Organizational Restructuring and Job Losses in Professional/Managerial Classes: Causes, Consequences, Remedies

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Abstract: This paper discusses the issue of job losses in the managerial and professional classes. We address practical and psychological consequences of job loss. We discuss some of the causes for job losses, including demand factors at the level of the firm, and supply factors from the employees’ side. We then address the measures that can be taken, by: firms, governments, non-profit organizations, universities, and the individual employees themselves.

Keywords: job loss; organizational restructuring; lay-offs; career change; managerial and professional workers

1. Introduction

This paper reviews the literature on organizational restructuring and its impact on professional and managerial careers, with a special focus on the United States. We will focus on job loss, and on the causes and consequences of job loss.

Sudden job losses are rising. Lifetime employment used to be a guarantee in some firms, but that is not true anymore. For example, in 1997, the New York Times said: “despite all the talk of multiple careers and the jobless future, a surprising number of midcareer workers appear to be on their way to collecting their gold watches. And many companies are thankful they have such old-timers” (Lawlor, 1997). This seemed to show a lot of lifetime employment, even in 1997. Now, we can read in the New York Times (Tugend 2009), which quotes Anat Lechner, associate professor of management and organizations in the Stern School: “Lifetime employment, where the company took care of you and your needs, is pretty much a thing of the past.” Finally, note the article by Tuna (2008), which is titled: “No-Layoff Policies Crumble: Companies That Have Avoided Job Cuts in the Past Find This Recession is Different.” She notes: “lifetime employment, a hallmark at some employers in the US for generations appears to be disappearing.” It seems that this “Great Recession” is different, and that more layoffs are going on. Therefore it’s very important to study job loss, and we focus my paper on job loss.

This paper is structured as follows. In section 2, we review the impact of job losses on the individual employee, motivating the importance of the topic. Section 3 discusses the demand issues in managerial workers, with focus on downsizing in the industry. In section 4, we focus on issues in supply of professional and managerial workers. In section 5, we discuss firm reactions to the career change of the firm’s employees, and in section 6 discuss responses by other institutions and by the individual. The conclusion is in section 7.

2. The impact of job loss on the employee

Becoming fired or laid off may be a traumatic event for the individual. Eliason and Storrie (2009) found that job loss increases the risk of mortality by 44% in males, in the four years after the job loss. They establish causality by focusing exclusively on plant closings, not on other reasons for lay-offs. Otherwise, it would be possible that the plant managers (of plants that do not close) would fire employees exactly due to health issues, and then of course those employees tend to die more. Because in Eliason and Storrie (2009) the plants close, all employees are laid off, regardless of health status, and this still leads to a higher chance of death. Therefore, we can see that it was not the least healthy employees that were laid off, and then died.

Kessler, Turner and House (1992) use similar methodology: for example, they use plant closing events, which tells that the sample is not just people that were fired because of health problems; also, they compare recently fired people with the stable-employed people, which allows for a control group of similar people. Their results indicate that job loss leads to serious mental problems that are clinically significant. This is very significant, because even the stable-employed workers could have suffered mental problems from the unemployment of their friends and colleagues, and this would blur the results.

The negative impact goes beyond the individual, it also goes to the family. Price (1992) reviews the evidence on the family and concludes that “The results indicated that the unemployment experience has powerful negative effects on the families of workers, increasing
the level of conflict, tension, and stress reported in their households.”

Brockner and Lee (1995) use self-affirmation theory to argue that one reason the loss of a job can be traumatic is the loss of self-concept (or self-identity) by the laid off employee. Note, however, that the loss of a job is not necessarily bad news. Consider one employee who has better opportunities outside his firm. He wants to leave, but does not, because he is loyal to his boss. If he is fired, he may welcome the situation, to take advantage of the new opportunities.

The key to whether the employee is better or worse off has to do with the resources that are available to him. This point is made in a quantitative way by Zikic and Klehe (2006), who tracked 304 recently unemployed people, and surveyed them six months after they became unemployed. They asked about the quality of their jobs six months after. They found: the individuals who used the self-efficacy and the social support resources to explore their careers during the unemployed months, had on average higher quality jobs six months later.

