An Impact of Rightsizing on Existing Employees’ Commitment and Morale: Study of Indian IT Companies

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ABSTRACT

The present study has two objectives: Firstly, to examine existing employees’ (survivors’) perception towards rightsizing and secondly, to study the perceived impact of it on their commitment and morale based on sample data collected from IT professionals for one year period 2008-2009. Regression analyses have been carried out taking employees’ perception towards rightsizing as independent variable and affective commitment, continuance commitment and employee morale as dependent variables. On the basis of the signs of regression coefficients rightsizing has positive and significant impact on employees’, particularly survivors’ commitment whereas negative impact on employee morale.

Keywords: Rightsizing, organizational commitment, affective commitment, continuance commitment and employee morale

1. INTRODUCTION

In the year 2009, workforce reduction by organizations has become a big news story around the business world. In one week itself, almost one million employees were reduced. These included workforce reduction at NEC (20,000), Pfizer (19,500), Metro (15,000), Boeing (10,000) and Sprint Nextel (8,000). According to estimation by outplacement firm Challenger, Gray & Christmas, workforce reduction in January totaled 241,749, up 45% from December and the peak monthly number in seven years. (Knowledge at Wharton)

Business Today- Teamlease Employment Outlook conducted a survey from April to June 2009 quarter through 493 companies. Survey was spread across eight cities- Mumbai, Delhi, Bangalore, Kolkata, Chennai, Pune, Hyderabad and Ahmedabad and covered following sectors- Manufacturing and Engineering, Financial services, IT, ITES, Infrastructure, Retail, Media, FMCG, Telecom, Healthcare and Pharma. Survey results revealed that the net employment index (the difference between the percentage of respondents reporting on increase in hiring and those expecting a decline) was at the lowest ever, 24%, a drop of 10 index points from the last quarter and IT, ITES (Information technology enabled services) was worst hit.

Indian IT companies have started to take up strict performance appraisal practices, trimming costs and improving productivity as they can fight with the global economic slowdown. Now days, organizations use several techniques in rightsizing which includes providing incentives to get early retirement and transfer to subsidiary organizations, but the most common practice is to simply terminate a definite number of people. Downsizing is the ‘conscious use of permanent personnel reductions in an attempt to improve efficiency and/or effectiveness’ (Budros, 1999). Rightsizing is just euphemism for downsizing and it sounds better than downsizing.

2. OBJECTIVES OF THE STUDY

In view of the foregoing discussion the set forth the following twin objectives for the present study.

- To examine existing employees’ (survivors’) perception towards organizational rightsizing in the context of Indian IT industry.
- To study the perceived impact of organizational rightsizing on survivors’ affective commitment, continuance commitment, and morale.

3. LITERATURE SURVEY

Organizational downsizing, nowadays rightsizing as a change management strategy has been adopted for more than two decades (Gandolfi, 2007). In the 1980s and early 1990s, it was implemented primarily by firms experiencing difficult economic times (Gandolfi, 2006). The main motive behind rightsizing efforts is the desire for an immediate reduction of costs and increased level of efficiency, productivity, profitability and competitiveness (Farrell and Mavondo, 2004). Firms have implemented rightsizing as a reactive response to organizational bankruptcy or recession and proactively as a human resource strategy (Ryan and Macky, 2004).

Brett Luthans and Steven Sommer (1999) conducted research in health care organization (HCO) and comprehensively defined organizational downsizing as a set of actions, adopted on the part of the management of an organization and intended to improve organizational efficiency, productivity, and competitiveness. It shows a strategy implemented by managers that affects (a) the size
of organization’s workforce, (b) the costs, and (c) the work processes (Cameron, 1994).

According to Jan Selmer and Christian Waldstrom, 2007, it is a management strategy designed to improve organizational efficiency, productivity or competitiveness. It is an intentional organizational action differentiating it from the loss of market share, loss of revenues, or unwitting loss of employees that may occur during organizational decline. From managerial perspective decline is unintentional to the organization, and it must not necessarily involve a reduction in workforce but it may be losses in revenues or production.

