

The impact of downsizing and redundancies management essay



The psychological contract is an important concept in the field of HR and has become particularly important during the recent economic downturn. When companies are forced to cut back and find cost reductions the traditional contract of long-term job security in return for hard work and loyalty may no longer be valid (Sims, 1994).

This is important because if an employee feels their employer has broken the psychological contract it will affect their performance and perhaps their willingness to work for the company. This can happen when employment prospects deteriorate. When employees first join a company they have expectations which may include promotion, career development and bonuses among other things. However since the recession the chances are that these expectations will not be met. (CIPD)

The authors experience within the Walt Disney Company helped illustrate how a company deals with the effects of recession. In response to the economic downturn Disney tried to reduce costs by downsizing. This can have the opposite effect than the company intended as downsizing can have negative effects on the remaining employees, the survivors. From the authors empirical viewpoint it became clear that Disney employees were deeply affected by redundancies. Many survivors of downsizing have exhibited decreased levels of organizational commitment, trust in management, and job involvement (Cooper-Schneider, 1989), as well as decreased performance (Corum, 1996).

Survivors also evaluate the fairness of the downsizing (Brockner, 1990).

Research indicates that employees perceptions of organizational justice in

relation to redundancies are related to how the survivors fare in the aftermath of the downsizing (Cooper-Schneider, 1989; Verdi, 1996). For example, survivors who believed laid-off workers were not treated fairly or who believed that managements decisions were not justified, tended to have lower organizational commitment and job satisfaction.

From the authors perspective it was clear that this was an important issue for Disney to address. The company needed to motivate and empower remaining employees in order to address this problem and the authors experience provided an insight into how survivor commitment can present challenges to a company in the current economic climate. Due to the economic situation, monetary rewards were not available and promotions were not possible either. This made it difficult to motivate employees and the various ways in which a company can motivate employees without monetary rewards will be covered.

The literature review is divided into 3 parts and will examine the relationship between survivor commitment and the psychological contract. The first part aims to look at the origins and changing concepts of the Psychological contract as identified by Herriot and Pemberton, 1995 and Sparrow and Marchington, 1998. Both have identified a shift to a new psychological contract and this will be explored.

Part 2 will explore the idea of breach of the Psychological contract. Forms of violations identified by Rousseau (1995) will be explored and how these could affect employee's overall loyalty and performance as acknowledged by Rousseau 1995 & Beardwell et al., 2004 will also be covered.

Part 3 will explore the effects of breach affects survivor commitment to the organisation. The author has observed that an effect of recession can be downsizing but the effectiveness of this depends on its impact on survivors work attitudes and behaviours. Part 3 will therefore explore the effects of downsizing on survivors. Much of the evidence from research on survivors work-related attitudes and behaviours subsequent to downsizing have documented evidence of feelings of job insecurity, intent to quit, decline in organizational commitment, loyalty and trust, among others (Brockner, 1998). The ways in which a company can address this problem are also explored.

Finally the authors observations at Disney will be compared and contrasted with findings in the literature to be able to analyse the literature more effectively in a modern realistic working context.

The overall research methodology consists of findings based on informal discussions and observations during the authors ½ time at Disney and taking a qualitative approach to the literature review to create viable conclusions and recommendations

Literature Review 3000

The Psychological Contract ½ a definition

One way to define the psychological contract is an individuals beliefs, shaped by the organization, regarding the terms of the relationship between the individual employee and the organization (Beardwell et al 2004). This relationship is based on an agreement between the organization and

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employees on the perceived obligations and expectations from each other (Guest et al, 2002). The Psychological Contract is based on an individual's beliefs and perceptions. It can be highly subjective and particular to each employee (Rousseau 1995) because it goes beyond any written contract. (Rousseau, 1995).

