

**Organizational Behaviour Term Paper
8104**

**Maintaining Organizational Commitment
During Downsizing**

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PURPOSE

This paper will attempt to define organizational commitment and outline its importance, particularly in periods of restructuring. Initially, the paper will conduct a literature review of organizational commitment in downsizing/restructuring settings. As well, the review will consider effective strategies for maintaining organizational commitment during periods of downsizing and for assessing the impact of downsizing on the organizational commitment of employees remaining with the organization. A subsequent section of the paper will provide a brief overview of the current financial challenges facing the Newfoundland and Labrador Health Boards Association (NLHBA). Finally, the paper will recommend strategies to implement during restructuring at the NLHBA in order to maximize the opportunities for the remaining employees to maintain their organizational commitment.

ORGANIZATIONAL COMMITMENT

It is recognized that an employee's commitment to an organization can be expressed in three particular ways: affective, continuance, and normative. Affective commitment is focused on an emotional attachment to the organization (Herscovitch, 2002). On the other hand, continuance commitment is when an employee stays with an organization based on a perceived cost of leaving (Herscovitch, 2002). In this case, the employee is staying because he/she thinks it will cost more to go find work elsewhere. Lastly, normative commitment refers to an employee's moral obligation to stay with the organization (Herscovitch, 2002). This can arise due to the employee feeling that the organization has treated him/her well and therefore, he/she owes the organization a continued period of employment. In one sense, each type of commitment somewhat ties the individual to the organization; however, each impacts differently

on the manner in which the employee conducts him/herself in the workplace. For example, an employee with an affective commitment will often go above and beyond what is required of his/her position in order to assist the organization in meeting its goals. Employees with high affective commitment tend to be absent from work less frequently and display a higher work motivation and organizational citizenship (McShane, 2001). Continuance commitment, however, is negatively related to performance whereby employees tend to do simply what is required, have higher rates of absenteeism, and low motivation (Johns and Saks, 1996).

When an organization engages in downsizing, such a decision impacts on employees who are adversely affected by measures such as layoff, as well as employees who remain with the organization (often known as "survivors"). This should be of concern to organizations, given that remaining employees may experience a change in their commitment to the organization. The impact of a psychological contract was discussed by Meyer, 1998, in describing how organizational downsizing impacted on employee commitment. A psychological contract is essentially an employee's belief about the obligation that exists between him/her and the organization. The model further outlined that there are essentially two types of contracts: transactional, which refers to a short-term economical exchange type of relationship between the employee and the organization; and relational contracts, which are more open ended to long-term obligations and are not based on an economic exchange of services and wages but on loyalty and support between two parties. When downsizing occurs, if the employee recognizes that promises were broken (a breach) the employee then assesses whether indeed the breach could or should have been avoided. If, indeed, the employee is satisfied that the breach could have been avoided, then the employee engages in a process of re-evaluating the type of psychological contract he/she is prepared to enter into with the organization. If the employee elects for a relational

psychological contract this essentially institutes an affective commitment; whereas, a transactional psychological contract moves toward continuance or normative commitment (Meyer, 1998). The model reports that in order to be successful after downsizing has occurred, the organization requires employees with high affective commitment. Proponents of the model suggest that when downsizing is accompanied by a vision which links it to a strategic outcome, along with open communication, employees tend to adopt a relational psychological contract (Meyer, 1998). In considering downsizing, organizations have to be cognizant of the impact that such a measure will have on the employees remaining with the organization.

Organizational health depends on the continued commitment of those individuals remaining with the organization after downsizing has occurred; however, it is often this group which feel that they can no longer count on the organization for a continued commitment (Kaye, 1998). Those who have survived the downsizing have just had their world turned upside down. Studies have shown that the organizational commitment of those remaining with the organization after downsizing is largely dependant upon the perceived fairness of the layoffs and/or restructuring (Brockner, 1992). In a study conducted by Brockner in 1992, he found that the organizational commitment of “survivors” was largely dependant on how they perceived distributive justice, which he defined as looking after those who had left the organization, as well as procedural justice which was defined as whether the organization had provided a clear and reasonable explanation as to why the restructuring or downsizing had occurred. Organizational commitment was found to decline when the “survivors” perceived there was a lack of fairness during the downsizing. Fairness should be one of the foremost thoughts of the senior management team when commencing a downsizing exercise. Often times an organization will downsize or restructure to become more competitive to better respond to the external

environment through customers and possibly to achieve financial objectives. However, this is easier said than done. Richard Doust reviewed the restructuring with respect to Ontario Health Services for a period of two years commencing in 1997. One of his findings was that at least fifty percent (50%) of downsizing exercises failed to meet financial objectives. While he didn't conduct a significant amount of work with respect to why this statistic was so staggering, he did hint in his findings that a strong vision was one of the requirements in order for success. Doust indicated that it was the responsibility of senior management to clearly articulate to the employees, both those departing the organization and those remaining, the rationale for the downsizing and why the organization continues to exist, where it is going, and the role of each employee within the new organization. He further outlined that the process of simply cutting costs and cutting staff is a rather short-term fix and contributed largely to the overall statistic of fifty percent (50%) of downsizing exercises failing to meet financial objectives.