Cemal Zehir and Fatma Savi, 2004 described it is a strategic preference and an approach having goals. It imposes to arrange detailed plans to reach the demanded objectives. A broad and comprehensive definition of organizational downsizing is as follows: a comprehensive strategy provide a competitive advantage and customer satisfaction (Band Tustin, 1995, p.36) by decreasing staff grade, limiting the action area of the company and using sub-constructors in some arrangements including (Nelson and Burke, 1998, p.372-373, Adwood, 1998, p.46) to provide a change or improvement in the quantity of work force, dimension, working system and process.

Dunham, Gruba and Castaneda (1994) supported review of organizational commitment literature by Meyer and Allen (1991), and, found three types of commitment such as affective, continuance and normative. Common to all of the three types of commitment is the observed that commitment is a psychological state that (a) describes relationship between employees and organization, and (b) has inference for the decision to continue or leave membership in the organization. Employees with high affective commitment continue with an organization because they desire to, those with a high continuance commitment remain because they have to, and those with a high normative commitment remains because they think, they ought to (Meyer, Allen and Smith, 1993).

However, these three classifications of commitment are theoretically and empirically distinguishable. Even though there appears to be some association between affective and normative commitment, both were found to be relatively independent of continuance commitment. Therefore, they can be measured separately (Allen and Meyer, 1990).

Affective commitment is defined as individuals’ emotional attachment, identification and involvement with the organization and its goals. It outcomes from and is induced by an individual and organizational value congruency. As a result, it becomes almost natural for the individual to become emotionally attached to and enjoy continuing with organization (March & Simon, 1958; Hall et. al., 1970; Meyer & Allen, 1984, O’Reily & Chatman, 1986). Steers (1977), and Mottaz, (1988), identified factors which helps to create intrinsically rewarding situations for employees to be antecedents of affective commitment. These factors include such job characteristics as task importance, independence, identity, skills range and feedback concerning employee job performance, perceived organizational support or dependence (the feeling that the organization considers what is in the best interest of employees when making decisions that affect employment conditions and work environment), and the degree that employees is involved in the goal-setting and decision-making processes.

Continuance commitment reflects that employees’ perceive a cost is associated with discontinuing employment. (Meyer and Allen, 1993, 1997) according to Akdogan and Cingoz, the relationship between the downsizing perception and the continuance commitment is positively significant. Employees who perceives downsizing in a positive way have more continuance commitment to the organization.

Morale is ‘positive emotional orientation towards membership’ (Price, 1972). In this perception, morale is the attitudes of employees wish to belong to the organization those are happy with their organization. High morale is vital for optimal success of the organisation (McManus, 1996). Morale is an attitude that includes three basic elements affective (evaluation of the object), cognitive (information or belief about the object) and action tendency (tendency to respond behaviorally towards the objective). Morale is commonly referred as psychological attitude of employees towards their job and workplace.

Manning and Curtis (2003) described employee morale as the psychological state with respect to satisfaction, confidence and resolve; the attitude of an individual or group of employees, resulting in courage, devotion and discipline; level of fulfillment one has with intrinsic work aspects, such as variety and challenge, feedback and learning, and space to grow and extrinsic circumstances of employment such as fair and adequate pay, job security, and health and safety.

As rightsizing proposes many benefits, from increased productivity to building synergy, making use of these benefits depends on survivors’ attitudes and behaviors. It affected employees’ attitudes and behaviors such as organizational commitment and employee morale.

A field research was conducted by Asuman Akdogan and Ayse Cingoz (2009) for studying the effects of rightsizing on organizational commitment. A survey was conducted in manufacturing industry in Kayseri (Turkey) examined how rightsizing affected survivors’ commitment to the organization. For this research the framed hypotheses were survivors’ positive perception of rightsizing will have positive effects on their affective, continuance and normative commitment. The survey results revealed that employees’ positive perceptions of rightsizing increased organizational commitment such as affective, continuance as well as normative commitment. In this study regression analysis was used to study the relationship between organizational commitment and survivors’ perceptions of rightsizing. According to result of regression analysis,
survivors’ positive perception of rightsizing and layoff affected their affective, continuance and normative commitment in a positive way.