Psychological contracts involve employee beliefs about the obligations between themselves and their employers and because of this they can be seen as the foundation of employment relationships (Rousseau, 1995). Turnley and Feldman (1999) state that employees generally form these expectations from two sources: their interactions with other employees and their idea of the companies culture. A company may make specific promises to employees about what they can expect from the organisation (Turnley and Feldman, 1999). Employees' perceptions of their organisation's culture also shape beliefs regarding their psychological contracts. These expectations are formed through recruiting and early experiences in the organisation, then as the psychological contract develops.

Psychological contracts are based on specific promises made by both parties and on generally accepted promises that are based on the general obligations of employers and employees. Even if an employer has not made specific promises in that regard, every employee will appreciate clarity, fairness and good communication. Every employer will appreciate employees dealing properly with confidential information and doing good work. In addition to general obligations, the psychological contract is further augmented with written agreements, such as employment contracts (Huiskamp & Schalk, 2002).

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In the first three to six months after joining the company the basic psychological contract will become reality (Thomas & Anderson, 1998).

According to Rousseau (1995), new employees usually have a very positive view of the employment relationship. They have high expectations towards the employer and lower expectations of themselves. (Louis, 1980). As new employees gain more experience within the organisation they will begin to change their expectations. Rousseau (1995) states that newcomers will weaken their perceptions of company promises during their first months in their new job, while their perceptions of their own promises will increase.

The development of a new employees psychological contract happens quite quickly and has many implications for employers. Thomas and Anderson (1998) recommend that employers focus on employees' psychological contracts from the very beginning to encourage the use of realistic and desirable employer and employee obligations (Hiltrop, 1995; Robinson, 1995). Negotiation might be important in developing a match between what both employees and employers want and offer.

The psychological contract can be seen as an unwritten agreement between the organization and employees based on mutually accepted promises and obligations between the company and the employees (Sparrow and Marchington, 1998; CIPD, 2003). One of the major arguments is whether it can be seen as an actual contract in comparison to formal employment contracts which are quite clear and legally binding (Arnold, 1996). Some argue that the Psychological Contract is more realistic in relation to employee/employer perceptions and can have a greater influence than a formal contract (CIPD, 2003). Sparrow and Marchington (1998) state that <https://assignbuster.com/the-impact-of-downsizing-and-redundancies-management-essay/>

there is a link between employment contracts and the Psychological Contract because legal terms and conditions will affect perceptions of obligation.

When comparing both, a Psychological Contract is a reflection of the employment relationship similar to a legal contract only on a more broad scale.

Rousseau (1995) distinguishes between transactional and relational contracts. Transactional contracts refer to collaborations of limited duration (2 to 3 years most) with well-specified performance terms. In contrast relational contracts are open-ended collaborations with only loosely specified performance terms. The ownership has significant implications for employee attitudes and workplace behaviour (see Table below)

Transactional

Transactional contracts can be characterized as easy-to-exit agreements with relatively high turnover. Lower levels of organisational commitment and weak integration into the organisation allow for high member rotation and freedom to enter new contracts. With high affective commitment, strong member-organisation integration, and stability built on the traditions and the history of the relationship, relational contracts exemplify many emblematic characteristics of paternalistic relationships. Relational obligations include mutual loyalty and long-term stability, often in the form of job security (Rousseau, 1995).

Although there are significant differences in attitudes and workplace behavior; if expectations are being fulfilled both categories will produce

productive behavior. But even with the best intentions from both the <https://assignbuster.com/the-impact-of-downsizing-and-redundancies-management-essay/>

employer and employee, relations can break down and the psychological contract can be violated.

The $\frac{1}{2}$ New $\frac{1}{2}$ Psychological Contract

According to Holbeche (1994) more organizations have become leaner and flatter and $\frac{1}{2}$ offer fewer advancement opportunities, which may result in lower morale, increased workload and fewer promotions $\frac{1}{2}$ (as cited in Ball, 1997, p. 74). Iles (1997) describes this change as a shift from employment security to employability security that is $\frac{1}{2}$ based on an adult-adult partnership where growth and development of competitive skills are exchanged for employee flexibility and commitment $\frac{1}{2}$ (p. 348). The importance of training within the organization is stated by Hind saying that new employment relationships based on the concept of employability require companies to offer training, development and opportunities for employees to progress either within the company or outside it (Hind, 2005, p. 269).