### 3. Demand issues of professional and managerial workers: the firms’ side

Why do firms lay off people? Hallock (2009) goes over a great summary of these reasons. He has a dataset of all layoff decisions that were announced in the Wall Street Journal, for all Fortune 500 companies, between 1970 and 2007. He records the first three reasons for each layoff decision, included in each Wall Street Journal article (total 5353 reasons given). He argued that the reasons fluctuated during the time, as can be seen in table 1. While the “Slump in Demand” reason remains important through time, we see the role of the economic problems of the 2000s in the “Cost Control,” which more than doubled from 1970-1979 to 2000-2007. Also note the role of cultural change in the corporate world. Hallock (2009) writes: “It [change in importance of cost control] may be consistent with changes in norms surrounding layoffs: ‘letting workers go in order to contain costs may not have been so acceptable three decades ago.” This also confirms the newspaper articles cited in the introduction. The following story is a good example of the changing culture (Hallock 2009): “I visited a high-tech company with roughly 1,000 workers in 2001 right after their first job loss. I heard descriptions of extraordinary anguish and difficulty – including the chief executive officer crying while telling part of his workforce that they would have to go. I visited the headquarters of the same organization about six months later, when it was beginning a new round of layoffs. The same senior staff now had an entirely different view – and described the situation in stark, economic terms.” In a six month period this company’s culture went over a significant cultural change, due to the huge pressures in the market place. Also, the importance of Mergers has increased ten times, and the importance of Reorganization has also increased.

| Table 1. Distribution of Reasons for Announced Job Loss Announcements over Time |
|--------------------------------|------------------|------------------|------------------|------------------|
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| Cost Control               | 619              | 6.52             | 10.03            | 17.12            | 15.31            |
| Excess Supply              | 340              | 9.37             | 9.91             | 1.85             | 0.93             |
| Merger                     | 130              | 0.51             | 1.80             | 3.78             | 5.10             |
| Plant Closing              | 303              | 4.18             | 5.20             | 5.47             | 9.51             |
| Posting Losses             | 259              | 6.78             | 6.01             | 3.16             | 1.62             |
| Reorganization             | 503              | 7.35             | 7.86             | 13.34            | 10.09            |
| Restructuring              | 315              | 2.34             | 5.94             | 11.03            | 4.52             |
| Slump in Demand            | 1,855            | 35.97            | 36.41            | 28.14            | 38.75            |
| Strike                     | 200              | 8.49             | 2.91             | 1.46             | 0.00             |
| Other                      | 305              | 9.18             | 5.88             | 3.47             | 2.32             |

Source: Hallock (2009). WE have selected the rows in Hallock (2009) that have more than 3% for at least one period.

In contrast, one reason that is losing its importance is: strikes, which went from 8.49% of the reasons in 1970-1979 to 0% in the last period. This may indicate better labor-management relations, a decrease of the importance of unions in the workforce, or losses of power in bargaining of the unions.

One additional reason for job losses on the demand side is the issue of globalization, in this case job losses in import-competing industries. Kletzer (2001) finds that between 1979 and 1999, 6.4 million workers lost their jobs from the top import-competing industries in the US. However, she finds little to no evidence that the losses were focused on managerial jobs.

### 4. Supply issues of professional and managerial workers: the employee side

On the employee side, Jarratt and Coates identify as one of the principal problems the lowering of education standards. For example, 13% of adult (more than 14
Another trend is the increase in the service sector. This means that the skill set that is needed is changing very much. Nowadays, because of the importance of the service sector, the employees need to have skills in computers and communication. The employees that do not have those skills are more likely to become unemployed. Also important is women in the workforce. Jarratt and Coates (1995) argue that this makes couples (especially within managerial class) more and more likely to not be afraid to negotiate with their employers, because they have two salaries. Therefore some may become unemployed in this process. They also discuss the “middle-aging” of the workforce. The issue here may be “career plateauing.” As more people compete for scarce top management jobs, they may not be able to reach the positions that they want for. Therefore, they resign or take early retirement.

One issue that Jarratt and Coates (1995) do not discuss – because it was too early before the internet – is the rise of the internet, and its effects on the managerial / professional workforce. The internet provides both opportunities and risks for them. The internet provides opportunities, because they can use the internet to network with their colleagues; but the internet makes some employees easier to fire, because their jobs are outsourced to foreign cheaper workers.

5. Firm responses to the issues

One big issue in the firms’ responses to downsizing is that HR professionals seem that they are not informed on the scientific research. Cascio and Wynn (2004) identify 5 gaps between research and practice in the downsizing of firms.