Cemal Zehir and Fatma Zehra Savi (2004) conducted a field research about implications of rightsizing on employees working for Turkish public banks. This study investigated the impact of rightsizing on emotional and behavioral commitment of survivors working at Turkish public banks. In this study they assumed three hypotheses such as; effects of variations of rightsizing strategies differ from employee to employee, organizational commitment has been decreasing because of the effects of rightsizing on employees, there is a reverse relation between rightsizing variations and organizational commitment. Regression analysis was used to test all the hypotheses. According to result of regression analysis, when the employees’ job stresses decrease, their emotional commitments are increasing. While employees' job stresses increase their behavioral commitment increases. When job satisfaction increases, emotional commitment also increases. When work attendance increases emotional commitment increases and behavioral commitment decreases. There is a no relation between career satisfaction and organizational commitment. Emotional commitment of employees decreases when their wages are frozen or reduced. When the work force reduction rate increases, employees’ emotional commitment also increases.

“Existing employees’ reactions to organizational downsizing: Does time relieve the pain’ by Tammy Allen, Deena Freeman, Joyce Russell, Richard Reizenstein and Joseph Rentz (2001)-this study examined changes in work attitudes over a period of time. For this study seven job variables were selected such as role overload, role clarity, work involvement, fulfillment with top management and job security, organizational commitment, and intent to turnover. Another purpose of this study was to capture the dynamic context of rightsizing by investigating how changes in some of the job attitude variables relate to changes in others. Mainly they examined how changes in role overload, role clarity, and fulfillment with top management and with job security were related to changes in commitment and turnover purpose. By using work role transition theory, they hypothesized that employee attitude would be affected by rightsizing and these changes in attitudes vary across time.

Brett C. Luthans and Steven M. Sommer, University of Nebraska (Mar 1999) conducted a study on the impact of downsizing on workplace attitudes and investigated differing reactions of managers and staff in health care organization. The purpose of this study was to provide a systematic, empirically based investigation of the effects that downsizing has on attitudes in a Health Care Organization- both for managers and front line employees. For this study they assumed some hypothesis such as downsizing will have a negative impact on manager and employee attitudes concerning their work environment in an HCO, managers and staff employees will report significantly different changes in attitude over the downsizing intervention period.

4. HYPOTHESIS FORMULATION

H₁ Survivors’ positive perception of rightsizing has positive impact on their continuance commitment.
H₂ Survivors’ positive perception of rightsizing has positive impact on their affective commitment.
H₃ Survivors’ perception of rightsizing has negative impact on their morale.

5. SAMPLE AND METHODOLOGY

Cover letters with links to a web based questionnaire are sent through email to the 260 individuals identified as the sample units. The covering letter in the survey stated the purpose of the study and affirmed that the responses would be kept confidential. Responses are filled online. Out of 260 emails are sent, 45 are returned as undeliverable to the listed email ids. 126 people responded to the survey, providing 48% response rate.

Pilot survey

Questionnaire is tested on the basis ten responses from middle level managers in IT Company. Respondents are confused about some statements. So again some changes were made in the questionnaire and tested from same respondents to assure that the items would be understood. The respondents indicated that survey is clear and understandable. Survey sample: For this study randomly 360 IT professionals are selected. Questionnaires with cover letters are mailed to them.

Hypothesis testing

Bivariate regression analyses were done to test the impact of rightsizing perception on employees’ continuance commitment, affective commitment and morale. All hypotheses (H₁ to H₃) were tested with regression analysis in the following manner.

1. In the first step, average for each item is taken.
2. In the second step, averages for continuance commitment, affective commitment and employee morale are entered in separate regression equation for each dependent variable.
3. In the third step, the independent variable (employees’ perception of rightsizing) is introduced in order to determine impact of employees’ perception of organizational downsizing on employee attitudes and behaviors.

