

OVERCOMING RESISTANCE OF DOWNSIZING: A CASE STUDY OF LEDZWORLD TECHNOLOGY COMPANY IN MALAYSIA

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ABSTRACT

This case study provides guidance on managing the resistance while dealing with the change that happens in an organization. Specifically, in this case study research, the main focus is on downsizing that occurs in an organization and the actions taken to overcome resistance to accept downsizing. The methodology that has been used in this case study research is through gathering primary data while conducting interview session with the Human Resource Manager of Ledzworld. Besides, the authors have gathered some secondary data through research journals in order to support their findings. In this case study, the authors have found that, Organizational Development (OD) practitioner should conduct an effective communication with employees who are affected from downsizing. Furthermore, Negotiating with employees can also reduce the aftershock of downsizing. OD practitioner should also regain the confidence of the existing employees, by giving rewards to the employees who have contributed to the organization's success. Moreover, leadership of managers play a vital role in motivating the existing employees to be more positive towards the organization, as well as reducing the resistance to change. In short, the authors conclude that, OD practices that have been used by Ledzworld are appropriate and effective in order to reduce the resistance towards change.

Keywords: Ledzworld Technology, Resistance of Downsizing, Challenges and Enablers of Downsizing, Organizational Development Techniques.

INTRODUCTION

Downsizing is the process of eliminating people from organizations and business, which constantly affects the society and organizations. The costs reduction method has been used for many years in organizations such as termination, restructuring, layoffs, resource alignment, downsizing and rightsizing (Wincek, Sousa, Myers & Ozog, 2015; Gandolfi, 2013). Shaw, & Barrett-Power (1997) defined that downsizing is a deliberate organizational decision to reduce the employees who are intended to further get better organizational performance. Further, Freeman & Cameron (1993) defined downsizing as 'intended reduction in personnel'. According to Schiro and Baker (2013), many organizations shape a connection between layoffs with increased profits and productivity. During the recession, managers reconsider their relationship with the external

environment that requires changes in the way organizations worked, and the primary decision was to downsize the workforce. The internal factors that are liable to the issue of the event are the high operational costing of the company. On the other hand, the external factors are unstable financial market and the currency (Russell & McGinnity, 2014). In addition, issues that have been discussed were conflicts in the organization and the struggle to fish talents in the industry. Most of the cases found about organization crisis are based on the survival of the firm, which depends on agreements and assignments, that occur between the leaders involved (Maria Priego, Manzanque Lizano & Merino Madrid, 2014).

The prime factor responsible for the downsizing issue is costing. The operational cost of the business is significantly high. This is exceptionally true for the equipment and labor

cost. According to Doran & Fodor (2009), resources need to be sacrificed for the sake of profit, and whoever examines the utilization of resources will try to reduce costs by any means possible. Costs occur in operating and not at the point of investment. Assets make profit and cost has to be assigned to the operation.

Ledzworld Technology is an International company and it has many branches in different countries. The company is headquartered in Netherlands and has several sales offices across Europe and United States apart from the operational headquarters in Malaysia. The core function of this company is Research and Development (R&D), where each and every engineer is highly specialized in their job. Every engineer and staff has their own job analysis and perform various functions in the team, especially engineers majoring in electrical, electronics, optics and several other courses. It is essential for firms that are competing on knowledge to keep abreast of the latest technological development (Whelan, Collings & Donnellan, 2010). Ledzworld is a leading developer, designer and manufacturer of the highest quality LED lighting. It is a Dutch-American company that headquartered in Netherland that started its incorporation in 2008. Now, Ledzworld has its headquarters in Penang, Malaysia that fully operates under the Dutch law. Moreover, it is also known as the knowledge centre of LED technology in Asia. Ledzworld aims to provide innovative and improved LED lighting, that will meet and exceed the customers' expectations in the market. It ensures that the technology used in the productions is well trusted, ease of use and worry-free maintenance. Moreover, the company does a lot of outsourcing to reduce production costs. It also involves many sub-contractors to increase flexibility of manufacturing. The company exports their products across Europe, United States and Australia to meet the demands of customers worldwide. Regionally or internationally, leading lighting company and fixture manufacturer, or energy savings company will be Ledzworld's target customers, as these companies have strong brand recognition and massive distribution power, that enable Ledzworld to increase their sales profit. Furthermore, it will increase the trust and credibility that will enhance the company's premium product propositions.

1. Methodology

The current study is based on qualitative methods. In this case study, Interview questions were designed and administered in Ledzworld Company. In this process, an interview from Human Resource Manager of Ledzworld Company took place. The data was collected through gathering primary data and secondary data to support the aims of this study. In addition, data was organized in categories such as main categories and sub categories. Research instrument was applied and the data were analyzed. The analyzed data were discussed and the conclusion was presented.

2. The Case of Ledzworld Technology

In recent times, in the world of unpredictability and rapid changes, Ledzworld faces both macro and micro pressures. The excellent company must be able to alter the way they function and be aware of the resistance of change. However, not everyone accepts change and not everyone resists change, the resistance of change varies across the size and type of the organization. Remus & Wiener (2009) suggested that the values, skills, demographics of employees and external situational factors influence the degree of organizational readiness for change. The success of change much depends upon understanding of the organization to its current situation. By understanding which factors impede or hinder the development of change management initiatives, firms will have better chances to avoid the major pitfalls associated with the change (Bateh et al, 2013).

