

Workforce Reduction Practices in Hong Kong: Are They Efficient and Socially Responsible?

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Abstract

This study investigates the workforce reduction practices in four Hong Kong companies and evaluates the impact on the organizations and the affected employees. Most companies are found efficient in implementing workforce reduction. Though these companies meet the legal requirements of the Hong Kong law in mass layoffs, yet they are not very socially responsible. Managements make efforts in developing selection mechanism, communication channels, and motivating survivors, which are essential to maintain normal productivity of the companies. They however neglect other key steps in managing workforce reduction including exploring options to avoid layoffs and providing adequate outplacement assistance to departing employees.

Keywords: workforce reduction, responsible downsizing, social responsibility, case study, Hong Kong

1. Introduction

Over the past three decades, many enterprises have adopted downsizing as an important human resource strategy and downsizing was found unrelated to the business cycle (Gandolfi, 2008). The phenomenon of downsizing started in the US and spread quickly to various European countries, Australia, and then to Asia Pacific, including Japan, Korea, Hong Kong and even the Mainland China (Mellahi & Guermat, 2009).

Hong Kong, after the Asian Financial Turmoil in 1997, historically experienced the waves of mass layoffs. The situation was even serious after the burst of the 'dot com' bubble in mid-2000. News of layoffs in large or small companies, in local or transnational corporations, in manufacturing or service industries, appeared in newspapers everyday. Just within 12 months, unemployment had crept up continuously, from 6.0% in mid 2001 to 6.7% in January 2003, then 7.4% in May and then reaching 7.7% in June 2002 (*South China Morning Post*, 2002). Also, Hong Kong people's worry on their job security was highest, 39%, when compared with neighboring countries – 27% in Singapore and South Korea (*China Staff*, 2002). It is worthwhile to investigate how Hong Kong companies implement workforce reductions in this period and evaluate the impact on the corporations and the employees.

2. Literature Review

Downsizing refers to a set of activities undertaken by the management of an organization in order to improve organizational efficiency, productivity, and competitiveness (Cameron, 1994). Previous research suggests cost reduction and rise in productivity are key objectives of downsizing (Cascio, 1993). Accordingly workforce reduction is one of the three main strategies of downsizing; the other two downsizing strategies are organizational redesign strategies and systemic change strategies (Cameron, Freeman & Mishra, 1991). Workforce reduction involves reduction in personnel in an organization whilst downsizing is also referred as the planned elimination of positions or jobs (Cascio, 1993). So, downsizing and workforce reduction are used interchangeably in many occasions.

Cascio (1993) notes that downsizing leads to both tangible and intangible costs to organizations. First, downsizing makes organizations lose corporate skill, knowledge and experience, because those old and experienced and highly salaried employees are asked to leave first (Mellahi & Wilkinson, 2010). Second, Greenhalgh (1983) notes downsizing makes surviving employees decrease commitment to organization and lower performance. Its psychological impact includes anger, depression, fear, guilt, risk aversion, distrust,

vulnerability and loss of morale within surviving employees (Brockner, Davy & Carter, 1985; Cascio, 1993; Noer, 1993), the so-called ‘survivor syndrome’ (Cascio, 1993). It is essential to let the surviving employees perceive fairness in the workforce reduction process or else they will choose to leave the organization (Spreitzer & Mishra, 2002). Thus, forced redundancy must always be the last resort (Cameron, 1994; Cascio, 2002) because the employee productivity may be reduced due to poor morale and organizational instability.

Options of workforce reduction include natural attrition, early retirement, buy-out packages, voluntary redundancy, and forced layoffs or redundancy (Cameron, 1994; Sutherland, 1998). Feldman and Leana (1994) propose fourteen ‘better’ practices in managing layoffs, including early warning systems to identify the risk of layoff, emphasizing redeployment instead of permanent layoff, involvement of displaced employees in implementation, social support systems, outplacement programs, and assistant programs for survivors. Cascio (2002) also suggests ‘responsible’ practices in restructuring, including considering the rationale behind restructuring, consulting employees, avoiding to use downsizing as a “quick fix” to achieve short-term goals, fairly selecting excess jobs, and training survivors in new operations.