Kaufman (1995) recommends retraining of displaced individuals into new skills and/ or “inplacement” of them at a different position within the same firm, as alternatives to termination. “Inplacement” means redeployment of an employee within the same firm. Retraining could be a complement to inplacement, and it eases the redeployment stage. When considering whether to retrain their displaced workers, firms need to carefully weigh the costs and benefits of doing so. On the cost side, there is the cost of training itself, but also: firms may not be able to keep the human capital of the employees that have trained. On the benefit side, the firm is more likely to get a more motivated and committed workforce, even among people that have not been fired. Kaufman (1995) makes recommendations for successful retraining within the firm.

One other response by firms is outplacement services, even when firms lay off workers in the last resort. Martin and Lekan (2008) propose a model of outplacement that is focused on the individual, and tailored to his or her specific personality. For example, does he or she need emotional support? Then this should be provided. Then this is followed by practical job search advice, and a final stage is in counseling the individual on adapting to the new job circumstances.

6. Responses organizations and individuals

In many ways, the termination of employment is a traumatic event. But it also is like any other career change, and therefore it leads to the search for a new job. Therefore some of the skills needed are the same skills that are needed for the purpose of finding a new job.

Then, an important role can be played by governments. Policies by governments at different levels could be as follows. First, governments can provide unemployment insurance, which gives the unemployed person the time for exploring new careers.

Second, the government can sponsor job search, retraining, and re-adjustment programs. Price and Vinokur (1995) describe the JOBS program in Michigan. As we discussed in section 2, looking for a new job is not the only problem for the unemployed worker. He also needs to cope with psychological problems. The JOBS program was meant to teach the unemployed worker two skills: 1) cope with job loss; 2) and find a new job. The program uses motivation theory, stress and coping theory, self-efficacy theory to arrive to these goals. On the first goal, Price and Vinokur (1995) state: “Two and half years after the completion of the randomized trial, people in the experimental group showed significantly lower numbers of episodes of depressive symptoms.” On the second goal, they describe group activities, including role-playing exercises in which the unemployed workers are taught to “think like an employer.” They also develop skills of self-presentation, for example: older workers should emphasize their good health; all workers learned how to write a resume; etc.

Third, the government may provide direct opportunities for career change, with benefits both for the displaced person, and for the public. This can be done in a partnership with nonprofit organizations and / or universities. Rosenberg (2002) describes a fast track program for career changers to become teachers as partnership between the government and the university. Another example is the “Math for America” foundation in New York City, who has recently begun a program to train math teachers, including career changers. These innovative programs can allow the mid-career personnel to change to more satisfying jobs.

Wolf, Pufahl, Casey & London (1995) describe a JOBS program in South New York state, that was a cooperation between four groups: displaced engineers who needed employment; high-tech firms who needed expertise; local labor departments who financed the program with money from the Jobs Training Partnership Program; and Harriman school of SUNY, Stony Brook, where the program was located, and who provided the faculty for it. This program changed a philosophy for the unemployed
person from “find a job” to “create a job.” Every day of each week, firms came to the Harriman school and talked with the unemployed engineers about some problems that the firms had. The engineers would think a solution for the problem, and many got short-term or long-term contracts from the firm. The results of the program are in table 2. Note there were 2 semesters. Looking on the “totals” column, we see that 72 unemployed engineers entered the program. Of these 21 dropped out. However, 8 of them dropped out because they found work. Also, of the 51 engineers that graduated from the program, 35 found part-time work, or full-time work. The 51 can be split into “with interning” or “without interning.” The success rate of the “with interning” was much higher: among 21 engineers that interned, only 3 quit or retired, and 18 have found jobs. In total, the success rate among all engineers was 59.7% (43/72), among all that graduated in the program it was 68.6% (35/51), and among all that graduated in the program and got an intern job it was 85.7% (18/21).