Here R² explains variance in dependent variables explained by independent variable.
6. ANALYSIS OF DATA

Testing hypothesis (H₁)
Hypothesis (H₁) states that survivors’ positive perception of rightsizing has positive impact on their continuance commitment. Table 4.3.1. shows regression analysis results. According to results of analysis, the rightsizing perception (independent variable) has positive impact on survivors’ continuance commitment (dependent variable) thus providing support for the hypothesis. Overall model is significant and explained 53.6% of the variance in continuance commitment.

Table 1: Regression analysis results for testing H₁

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Sig</th>
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<td>1</td>
<td>.536</td>
<td>.533</td>
<td>.6816</td>
<td>.001</td>
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However, this survey has shown that well managed rightsizing process didn’t decrease employees’ commitment. It should be emphasized that if companies explain to employees how change process (rightsizing event) will progress and how employees will be affected by the change process, their fear of the future and uncertainty will diminish. In accordance with survey, company has a performance management system in which employees is categorized into various groups and has a personal development plan to improve their performance. The company implemented half yearly mentoring program for the survivors, after that decision will take based on their improvement. Company is giving chance for improving their performance in the sense they are receiving organizational support. So that existing employees feel rightsizing in positive way.

Company’s communication style is clear and honest. Respondents have trust on the management. They believe that rightsizing is based on internal results not on service tenure and hierarchy of employees in the organization. So that survivors who appraise rightsizing in a positive way have more continuance commitment to the organization.

Testing hypothesis (H₂)
Hypothesis (H₂) states that survivors’ positive perception of rightsizing has positive impact on their affective commitment. Table 4.3.2. shows regression analysis results. According to results of analysis, the rightsizing perception (independent variable) has positive impact on survivors’ affective commitment (dependent variable) thus providing support for the hypothesis. Overall model is significant and explained 14.5% of the variance in affective commitment.

Table 2: Regression analysis results for testing H₂

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Sig</th>
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</thead>
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<td>2</td>
<td>.381</td>
<td>.145</td>
<td>.138</td>
<td>.53068</td>
<td>.001</td>
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</tbody>
</table>

In this case, survivors’ affective commitment increases. As per present research findings, due to rightsizing if employees’ perceived changes in positive way in their daily work experiences, their affective commitment to the organization is increased.

Testing hypothesis (H₃)
Hypothesis (H₃) states that survivors’ perception of rightsizing has negative impact on their morale. Table 4.3.3. shows regression analysis results. According to results of analysis, the rightsizing perception (independent variable) has significant negative impact on survivors’ morale (dependent variable) thus providing support for the hypothesis. Overall model is significant and explained 6.3% of the variance in survivors’ morale.

Table 3: Regression analysis results for testing H₃

<table>
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<th>Model</th>
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<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Sig</th>
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</thead>
<tbody>
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<td>3</td>
<td>.252(a)</td>
<td>.063</td>
<td>.056</td>
<td>1.11164</td>
<td>.001</td>
</tr>
</tbody>
</table>

According to the results, beta coefficient is negative means if there is one unit increase in the rightsizing perception; it leads to .308 unit decrements in survivors’ morale. Company made rightsizing policies and practices very clear to them. The downsizing is based on internal results. Half yearly mentoring program is hope for their job security but they are having fear in their mind about job security. So that survivors’ perception of organizational downsizing has negative impact on their morale.

7. CONCLUSIONS

The present research findings revealed the relationship between survivors’ perception of rightsizing and their continuance commitment, affective commitment and morale. During this intervention, if employees’ positive perception of rightsizing would have positive impact on their continuance as well as affective commitment. But, survivors’ rightsizing perception has negative impact on their morale. Employees were satisfied with their pay and amount of work done. They were worried about their job
security. So that respondents of this survey has shown high commitment but low morale.

Limitations:
1. This study was limited to two global Indian IT companies in India.
2. The study results could not be generalized to other entry level organizations in IT sector

8. REFERENCES


