirement incentives, buy-out packages, layoffs and attrition (Cameron, 1994a; Casci, 1993; De Meuse et al, 1994). These constitute the different ways of implementing workforce reduction.
2. Work Redesign Strategy: This approach aims at reducing work instead of workforce reduction. It is a mid-term strategy implemented by phasing out functions, hierarchical levels, departments or divisions, redesigning tasks, combining units and adopting a shorter work week (Cameron, 1994a).
3. Systemic Strategy: This is a long term strategy which relates downsizing with the simplification of all the areas of the firm, including supplies, design processes, marketing, sales support and production methods. The main objective of a systemic strategy is to ensure that continuous and respective workforce reduction will not have to be carried out in future.

TRENDS IN CORPORATE DOWNSIZING

Corporate downsizing trend grew out of the economic conditions of the late 1970s, when direct international competitions began to increase and many companies or organizations have to face still competition from opponents in terms of price and durability of their products. To overcome these problems, many companies implemented a couple of key changes including forming partnerships.

In Nigeria, the story is not different. Downsizing began in the 1980s and continued through the 1990s largely unabated. During this time, many of Nigeria's largest corporations and organizations participated in the exercise including the National Bureau of Statistics, the ministry of solid minerals development, Power Holding Corporation of Nigeria, Nigerian Ports Authority, Federal Character Commission and many others. In the twenty-first century, downsizing continued after a sharp decline in the stock market early in the century which was followed by the century pressure on corporate earnings following the global economic meltdown.

In Nigeria, the environment in which business organizations operate today is changing rapidly. As a result of this, companies have been more or less forced to cut out wasteful and unproductive activities and concentrate resources in the areas of core competence in order to achieve sustainable competitive advantages. Akinola (2011) observed too that global economic recession has affected company's structures and practices while global management has brought companies face-to-face with complex cross cultural issues and competition. To survive this unprecedented period, many Nigerian financial institutions and corporations have embarked on corporate downsizing.

EMPLOYEES' PERCEPTIONS OF DOWNSIZING

Few empirical investigations had analyzed employees' perceptions of downsizing, in relation to employees' commitment to work in the public sector. While all the factors examined by earlier researchers, Anderson-Connelly and Greenbery, (2000); Turnlay and Feldman, (1998), on perception of downsizing are more in the private establishments and aimed at determining the acceptability status of downsizing to the employees, Downsizing as a term in organizational structural/ change has been found to have a great influence on the organizational commitment (Bennett and Durkin, 2000)

Worrall, Cooper and Campbell- Jamison (2000), state that one of the most devastating effects of a structural change could occur when the nature of the relationship between the employee and the employer is damaged, other notable effects include reduced job satisfaction and distrust (Bateman and Strasser, 1984), absenteeism (Mowdey,Peter and Steers, 1982), job insecurity (Worral, Cooper and Cambell, 2000), and a decline in motivation (Bennett and Durkin, 2000). All these effects, whether acting independently or collectively, have an enormous influence on organizational commitment (Muchinsky, 2000). Several other studies have confirmed that organizational downsizing adversely influences organizational commitment of survivors. Appelbaum, Delage, Labib and Gault (1997), find that organizational commitment to survivors reduced after downsizing. Noer (1993) concludes that most downsizing effort end up in low productivity due to the way in which the exercise is carried out. The report says that the morale, skills and job satisfaction of the surviving employees are greatly reduced. Productivity also is reduced and when this is done, the economic growth of the nation in general will be adversely affected.

DOWNSIZING AND ECONOMIC GROWTH IN NIGERIA

An evaluation of employee's commitment to work in the aftermath of downsizing becomes important in view of the fact that when downsizing occurs, employees who are laid off as well as those who remain in their jobs could be adversely affected. When this happens, the pace of economic growth becomes adversely affected. This should be of concerns to organizations, given that those who survived downsizing may have just had their world turned upside down. As a result, they may experience a change in their commitments after downsizing. It appears that employees who survived downsizing constitute majority of workers in many of the establishments after restructuring. The implication is that employees who do stay are not necessarily loyal by choice and they are not sometimes committed employees, but employees who are trapped in their jobs (Kaye, 1998).