<table>
<thead>
<tr>
<th>Students</th>
<th>Semester 1</th>
<th>Semester 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Dropouts</td>
<td>14</td>
<td>7</td>
<td>21</td>
</tr>
<tr>
<td>Quit/retired</td>
<td>9</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Full-time work</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Graduating</td>
<td>53</td>
<td>8</td>
<td>61</td>
</tr>
<tr>
<td>Quit/retired</td>
<td>15</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Part-time work</td>
<td>11</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Full-time work</td>
<td>17</td>
<td>6</td>
<td>23</td>
</tr>
<tr>
<td>Without interning</td>
<td>30</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>Quit/retired</td>
<td>13</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>Part-time work</td>
<td>6</td>
<td>0</td>
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</tr>
<tr>
<td>Full-time work</td>
<td>11</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>With interning</td>
<td>13</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Quit/retired</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Part-time work</td>
<td>5</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Full-time work</td>
<td>6</td>
<td>6</td>
<td>12</td>
</tr>
</tbody>
</table>


Grassroots organizations can also be important, as Leana and Feldman (1995) detailed. They described individuals that lost their jobs and got organized into a grassroots organization, the Tri-State Conference on Steel. It was made of unemployed people and it helped other unemployed people with daycare, groceries, counseling.

One other important institution is unions. However, Fatchett and Ogden (1984) detail the reaction to job cuts in the United Kingdom. They sent a survey to a public sector union’s branches, and got 86 responses. They found that the unions almost did not react (through strikes, negotiations, etc.) to the job losses. We think more research is needed into the role of unions.

All of these institutions, and the individual himself should focus on the following skills, that have been found in the literature to be useful in searching for a job: networking and resiliency. One of the most important factors in job search, and therefore in the response to job loss, is a good network. A network allows individuals to mobilize a great amount of information that they do not themselves possess, and so are a form of social capital. In fact a good definition of social capital is “the resources available to individuals through their network relationships” (Colakoglu 2006). The network literature distinguishes between “strong ties” and “weak ties.” Strong ties are family and friends, weak ties are acquaintances. Surprisingly the weak ties are more important in job searches, as shown by Seibert, Kraimer and Liden (2001) This is because the weak ties, even though they are further away from being a close tie, also have information that is more different than the information that the job seeker already has. This is called the “strength-of-weak-ties” hypothesis (Granovetter 1973, and Montgomery 1992). What are the implications of the “strength-of-weak-ties” hypothesis for the creation and maintenance of job-seeking networks? We think it implies that networks should focus on extensity, rather than intensity. That is, know as many people as possible, rather than knowing them very well.

Because networking is so important, it is important to identify its predictors in white-collar workers, the topic of the paper by Lambert, Eby and Reeves (2006). Their hypothesis 1 and 2 predict that men will network more than women, and have more network diversity than women. However, they don’t find this to be true. They also didn’t find that race is a good predictor of networking diversity (hypothesis 3). Their main hypothesis that was supported in the data is hypothesis 5, that networking diversity has an inverted U-shape with age, that is, middle-aged people have more network diversity than young and old people. Also, they find hypothesis 6 to be supported, that is, people with proactive personality have higher networking intensity.

Another important skill is resiliency. Fleig-Palmer, Luthans & Mandernach (2005) tell the following story: “In 1855, a 16-year-old John D. Rockefeller decided to pursue employment in the city of Cleveland … he had no contacts so he made a list of businesses from the city directory. Day after day, he applied to the companies on his list, facing constant rejection for 6 weeks until, at last, he was hired.” Those researchers define: “Resilience refers to a class of phenomena characterized by good outcomes in spite of serious threats to adaptation or development.” They propose a model in which resiliency enhances the job-search progress.

One institutional arrangement that can help in linking all skills is job clubs. Job clubs are defined as “multifaceted, group-based job hunting programs designed to train and motivate clients to become proficient job hunters” (Gray 1992). Kondo (2009) studied the dif-
7. Conclusion

In this paper we review the literature on: i) Consequences of job loss; ii) Causes of managerial/professional job loss, both from the demand side (the firm) and the supply side (the employee); iii) Some measures about job loss that can be taken, both by the firm, the government, other institutions, and the individual himself. We conclude that the job loss is a serious event, both for the individual, his family, the community, and the firm. Therefore, it is very important that many institutions (the firm, the government, non-profit institutions, the universities) take measures to either prevent job loss, or to help the individuals who have lost their jobs.

In the future, we see two trends. One is the rise of the internet. The other is the rise of the service sector. We think that the internet will contribute both many opportunities, for example, for networking, for mutual support, for online discussion and for online search. But it will also contribute for many risks, as many people's jobs can be replaced by jobs in other countries. The rise in the service sector will contribute to job descriptions that are more ambiguous ( unlike the jobs in manufactures), and their responsibilities are more loosely described. Because the job description is more ambiguous, the implicit contract, which was never enforceable, becomes even harder to enforce. We believe that more research is needed in these two trends.

References