Traditionally it was thought that the main expectation of employees in return for their hard work was stability in terms of working environment and job security (Sparrow and Marchington, 1998). The changes in the economy and business life over the last decade or so has transformed organizations and now there is much more competition on a global scale which has forced organizations to change their structure making it more flexible and efficient so that it can cope with competitive pressures (Hiltrop, 1995). Because of this there has been a change in people management and also changes in the employment relationship.

In the past, a company would expect loyalty and commitment over a long period of time and employees expected job security over this long duration of service to the company. This has changed and more recently there has been a need for flexible employees that will be able to make themselves more employable through skills and abilities that they will gain through training for example. By doing so, employees are deemed as more marketable and more efficient for the organization and more equipped to handle the pressures of this new more flexible environment (Sparrow and Marchington, 1998).

This description might seem quite negative for employees and the employment relationship. In contrast to this view CIPD research has argued that the changes have not been so dramatic (Guest and Conway, 2004; CIPD, 2003 and 2005b). This seems to suggest that the current state of the psychological contract is similar to more traditional interpretations in the past.

Part 2 ½ Breach of Psychological Contract

Violations or breaches of the psychological contract occur when an employee perceives that the organisation has failed to fulfill one or more of its obligations which make up the psychological contract (Rousseau & Parks, 1993).

According to Rousseau (1995), breaches can take three forms: inadvertent, disruptive or reneging (see table below)

Inadvertent

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As discussed by Morrison and Robinson, there are two main causes of perceived psychological contract breach: renegeing and incongruence. Renegeing is when the organisation recognises that an obligation exists but knowingly fails to meet that obligation. Incongruence is when the employee and organisation have different understandings about whether a given obligation exists or about the nature of a given obligation. Either incongruence or renegeing may lead to the perception of a contract breach by creating a difference between an employee's understanding of what was promised and the employee's perception of what he or she has actually experienced.

A third important aspect that contributes to perceived contract breach is employee vigilance, the extent to which the employee actively monitors how well the organization is meeting the terms of his or her psychological contract (Morrison and Robinson, 1997). Not only will vigilant employees be more likely to detect instances of true contract breach, but because they are on the lookout for contract breach, they may be more likely to perceive that the organization has failed to meet an obligation even when there is some ambiguity about whether this is the case.

An important point argued by Morrison and Robinson (1997) is that the perception of contract breach will not necessarily lead to the intense emotional reaction often equated with the term psychological contract violation (Rousseau, 1989). They proposed that whether the cognitive perception of a breach leads to an emotional reaction, and the intensity of that reaction, depends on an interpretation process whereby the employee attaches meaning to the perceived breach (cf., Oatley, 1992).

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The effects of PC violation are strongly dependent on the emotional response they trigger in employees. Due to the subjective nature of employee expectations, the reactions in the event of a violation or breach could differ leaving a portion of the employees with a strong sense of injustice on behalf of the organisation and another portion feeling less hurt (Deery, Iverson and Walsh, 2006). How employees perceive a violation to their PC will also depend on personal factors such as age, education and past experiences and altogether could create differential perceptions about the employment relationships and perhaps on how to what degree a breach or violation is perceived (Rousseau, 1995; Deery et al., 2006). Equally there can be variations to the way employees will react to a contract violation. According to Rousseau (1995) there are four principal reactions to a perceived violation employees can have:

- 1) exit, which refers to the voluntary termination of the working relationship either from the employer who lays off underperforming employees or from employees who prefer to leave an unreliable organisation;
- 2) voice, which refers to the effort to negotiate the violated parts of the agreement and resolve potential problems that have arisen in a constructive fashion;
- 3) silence, which refers to a passive response with no reaction in hope that conditions will change to more favourable terms in the future but in essence it often ends in perpetuating the existing relationship; and

4) destruction/neglect, which refers to passive indifference to one's duties in detriment to the interests of the organisation or more active counterproductive behaviour.