Many professional associations develop principles and guidelines how to handle redundancy (Flower, 1999; Institute of Personnel & Development, 1997). These guidelines provide practical suggestions on the preparation, process and precautions for organizations to handle workforce reduction in an effective and responsible manner. As above mentioned, Hong Kong has suffered from waves of economic downturn since 2000s. Many small-medium enterprises and large corporations, including local and transnational capitals, had conducted workforce reduction exercises and many employees were laid off. Situated in this international financial centre, enterprises in Hong Kong should observe those internationally-recognized standards in workforce reduction or mass layoffs. The Hong Kong Institute of Human Resource Management, the largest professional body of HR specialist, has issued practical guidelines for their members on the conduct of redundancy (Barrett, 1998). It emphasizes on both the efficient ways to carry out redundancy, including effective HR planning, selection of employees for redundancy, announcement and communication with affected employees, as well as on the socially responsible manner, including exhausting various options to prevent forced redundancy, counseling the affected staff, providing outplacement services and promise of re-engagement of the displaced staff if conditions become better, etc.

It is worthwhile to study whether Hong Kong business enterprises follow these suggested guidelines when they carry out the downsizing exercises. It is essential to assess how efficient and socially responsible Hong Kong firms are when they conduct workforce reduction.

3. Method of the Study

This study aims to explore how Hong Kong business enterprises conduct downsizing upon economic downturn or decline in their business and to assess whether the processes of their workforce reduction exercises are efficient and socially responsible by benchmarking with those suggested guidelines. As a workforce reduction involves various stakeholders such as senior managers, HR professionals, frontline supervisors, redundant employees and the surviving or remaining employees, their interactions and dynamics could be complex. In order to collect succulent information on the processes of workforce reduction in various firms, and various stakeholders’ opinions and feelings, using case study method is good to collect succulent information from so many stakeholders in such complex business environment and organizational contexts (Yin 1994).

Basing on the author’s contacts and selection, there are four business enterprises or case companies in the study and they come from various manufacturing industries and service sectors in Hong Kong. Among these, two companies are big firms, each with over a thousand employees whilst two are small-medium firms with about a hundred staff in Hong Kong. Three of them are transnational corporations with European capitals and the remaining one is local manufacturing firm. Company A is a famous enterprise to provide lift and escalator installation and maintenance services; Company B is a British firm to produce and export high-end clothing products; Company C is a local firm to produce knitwear products for markets of overseas Mainland China; Company D is the supplier of famous brands of footwear and athletics equipment in Hong Kong (see Table 1).

The author conducted several visits, from two to five visits, to each of these four case companies, to meet both their managers, supervisors and frontline workers. I discussed with top managers and/or HR managers first to have an overview of their downsizing and workforce reduction processes. Then with their permission, I interviewed various supervisors and workers to understand how they perceived those workforce reduction practices and influences to the companies and to individual employees. All these case companies agreed to provide some documents on the workforce reduction, such as dates and times of mass layoffs, notices of

announcement of redundancy, invitation letters of skill tests for selection of redundant workers, notices of severance compensation, details of outplacement services, and schedules of redeployment of work, etc.

So, the author could base on intensive case-study approach, including above-mentioned visits to the firms, in-depth interviews with managers and workers, and documentary analyses of those available documents from these four companies to understand and assess the workforce reduction exercises and people involved. The strength of such an approach allows various data collection strategies and to check the findings from different angles (Yin 1994; Yin 2003). A total of 5 managers, including general manager and HR managers, and 6 employees from these companies were interviewed (see Table 1). An interview schedule of key questions on the process of workforce reduction and their perceptions was prepared for the interviews. The duration of interviews varied, ranging from 20 minutes to an hour per each interview.