Organizational health depends on the continued commitment of those individuals remaining with the organization after downsizing has occurred (Kaye, 1998). If this group of workers have their morale dampened, it may well have bad analysis on the organization and on the economic growth of the country in general. In the same way, downsizing in the public service of Nigeria may have dealth, a great blow to the morale of an average civil servant who survived the exercise. It may affect their commitment to work in the long-run thereby impacting economic growth negatively.

In view of the peculiar nature of the public service in Nigeria, downsizing exercise is likely to pose a special problem, given that an average Nigerian civil servant has a different conception of job, unlike their counterparts in corporate environment (Adegoroye, 2006). A worker in the public service feels secured, believing that his or her job is tied to retirement and is 'pensionable'. But with the recent government public service reforms, this may not be guaranteed. The problem of over manning is widely prevalent in Nigerian industries- ranging from Power Holding Corporation of Nigeria (PHCN) to water boards etc, so companies in these industries are ripe for manpower reductions. As a result, many government establishments have disengaged substantial number of workers from services; while many are still in the process of doing the same. Thus, negative trend in employees' commitment may ensure the aftermath of downsizing exercise. Moreso, Nigerian public institutions need employees who will be committed to work on their volition. That is, employees who 'want to' work and not those who 'have to' work in the wake of downsizing exercise.

FACTORS MILITATING AGAINST DOWNSIZING

Several factors have been accounted for the non-realization of the expected benefits of downsizing such as:

1. Poor execution and management of downsizing projects (Cameron 1994a; and Freeman, 1994).
2. Inability of firms to look beyond the traditional 3-C's approach to organization design and management that is, principles of command, control and compartmentalization (Cascio, 1993).
3. The extent of resentment and resistance to changes within the firm resulting in the loss of productivity, efficiency and competitiveness (Cameron, 1994a).
4. Inability of firms to determine the reasons for undergoing change as well as their failure to determine their organization contact (Appelbaum, Simpson and Shepiro, 1997).

5. Inadequate preparation for the types of problems that arise due to downsizing, (employee resentment and concern, loss of morale, lack of innovation and creation) (Casio,1993; Freeman, 1994), and
6. Downsizing is driven by social instead of finding motivation in predicated financial benefits (Mckinley et al 1995).

CONCLUSIONS

Manpower reductions, if well planned, can help a company put itself on the path of recovery. But, in practice, it has been misused betraying a lack of vision, a short-term focus and wrongheaded thinking about costs, capabilities and people.

In Nigeria, downsizing has primarily taken the form of reduction of workforce through the Voluntary Retirement Scheme (VRS). The indiscriminate use of VRS in the public sector in Nigeria has not only led to organizations losing their best employees but has pushed profitable companies into red on account of massive cash outflows. Whenever VR Schemes were operated, it inevitably was workers skilled enough to get other jobs that will be willing to leave the company. Such companies ended up losing their best and brightest people and were left with precisely the workers they wanted out (Aand Ram, 1995). This inevitably will affect the pace of economic growth adversely.

Moreover, as the goal of revamping the economy is unfolding in Nigeria, the government downsizing policy and the likely psychological trauma that may accompany the exercise may have begun to take its hold on the people. the retrenched workers as well as those who were left behind; may have started to witness carrier destruction as a result of changes in work environment and job design created by downsizing exercise. While the laid off workers may quickly accept their fate and, to a greater extent, pose no problem to their immediate past organizations, the changes in work environment created by the exercise may affect the retained workers' commitment to work negatively, and as such, its overall effect on Nigeria's economic growth cannot be underestimated. Further, downsizing has created resentment and resistance in firms, so it has hindered more than helped economic growth.

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