Although the employer may have never been aware of the employee's implied contract, violation of this contract by the employer may lead to negative consequences for the organization (Robinson & Rousseau, 1994; Rousseau & Parks, 1992). An employee who perceives his employer as defaulting on the contract may experience decreased trust in the organization, reduced organizational satisfaction (Deery, Iverson, Walsh, 2003; Robinson, 1995), decreased organizational commitment (Robinson, 1995), and decreased loyalty (Turnley & Feldman, 1999). Furthermore, Robinson and Rousseau (1994) reported decreased job satisfaction, decreased intent to stay with the employer, and an increased turnover rate resulting from contract violation.

Furthermore, psychological contract violations negatively impacted job expectations and satisfaction resulting in greater neglect of job duties, intentions to quit, and lower levels of organizational citizenship behavior (Turnley & Feldman, 1999). Employees were also more likely to leave the organization after contract violations if their perceptions of alternative employment opportunities were high. Furthermore, the results of Turnley and Feldman's (1999) study indicated that employees whose company went through downsizing experienced higher levels of contract violations than employees whose company did not go through a staff reduction. This was particularly true for perceived violation regarding job insecurity, received compensation, and opportunities for advancement.

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Downsizing & its effects on the Psychological contract & Survivor Commitment

From the authors experience at a multinational company during the recession it is clear that the downturn had a big effect on companies during the last year or 2. As the recession is a recent occurrence it is useful to look at the literature from other similar events in the 1980s and 1990s. Much of the early survivorship research stems from Brockner and his colleagues. These studies have demonstrated that survivors experience decreased job involvement and satisfaction (Brockner et al., 1988; Brockner et al., 1990), often combined with increased absenteeism rates and turnover intentions (Brockner et al., 1987; Brockner et al., 1990), and lower work effort (Brockner et al., 1990).

Survivors also tend to evaluate the fairness of management's actions during a layoff process (Brockner, 1990; Brockner & Greenberg, 1990), and they tend to react more positively when they believe the decisions made regarding the layoffs were fair (Brockner, Konovsky, Cooper-Schneider, Folger, Martin, & Bies, 1994). Although several of the aforementioned studies took place in a laboratory setting, they laid the groundwork for further survivorship studies examining the relationship between survivors' fairness perceptions and layoff experiences.

As mentioned previously, researchers have also examined the impact of the layoffs on employees' organizational commitment. Many survivors reported a decrease in organizational commitment post downsizing (e. g., Verdi, 1996; Wong, 1999). However, survivors who perceived the layoffs as

more fair reported greater commitment towards their organization than survivors who perceived the downsizing as less fair. Spreitzer and Mishra (2002) indicated that survivors who perceived higher levels of procedural justice also showed higher levels of organizational commitment, which resulted in lower turnover.

Robinson and Rousseau (1994) have found significant relationships between psychological contract violation and downsizing. They examined the impact of career expectations (e. g., long-term versus short-term employment) on the relationships between contract violation and trust in employer, satisfaction, and turnover intentions. They reported that career expectations solely moderated the relationship between contract violation and trust in employer suggesting a stronger relationship between contract violation and trust for employees who expected to stay with the organization versus those employees who perceived their current organization as a stepping stone in their career.

Employees who thought they would be staying with the company long-term can experience decreased trust in a company because they feel that their employer has violated the contract by introducing redundancies (Robinson & Rousseau, 1994). Survivors who work under the content of the old psychological contract will more strongly perceive a violation of obligations than survivors who have adopted the content of the new psychological contract. Also survivors who believe that the organisation did not fulfil its obligations of long-term employment may experience more negative effects due to redundancies than employees who do not expect long-term employment.