Table 1. Profile of the case companies

Case company	Company A	Company B	Company C	Company D
Type of industry	Lift and escalator installation and maintenance services	High-ends clothing products manufacturing and trading	Knitwear and popular clothing products; manufacturer	Supplies of products including footwear, athletics equipment
Ownership	Transnational corporation with basis in France	Transnational corporation with basis in Britain	Local Hong Kong Chinese entrepreneur	Transnational corporation with basis in Britain
Initial employment size in Hong Kong	About 1,100	About 1,500	About 120	About 110
Informants (persons being interviewed)	HR Manager, Quality Manager, and one serving employee	HR Manager, and two serving employees	General Manager, and two serving employees	HR Manager, and one serving employee

4. Findings and Analysis

4.1 Causes of Workforce Reduction

In these four case companies, cost reduction is the major reason leading to workforce reduction. Two companies (B and C) plan to move their manufacturing bases respectively to neighboring regions, Chinese Mainland and Vietnam. The general manager of Company C admitted that reducing labour cost was the key factor to relocate their plant to Vietnam:

We have to reduce our labour cost or we cannot compete in this industry! Our garments are mainly shipped to European countries and I have regular buyers there... What I have done for these few years is to enlarge my production base but with reduced operations costs!

With only about 60 staff remaining in Hong Kong after the first retrenchment in early 2001, Company C was mainly engaged in trading, liaising with customers from overseas, product design and sample production, etc. There had been no key production process in Hong Kong since then. Then a further layoff of 30 local employees occurred in early 2002 (see Table 2).

For Company B, though the management also decided to reduce workers in Hong Kong and increase their production capabilities in the Chinese Mainland, the HR Manager stressed it was a strategic decision, not a simple layoff exercise. Top management would like to increase both their production capability and market share in China because of the rapid economic development.

The causes of workforce reduction in companies A and D are simply – they had to reduce labour cost under the economic recession so as to be more competitive in respective industries. Company A had to compete with other players in the escalator industry not only on service quality but also on price. Its quality manager expressed his dilemma:

The competition of our industry is very keen now in Hong Kong! Price is the biggest factor.... though we also emphasize our quality.

Table 2. Workforce reduction practices in four case companies

Case company	Company A	Company B	Company C	Company D
How many times of redundancy within a period of two years?	Twice; Cut about 30 employees in 2001, and another 40 in mid-2002	One time; Cut about 400 employees in mid-2001	Twice; Cut about 60 employees in early 2001 and another 30 in early 2002	One time; Cut 20 staff in early 2002 (also cut another 25 in offices of other Asian countries)
Reasons	Cost reduction; increasing competitiveness	Transfer of manufacturing base; Cost reduction and market expansion	Transfer of manufacturing base; Cost reduction	Cost reduction; Increasing competitiveness
Approaches	Staff in various units and levels were affected; Tried other alternatives first: internal transfer and early retirement	Confined to workers in production; Tried to transfer the affected workers first	Mainly production workers; No alternatives other than forced layoff	Staff in some product lines, from managers to clerks; No alternatives other than forced layoff
Selection of departing employees	Management criteria, mainly low skill level and poor performance	Screening test and management criteria such as poor performance	Management criteria, such as poor teamwork and work attitude	Management criteria, such job mismatched and poor performance
Notification and Communication	HR was proactive, led briefing sessions; Did not consult trade union	Proactive; HR led shop-floor briefing sessions; HR provided hotline telephone	Relatively reactive; Formal notification and supervisors interviewed departing employees	Proactive; HR provided training to managers how to handle meeting with departing staff
Compensation packages to departing employees	All received package better than severance payment required under the labour law	A little bit higher than statutory requirement	Just got the minimum package required under the labour law; Management intended to save compensation	Most received a package better than the legally required severance payment
Outplacement assistance	A good reference letter; Provide outsourcing projects	A good reference letter	A good reference letter; Informally refer to other firms	Training courses to teach interviewing skills and writing CV
Support to 'survivors'	Follow-up staff meetings after redundancy to comfort survivors; Organize training programs and provide counseling service	Follow-up staff meetings after redundancy to comfort survivors; Organize some training programs	Redistribute work duties; A few got wage increase for increasing workload	Many follow up staff meetings to comfort them; Explain company's future goals and strategies; Provide counseling service

The HR manager of Company D admitted workforce reduction was a response to the poor economic condition:

The sole reason of retrenching staff in our company is the continuous business decline due to economic downturn. Our group has to lay off both our staff in Hong Kong and in the Asia Pacific Region!