One of the most prevalent factors contributing to failed restructuring is a lack of commitment by employees (Herscovitch, 2002). With respect to health care reform, one of the primary reasons of failed downsizing is the lack of credible leadership (Doust, 1998).

A significant portion of the literature reviewed indicates that in order for an organization to be more successful in maintaining organizational commitment during downsizing, a distinct strategy is required. Based on a review of the research available at the time, along with her own studies, Karen Mishra proposed a four-stage strategy in implementing downsizing which would assist an organization in maintaining organizational commitment from the remaining employees. The first stage involved making the decision to downsize. It is the responsibility of the senior management team to incorporate the decision to downsize into a "credible" vision, such that it becomes clear how the downsizing will move the organization to some type of competitive

advantage. In fact, Mishra went further and recommended that the downsizing decision be incorporated into the overall organizational strategy, which would serve to reinforce the employees' trust in the senior management team as being competent leaders. It was hoped that employees would have some sense of future for the organization, and clearly understand their role in the new organization.

The second phase involved planning the actual downsizing. Downsizing activity must be planned well in advance in order to increase its chance of success. Communication was an integral part of this phase whereby it was suggested that employees be provided with the relevant information with respect to state of affairs of the organization, inclusive of finances and an indication from senior management as to where the organization had to be situated in order to be competitive (Mishra, 1998). During this phase of the process consideration must be given to what additional training and competencies will have to be provided to managers in order to implement the downsizing, which will likely involve layoffs and tough decisions. Confidentiality is an integral part of this process as well, whereby managers cannot disclose any part of the downsizing plan until it is formulated and ready for dissemination to employees.

The third phase in Mishra's approach is making the announcement. Here it is stressed that the communication from senior management must be open and honest with reasons provided as to why downsizing is occurring. At this stage, it is equally important to re-emphasize the vision of the senior management team so "survivors" will know where the organization is headed and what their role will be. The timing of such an announcement should be early in the week, early on the particular day, and with all senior managers present.

The final phase actually involves implementing the downsizing. It is vital that the downsizing plan be followed as specifically established, or there is a concern that the plan and

senior management will lose credibility in the eyes of the employees as well as losing trust. If this does occur, it is likely that organizational commitment will decline significantly. At this phase, the objective is to try to rebuild trust and ensure commitment is maintained and heightened by employees. Care should be taken by management not to make promises they can't keep and to get those remaining with the organization involved in processes to clarify role perceptions and foster commitment.

THE ORGANIZATION: THE NEWFOUNDLAND AND LABRADOR HEALTH BOARDS ASSOCIATION (NLHBA)

The NLHBA is a voluntary federation of health boards in Newfoundland and Labrador, which provides a variety of services to its member organizations. These services are primarily Group Purchasing, Advocacy and Representation, Pastoral Care, and Collective Bargaining. The NLHBA is funded through contributions from each of the member health boards. All publicly-funded health boards have elected to hold membership in the NLHBA.

Regionalization within the health system began in 1994, which essentially involved a reduction in the number of individual health boards from approximately 45 to 14. As a result of the regionalization, the NLHBA restructured internally with a greater emphasis placed on client services, with members requiring additional services based on the same fiscal contributions as pre-regionalization. The NLHBA funding has been essentially a "flat line" budget for the period 1994-1999. A review of the historical financial data indicates that the NLHBA has approximately the same budget today as it had eleven years ago. One of the unwritten policies of the NLHBA is to share its members' pain with respect to financial restraints. In the fiscal year 2000-01, government imposed a requirement of balanced budgets within the health sector.

The Executive Director of the NLHBA is accountable to a Board of Directors, which is comprised of one elected representative from each of the 14 health boards. The Board of Directors essentially operates under a governance model. The NLHBA has a three-year strategic Operating Plan. Presently, the NLHBA employs 15 full-time staff members and the 2002-03 Operating Plan requires operating revenues of approximately \$1.1 million. The NLHBA has budgeted a \$140,000 deficit for the 2002-03 fiscal year. There is little likelihood of receiving additional monies from member organizations given their fiscal restraints. Wages represent approximately \$800,000 of the overall expenditures and office rental space accounts for approximately \$160,000 in additional expenses.