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Surviving employees who depend on the organisation for long-term security are more likely to develop symptoms of survivor sickness. Survivor sickness can include work related anger, fear, anxiety and distrust that could result in non-productive and risk-averse behaviour (Noer, 1993). Employees who work under the content of the old psychological contract may experience more symptoms of survivor sickness than employees who work under the content of the new psychological contract (Baruch and Hind 1999).

During the authors time at Disney it was clear that employees who had been with the company for many years were showing clear symptoms of anger, anxiety and distrust. This was in contrast to younger employees, many of whom were on fixed term contracts and were less worried about their long term prospects.

Downsizing has many negative effects on employee motivation.

Organisations can no longer promise long-term employment and it may be beneficial for both the organisation and employee to adopt the content of the new psychological contract. The adoption of the content of the new psychological contract may help decrease the negative effects of downsizing that many employees experience.

In this case it would be important to identify the factors that may lead employees to move from the content of the old psychological contract to the new one. The economic recessions of the 1980s and early 1990s changed the business environment resulting in a shift from the content of the old psychological contract to the new psychological contract (Ehrlich, 1994; Kissler, 1994). Since more than a decade has passed between the economic

recessions of the early 1990s, employees may have had enough time to adopt the content of the new psychological contract. Meuse-Kenneth, Bergmann, & Lester (2001) reported that, overall, the perceived perception of the relational component of the psychological contract has decreased over time; however, the results do not indicate whether the participants were indeed working under the content of the new psychological contract.

It is also possible that employees may move toward the content of the new psychological contract due to contract violation (Robinson & Rousseau, 1994). For example, employees who are made redundant may then adopt the content of the new psychological contract at their next employer (Cavanaugh & Noe, 1999; McLean Parks & Kidder, 1994). Employees who have adopted the new psychological contract reported a greater commitment to their profession, and greater expectations of job insecurity (Cavanaugh & Noe, 1999). This may mean that these employees are more committed to their organisation. (Kissler 1994).

If employees decide to adopt the content of the new psychological contract, Noer (1993) suggests that employees should no longer believe that the organisation will take care of them as long as they perform and should not expect to stay with the organization until they retire or choose to leave. They should be prepared to move on to other organizations and jobs.

The content of the psychological contract is thought to have a significant impact on the survivors's experiences. For example, an employee working under the content of the old psychological contract is likely to expect job security based on tenure and good performance, but the organisation, going

through downsizing may not be able to provide those expectations. As a result, this employee may experience more of the previously described negative effects associated with redundancies than the employee working under the content of the new psychological contract.

Findings/Analysis 1000

The main aim of this literature review was to examine the psychological contract in a downsizing context. This part of the literature review will now look closely at the differences and similarities between the authors experience within a company going through the downsizing process and the findings contained in the literature. Potential shortfalls in the literature will also be explored.

The authors experiences and observations at Disney are supported by the literature as it confirms that organisational commitment & job satisfaction are negatively related to turnover intentions and redundancies.

In agreement with other survivorship research (e. g., Grubb, 2002; Ratcliff, 1992) survivors do seem to assess the way they are treated during the downsizing activity. Furthermore, in predicting job satisfaction, Rattcliff (1992) demonstrated that survivors put more value on interpersonal justice than on procedural justice. Perhaps Kernan & Hanges (2002) would have found similar results if they would have freed up the additional six paths.

Given the high level of job insecurity during redundancies, it may become more important for employees to feel valued and respected than further to be concerned with how decisions are made. The fact that employees feel

valued and respected could explain their continued commitment to the organization and trust in management. Furthermore, the fact that employees feel that their contribution is valued may account for their reported higher levels of job satisfaction. If employees are more concerned with interpersonal treatment during downsizing, organizations could respond to their employees by empathizing with employees' job insecurity and focus on interpersonal treatment.