Only two companies (A and B) had adopted other measures to avoid forced redundancy. Company B tried to transfer some workers from a plant to another in Hong Kong if they could pass a screening test on sewing. Eventually, only about 15% of the 400 displaced workers could get the new positions.

Company A also set the provisions of staff transfer from one division to another if the displaced could demonstrate their skill attainment and favorable supervisor recommendations. They also adopted early retirement because they had many old employees.

4.2 Criteria in Selecting Who Could 'Survive'

In these four case companies, line managers and supervisors played a key role in selecting who could survive after the retrenchment exercise. HR specialists mainly played an advisory role to assist line managers to compare employee performance across units.

In companies B and C, they need to transfer their manufacturing bases to other places, headcounts in production units including assembly workers, leaders, and unskilled workers were cut first. Only a few could survive. In Company B, management used a sewing test -- those who passed the test would be transferred to the sampling unit. The screening test was more objective than managerial judgment in assessing workers' skill in the ten sewing steps. A successful employee expressed:

I'm very glad to have passed the sewing test! The test is fair to everybody.

There was no such a test in Company C, a small factory in Hong Kong. The general manager explained with close working relations, management knew most workers' competencies and work attitudes. In selecting who should be retained in the factory, management also valued employees' cooperation with supervisors and other colleagues. He noted:

I retain those workers who can learn new skills and work hard under the streamlined workforce. They must learn how to follow up customer order, how to chase the production.

In Company A, the quality manager emphasized staff's technical know-how and work attitudes because they had to provide professional and quality service to their clients in the escalator maintenance:

Safety and reliability are our key business success factors. Thus, we choose to retain those technicians who can perform to meet our prescribed quality standard.... Staff's seniority is not our major concern.

In Company D, several product lines were merged together in order save costs under the business downturn. Various kinds of staff including senior executives, middle-level supervisors and junior employees, were affected. Prospects of product lines and individual employee performance were considered. As a multinational corporation, approval was required from the corporate headquarters. The HR manager pointed out:

The decision of redundancy is a collective decision being made by management in Hong Kong and the management in the UK headquarters.

Overall, management in these companies had their own criteria in selecting who should be laid off and who should survive. Only one case company adopted a tailor-made screening test to assess the affected workers whilst the others relied on managerial judgment and supervisors' recommendations. In all cases, affected workers were not invited to give opinions on this sensitive decision.

4.3 Implementation and Communication

Among the cases, two companies (A and C) had undergone two redundancy exercises in the given period whilst there was only one time in companies B and D. All managers agreed that managing redundancy was not an easy task as it involved a lot of planning and they had little experience. The HR manager of Company B exclaimed:

We try our best to have a better planning before initiating redundancy.... I personally think one redundancy exercise is more than enough for us!

Given the current economic downturn for sometime, all managers could not plan accurately how many times of workforce reductions they had to conduct in the coming year.

The HR specialists in companies A and B were responsible to lead briefing sessions in various units to explain the reasons of redundancy and what kinds of people would be affected. They answered their endless questions. The HR manager of Company A expressed:

I and my HR officers conducted about ten briefing sessions. The affected employees were very emotional! They had a lot of queries, especially on the necessity of the layoff.

Management did not treat these briefing sessions as consultative meetings. In fact, many employees in Company A were union members, yet management did not consult union officials on this important event. She explained that consulting the union might create a lot of uncertainty thus affecting the implementation of the redundancy.

The HR manager of Company B, besides conducting shop-floor forum for workers, also offered his direct telephone line as a hotline to workers. He received many calls during and several months after the redundancy. He also made use of informal communication such as supervisors' relationships with those departing workers. He realized two-way communication was very essential.

Company D hired an external consultant to give a half-day special training to managers how to conduct termination meetings with the affected employees. When the day of redundancy came, managers would interview each departing employee and then HR specialists would conduct the final exit interview. She found such an initiative helped efficiently implement redundancy.