Furthermore, managing upwards is about developing and sustaining a good relationship with the upper level employees who support to maintain OD practices and organizational commitment. While, managing downwards is about team work that is supervised and guided by organizational leadership (Bourne, 2011).

It is noted that, organizations must first determine the number of options available for change, analyze the feasibility of each option, anticipate the possible consequences and choose the most suitable option for change. It requires huge amount of energy and time in the decision making process. There is no one best way for the resolution. Management

recognized that, decision making is always a complex process and every single option carries some advantages and disadvantages, enablers as well as hindrances. The Ledzworld internal composition and external situation are highly differentiated from other firms. For instance, the undersized number of human resources, high pay for specialized and knowledgeable employees, intensive competitive and economic downturn have limited the options of management team to choose better organization development practices. Going through the tough management discussion and analysis, the management team considered several alternatives: reengineering, reduce salary payment to cut off high operating cost and retrenchment or downsizing.

3. The Dilemma of Downsizing

Eventually, Ledzworld adopted downsizing through a Voluntary Separation Scheme (VSS), as a solution to the forces of change. VSS is a compensation package that is open to all confirmed employees for a specific period, in order to reduce workforce to an optimal level. Employees has the right to accept or reject without assigning any reasons. Nonetheless, re-engineering was abandoned, as it obliges Ledzworld to acquire new resource and capability, to exploit the advantages such as hiring new personnel with different knowledge and skill, which will incur higher cost. The second option is temporary salary and wage cut. In order to obtain this solution, it has to conform to Malaysia Employment Act by determining the amount of salary and time period that will last. Other than that, Ledzworld must reach consensus with employees for this program. Consequently, these intrinsic limitations have directed the management to choose one of the least favorable transformation changes - downsizing through VSS by Last In First Out (LIFO) rule.

In view of the fact that the firm is highly focused on internal research and development, this prevents them from hiring service from external OD practitioner, to avoid leakage of secrecy. Despite having a diverse workforce, employees are still sharing similar norm and culture given that, there is merely small number of employees. Then, specialized and experienced employees are able to understand their job scope and role conception.

Furthermore, it employs open door concept in workplace which allows and encourages open communication between employees, to reduce unnecessary misunderstandings or conflicts. In other words, Ledzworld has created a culture that promotes strong bonds among employees effectively. In Ledzworld standpoint, these OD approaches are not very constructive to resolve Ledzworld problem. According to Cummings and Worley (2014), OD is a professional field of social actions. Moreover, the practices of OD covers team building with upper level management, structural changes in organization and job enrichment in a manufacturing firm. Gupta (2013) indicated that, organizations can increase their competitive advantage by systematically designing OD approaches, to resolve tremendous challenges. After all, as explained above, Ledzworld has ongoing employee effective OD approaches such as team-building or intergroup team-building, total quality management, role analysis and other techniques in the workplace. However, due to incoming internal and external enormous threat, Ledzworld require other alternatives to solve the costing problem.

4. Hindrances, Challenges and Enablers of Downsizing

Internal shock emerged when, the Ledzworld's Chief Executive Officer (CEO) resigned without prior formal notice to the employees, with reason that he was incapable to accomplish Ledzworld's objectives, such as sales volume and profit target. Without having a doubt, the downsizing and shock incident from the changed CEO brought a number of restraining forces and challenges to the company. Resistance to change is one of the major hurdles that is conversely viewed as a defensive mechanism for successful change (Hendrickson & Gray, 2012). There are two restraining forces identified which are, fear of the unknown and threat to security.

In recent years, many Malaysian organizations have introduced the VSS. The implementation of VSS has become a norm in Malaysia. The benefit is to provide fair compensation rather than compulsory retrenching staff. Even though, VSS is offered only to selected employees, it will cause other employees to feel the pressure. Employees may feel emotionally insecure, due to the pressure from greater job demand and loss of job. For instance, fewer

workers in certain department increased the workload and experienced fear and anxious feeling that, when they will be called out for the next target to receive VSS offer. Besides, there are three challenges identified as well, including damage of reputation, low employee morale and loss of knowledge workers. VSS and internal shock also present unique challenges. First of all, reducing headcount through VSS would lead to bad reputation to Ledzworld because, societies negatively perceive VSS as a company's selfish gain and show that Ledzworld is not performing well. Next, resignation of the CEO causes employees to suffer from loss of hope and has no direction on what to do in the company. The feeling of daze, confusion and insecurity lead to low employee morale. Given each of the employee carries unique specialized skill, it is a very hard decision for Ledzworld. By further freezing the employment and reinstatement, Ledzworld is at risk of losing their best talents. Fortunately, the implementation of the change was not confronted with high restraining forces, due to the economic driving forces, demographic factors and internal management OD strategy effort. Coincidentally, economic rebound in half of a year after the CEO position was replaced by the Chief Technology Officer (CTO). Given the sales and profit increased, employee regained their morale. Second, demographic factors in the workplace especially age, has influence on the readiness and willingness of change. Age and resistance are positively correlated regarding to change, where older employees aged 35 and above are less supportive than younger employees (Oreg & Sverdlik, 2011). As the Ledzworld is made up of young and skillful talent between the ages from early 20 to late 30, they have higher readiness and understands the important actions taken by the management. Finally, as mentioned above, Ledzworld has been employing effective OD approaches throughout their operation to assist managers smoothen the change process.