It may also be possible that a perception of fair interpersonal treatment implies a prior perception of fair decision-making procedures. It is not likely that one could perceive interpersonal treatment to be fair irrespective of the decision-making procedures given that procedural and interpersonal justice are positively correlated ($r = .74$). It may be that employees who perceive procedural justice to be fair may subsequently switch their attention to how they are treated, which then becomes the predominant justice variable.

Furthermore, survivors may perceive the decision-making procedure as fair because they survived the reorganization and, consequently, put a higher emphasis on how they were treated interpersonally. Similarly, it is possible that a perception of fair interpersonal treatment also implies a prior perception of the quality and accuracy of the communication regarding the downsizing activities. This is consistent with Kernan & Hanges' (2002) results, which indicated communication as an antecedent of interpersonal justice. Again, it may be that employees who perceive the communication process to be fair may subsequently switch their attention to how they are treated. This could explain the lack of significant relationships between informational justice and the outcome variables. Consequently it would be

important for organizations to recognize that procedural and informational justice is necessary but not sufficient as employees switch their attention to interpersonal justice. Therefore, management should also provide employees with proper interpersonal treatment during downsizing activities.

Source of actions.

When evaluating fairness perceptions, employees consider whether the downsizing related activities stem from the organization or management (e. g., Lavelle, 1999). If employees determine that procedural justice stems from the organization that implements the downsizing activity due to environmental factors, they may attribute the procedures of the layoffs to the organization as well. In that case, they may believe that management would have less influence on the procedures related to the downsizing, but have more influence on how they deliver the message and how they treat their employees. Consequently, employees focus on what can be influenced by management (i. e., the way management treat the employees) rather than organizational factors such as decision-making procedures. In this case, organizations could ensure proper interpersonal treatment by providing management with interpersonal skill training.

Turnover Intentions

Why did survivors not consider interpersonal treatment regarding their turnover intentions? The influence of justice on this outcome variable could depend on the context (Greenberg, 1990). Perhaps employees only consider interpersonal justice to determine their turnover intentions in a non-

downsizing context (Colquitt et al., 2001), but not while going through a
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downsizing activity. Although, interpersonal justice in reference to general organizational practices may carry weight in determining employees' turnover intentions, interpersonal treatment in reference to downsizing may not be important for employees' turnover intentions because employees recognize that they do not have long-term job security in the current world of work. However, it could also be that interpersonal justice does not carry enough weight to consider leaving the organization because employees are uncertain whether or not they find another job given the unstable economic environment.

Furthermore, the proposed model does not account for much of the variance for turnover intentions as demonstrated by the lack of significant relationships. Perhaps this is due to the ordering of the outcome variables. Several models of turnover intention suggest a more complex model of the outcome variables (e. g., Griffeth & Hom, 2001; Spreitzer & Mishra, 2002)). For example, job satisfaction often precedes commitment, which in turn impacts employees' turnover intentions. Perhaps, a more complex model depicting a different order of paths among the outcome variables could have increased the significant paths to turnover intentions in the proposed model.

Potential Explanations for Different Study Results

As previously noted, the majority of the hypotheses in this study are not supported. There are four potential reasons why findings in this study differ from those found in the previous literature: 1) differences in how justice variables are measured and labeled (e. g. interpersonal/interactional versus informational justice), 2) the number of justice variables included in the

study (one versus two versus three), 3) whether or not all justice variables were allowed to correlate with each outcome variable, and 4) the context of the research.

One potential reason that could account for the discrepancies between the results of the current study and those found in previous research is the content of the questionnaires used to assess justice variables. For example, the content of some questionnaires measuring interactional justice (e. g., Cooper-Schneider, 1989; Spreitzer & Mishra, 2002) pertained more to employees' perceptions regarding communication than interpersonal treatment. The fact that these questionnaires were heavily focused on informational justice could explain the non-significant relationship with organizational commitment. This is consistent with the current study in that results did not provide support for a significant relationship between informational justice and organizational commitment. Furthermore, Cooper-Schneider's study (1989) categorized employees' fairness perceptions of caretaking activities that were provided for the victims as part of procedural justice. Howe