In Company C, there were not many initiatives in communicating the redundancy exercises to employees though they had layoffs twice within two years. The general manager explained that as the relationships between workers and supervisors were very close in such a small firm, they did not require formal communication sessions. He just gave a formal notice to announce the redundancy and gave each departing worker a letter. He explained:

Many workers understand the situation of the company. They know that the layoff happens sooner or later. They psychologically prepared for it.

From the above analysis, the redundancy process and communication practices vary from one company to another. Overall, management adopted a top-down approach without consulting those affected employees in advance.

4.4 Compensation Packages to Departing Employees

Three companies (A, B, and D) did pay the departing employees compensation packages which were higher than the severance payment legally required under the labour law. According to the Employment Ordinance in Hong Kong, a redundant employee is entitled to a severance payment and the amount was calculated based on two-thirds of the last month salary per each year of service.

In Company A, an additional amount of payment varying from a thousand to three thousand Hong Kong dollars per year of service was paid as ex-gratia payments. In Company D, the compensation package was based on the one month's salary, instead of two-thirds of last month's salary, to compute the severance payment. As the HR manager of Company noted:

The compensation package was based in accordance with the Hong Kong labour law as well as our group's redundancy policy... We are more generous. It's important for our corporate image.

Company C paid the minimum compensation required under the labour law as it was only a small local enterprise. Its general manager frankly expressed:

As a boss, I am reluctant to pay such a huge amount of money! ... I prefer them to resign at their own accord so that I need not shoulder the severance payment.

4.5 Outplacement Assistance to Departing Employees

In Company A, HR department gave a good reference letter to each departing employees so that these employees would not be discriminated when looking for other jobs. In addition, management encouraged the departing employees to bid for their outsourced projects. Some forms of preferential treatment would be given to this group of departing employees. As what the quality manager noted:

Our departing employees have good technical know-how in our service. It's no harm to give preferential treatment to them.... They should be more suitable than other people.

Outplacement assistance was limited in B and C. In Company B, only a good reference letter was given. For Company C, managers would help departing employees by providing informal referral service to those factories with which they were familiar. They called direct to introduce their employees.

In Company D, they hired external consultant to provide a more sophisticated outplacement training program to two departing managers. Also, another two-day training program on interviewing skills and writing CVs were organized. The HR manager explained:

We emphasize outplacement services ... as it is good for the whole redundancy process and also good to build our corporate image.

A serving employee disclosed that most of his departing colleagues were satisfied with what the company had done to help them to find new jobs.

Overall, Company D provided more outplacement assistance to departing employees than others because it had a well-established group redundancy policy and had to preserve the corporate image.

4.6 Training and Counseling 'Survivors'

Company A provided training programs for 'survivors' because they had to learn new skills to work in other positions or units. A surviving employee disclosed that it was difficult for him and his colleagues to maintain high morale since they felt the company might suddenly impose another round of layoff. He exclaimed:

I don't have any job security in this company. I just do my work day by day. I don't know how long I can stay here.

Management explained to the staff on the future plan of the company and reassured there would be no further redundancy in the coming future. In addition, they hired external counseling service to assist those who needed such help.

In Company B, the situation was similar to that of the Company A. Some surviving workers were transferred to another unit, the sampling unit, and management had organized training programs to upgrade their technical skills to fit new positions. The HR manager requested those supervisors to pay attention to the survivors more. HR officers met with them in groups to understand their needs and tried to give assistance. A worker disclosed that his workload was much heavier than before because of insufficient manpower after redundancy.

Management in Company C redistributed the work duties as the key production process was relocated. There was no training program provided. He agreed some staff might have heavier workload after redundancy, but he would closely monitor the situation.

The HR manager of Company D organized ad hoc meetings between top management and various groups of staff so that managers could directly comfort their staff by giving explanation on company's future development. This would lessen employees' anxiety. It also hired the external counseling service for the staff. A staff disclosed that they were less anxious than before:

We are still quite anxious because we are afraid of losing the job. ...We have to handle new products after this redundancy, but I think I can manage them.