Senior management of the NLHBA has received direction from the Board of Directors to present a balanced budget for the upcoming fiscal year 2003-04. A review of the financial data indicates that measures such as reducing courier services and decreasing use of facsimile transmissions will have minimal impact on achieving a savings of approximately \$140,000.

Recommendations

One noteworthy limitation of this paper is that it will not recommend specific changes for the NLHBA, which are beyond the scope of this paper, rather it will recommend strategies to maintain or enhance organizational commitment during downsizing. These recommendations are directed to the senior management team at the NLHBA.

1. Consider why restructuring or downsizing is necessary. Obviously, there is a need to reduce expenditures and present a balanced budget; however, the senior management team must look beyond this and adapt a long-term perspective. This will require developing a sense of how the downsizing will move the NLHBA to become a stronger

organization where it can survive and prosper. Part of the survival encompasses continuing to provide services required by members. In other words, the proposed downsizing should not be simply an exercise to identify monetary savings by having less people working. The senior management team must be aware that it needs to maintain the required skills and competencies in order to provide services demanded by the members, otherwise the member organizations will not look to the NLHBA to provide such services and this could have a detrimental impact on the sustainability of the NLHBA.

2. When the downsizing plan is complete (**note:** not the implementation) review of the NLHBA Strategic Plan is required in order to include the goals of restructuring in the plan. This will serve the purpose of making the goals measurable. As well, employees may be inclined to see this as a measure of continued survival of the organization.

3. It is incumbent that the senior management team recognize the “contract” with staff. Up to this point in the NLHBA’s existence, there has not been a period where layoffs or downsizing has been required and, as a result, many employees may see this move as a reflection of incompetent management and a breach of trust. While the term “vision” may be a misunderstood and overused term it is important that senior management convey to staff a clear picture of why downsizing is required, where they see the organization going, and the role that the employees remaining with the organization will play. This message should be developed in conjunction with forming a long-term perspective as identified in recommendation number 1. Employees need to understand

how the downsizing will provide the NLHBA with a competitive advantage. This message must also be conveyed to senior management, not solely staff employees.

4. Training should be provided to senior managers, as required, to ensure they have appropriate skills to communicate the rationale for the change and to implement staff reductions.
5. When announcing the downsizing plan it must be done with all senior management and all staff present. It is recommended to meet with staff early in a given week and first thing in the morning. Senior management should expect a decrease in productivity that day and recognize some employees may need time that particular day to digest the information.
6. Ensure, to the extent practical, that downsizing is fair. Obviously, individuals will perceive fairness differently based upon their own experiences and expectations; however, senior management must treat those who will be leaving the organization in a professional and generous manner. Likewise, those remaining must be given correct information, communication must be conducted in a personal manner and the messages must clearly outline the rationale for the downsizing.
7. To increase affective commitment there will be a need to follow previous recommendations and have those employees remaining with the organization involved

with the implementation of new processes and structures implemented as a result of the downsizing. An attempt must be made to empower the remaining employees by listening to suggestions with respect to more efficient ways of doing things. During the planning phase of downsizing, training requirements for additional staff should be identified which will ensure that the remaining employees have the necessary skills and do not feel overwhelmed or experience "burnout."

8. Normative commitment will likely take some time to strengthen as employees "recover" from the downsizing to the point where they perceive the organization as meeting its commitment to them of continued employment. Once they perceive this, they will likely demonstrate an increased cooperation and will assist with change initiatives.
9. Some employees inclusive of senior management may not share a vision of the new organization as proposed through the downsizing. If such individuals continue to maintain a resistance to the changes, to the extent that this may have a detrimental impact on the restructuring and such individuals may have to be terminated.

SUMMARY

Downsizing is a difficult task and statistics show that often it is not successful. In order to improve the chances of success, a well thought-out plan is required rather than a short-term fix. Success in this case is measured by the organization's survival. Critical success factors are such things as open communication with employees, which serves to outline the rationale of the change in role the employees will play within the organization. Secondly, senior management

must be cognizant that emphasis is placed on maintaining or ideally enhancing organizational commitment of those remaining with the organization. Given the client focus of the NLHBA, it is imperative that downsizing not occur with a cost that the necessary skills and competencies will no longer be available to the NLHBA to meet its needs as a service provider to its members.

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