Overall, managements of these companies were aware of surviving employees' morale, psychological status and their adaptation to new positions. They did not want to see their productivity would be adversely affected. Most of them provided training whilst two companies offered formal counseling service to comfort the survivors.

5. Discussion and Conclusions

From the above cases in Hong Kong, firms were mainly reactive to economic downturn when they implemented workforce reduction. This is quite consistent with previous studies in other regions that cost reduction and increase in productivity are the key objectives of downsizing (Cascio, 1993). Instead of taking a proactive and strategic approach, they usually chose the 'quick fix' to reduce workforce. Managers expected the immediate benefit of cost reduction but in doing so, companies might lose their insights in reforming the problematic organization leading to inefficient operations in the long run. Contrary to Cameron, Freeman & Mishra's (1991) suggestion, Hong Kong firms do not emphasize organizational redesign strategies and systemic change strategies when they consider downsizing.

In implementation of workforce reduction, half of the case companies did not consider measures other than forced redundancy such as internal transfer or job sharing. Some companies only adopted very primitive options as HR specialists lacked experience in long-term human resource planning. They thus did not observe those responsible downsizing before carrying out layoffs (Barrett, 1998; Feldman & Leana, 1994).

Managerial judgment played a key role in deciding the excess positions and selected who should leave. In most cases, business needs and employee performance appraisals were considered. Unfortunately, many old workers

were asked to depart first because most managers perceived older employees being difficult to learn new skills. It is in fact an irresponsible practice as they did not provide a fair selection of excess jobs (Cascio, 2002). There are also negative effects to the firms such as the losses of corporate skills and core experiences (Mellahi & Wilkinson, 2010).

In most cases, two-way communication between management and the affected employees were valued in the process of layoffs. However, many firms did not inform the displaced employees in advance, let alone to have consultation with employees. This was not a responsible practice (Barrett, 1998, Cascio, 2002). A negative effect is that mutual trust between managers and workers would be severely hampered.

Compensation package was satisfactory as most companies paid ex-gratia payment to redundant employees. Outplacement assistance was however rare. Some only provided a reference letter and informal referral service to help the departed. Only one company offered training programs on job searching and interviewing skills for departing employees. So, overall, these Hong Kong firms do not exhibit socially responsible manner in these aspects of workforce reduction (Barrett, 1998; Feldman and Leana, 1994).

Most firms provided re-training programs to upgrade surviving employees after job transfer. Two companies did more -- to hire consultants to provide counseling service to reduce employees' fear and stress. This may be the only suggested responsible practices (Cascio, 2002) adopted by most Hong Kong firms during downsizing. However, one may argue that such practice is mainly for the firms' benefits, especially on the efficiency and productivity.

To conclude, workforce reduction practices were efficient in Hong Kong companies but they were not very responsible. They made efforts in adopting two-way communication channels, developing effective mechanism to select surviving employees, and providing re-training programs. Many companies however neglected a key area in downsizing -- conducting in-depth study on the rational of downsizing and comparing the relative merits between redundancy and the virtues of stability. Most of them were not bothered to find other alternatives to avoid layoffs.

Only a few firms made efforts in providing outplacement assistance. Local firms were found to be inferior to transnational firms in establishing fair lay-off policies for responsible workforce reduction. Local firms usually made decisions basing on cost-benefit analysis.

Hong Kong people were pragmatic and employees' major concern was on the amount of severance compensation. They might not demand for 'responsible' workforce reduction practices. However, the waves of layoffs are great and many Hong Kong employees will be affected eventually. Even for those surviving employees, they, after several phases of workforce reduction exercises in their companies, easily become demotivated with lower loyalty and commitment to companies (Spreitzer & Mishra, 2002). If the economy in the region picks up and the labour market becomes active again, companies with 'irresponsible' downsizing practices will suffer from high staff turnover. On the contrary, those companies which conduct workforce reduction practices in a socially responsible manner, they can win their employees' hearts since employees understand that their employers adopt sustainable HR policies to recognize and treat employees as valuable human capitals (Wilkinson, Hill & Gollan, 2001). Thus, these firms become the 'employer of choice' to attract various kinds of talents.

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