5. OD Techniques to overcome the Resistance of Downsizing

Human resource manager has planned several internal OD strategies to facilitate change, reduce resistance and tension of employees. The chances of success for the OD programs would improve, if resistance to change can be

minimized. However, the effectiveness of communication, leadership in creating positive environment, appropriate reward, interpersonal skill are associated with successful change (Gilley, McMillan & Gilley, 2009; Tannenbaum, Weschler & Massarik, 2013). Several techniques were used by Ledzworld to increase the employees' motivation to change: effective communication, negotiation, reward system, and leadership of managers. The first two techniques were used on targeted employees in the VSS program while, the latter techniques were used on survivors. Firstly, employees need comprehensive information about the nature, processes, and consequences of the organizational change (Bateh, Castaneda & Farah, 2013). The Ledzworld adopted an open book management in the workplace, thus all the personnels recognized their own company's financial record, expenses and sources of profit. This allows employees to analyze and understand the problem themselves. In this strategy, employees are informed for the rational and reasons for the change. For example, through open door policy, employees can understand why he or she was chosen for the VSS program and therefore establishes a sense of legitimacy and urgency for downsizing. Secondly, management and employees negotiate to reach a consensus when employees hesitate or unwilling accept the offer. Generally, VSS is a non-negotiable matter. Note that however, VSS compensation package depends on the type of organization. Some affected employees are reluctant to resign demanding higher compensation. To achieve win-win situation and promote goodwill relations, Ledzworld managers used this technique to reduce their resistance. Thirdly, management arranges appropriate monetary reward system to survivor. Noted that, the economy recovered after CEO resigned and Ledzworld had chosen two of the performance-based pay systems, which are profit sharing and skill-based pay, to reduce the survivors' interest and security ambiguity such as promotional potential, wages and benefits. The incentive plan also provides essential recognition to enhance their commitment, productivity, motivation and loyalty. However, leadership of new CEO and human resource manager plays an important role to reduce the fear and uncertainty

of employees. Leadership effectiveness has direct impact on organizations' change capabilities (Gilley et al, 2009). Not only the new CEO communicated with the vision and target they wished to achieve to the employees, the top management also consistently engaged in the performance review and company planning on a monthly basis. The objective is to involve members' participation as well as provide constructive feedback to every remaining employee.

Conclusion and Study Limitations

In today's competitive market, especially in this LED industry, company has to be well-equipped themselves to adapt to this ever changing market conditions. In this case study, the authors put on the focus on how Ledzworld managed the changes they encountered, which was downsizing their employees. As of today's market condition, downsizing has always been a popular practice that, when the company is in distress, they choose to downsize their manpower. However, the consequences and aftermath of downsizing can cause a huge impact to the company's reputation. Therefore, it is extremely crucial for OD practitioners to develop a strategic plan for downsizing, in order to avoid mistakes that will take years to recover. In addition, downsizing can be effective, when it is implemented effectively. Upon researching for this case study, it is clear that, Ledzworld performs downsizing for the sake of cutting cost and to boost profitability. Based on the findings, Ledzworld has been doing great on the whole downsizing processes. At the same time, there are rooms for improvement that the authors suggest to make effective downsizing without lowering the employee's morale and the company image. Upon completing this research, the authors summarized their key points that, Voluntary Separation Scheme (VSS) shall be used as the last resort for downsizing in an organization, Secondly; managers should regain motivation and confidence of existing employees after downsizing. Furthermore, on OD practitioner should communicate effectively and appropriately with the employees who receive the VSS offer. Lastly, managers shall take into account the demographic factors while downsizing. The second key point which should be emphasized is to regain motivation and confidence of

existing employees after downsizing. OD practitioner shall take this step seriously in order to enhance the employee's morale and productivity, to reduce the impact of downsizing on existing employee simultaneously. There are several ways that have been implemented by Ledzworld that can be used by other OD practitioners which are, leadership of managers and the reward system to the employee. Even though, VSS has been introduced, the reward system shall not cease on giving it to employees who had performed well. To support these findings, periodically salary increments, allowances, bonuses, fringe benefits and other compensations on regular and specific periods keep employee's morale high and make them more motivated (Danish, Rizwan, Qaiser & Ali Usman, 2010). For instance, Ledzworld has been giving rewards by implementing performance-based pay system to the employees who has contributed to the success of Ledzworld. Moreover, leadership of managers is very crucial to turn the company's culture to a more positive and future-oriented company. In the case of Ledzworld, when downsizing occurs, the newly appointed CEO stepped up and communicated his vision and objectives to his employees, so that, they are clear where the company is heading to. Besides, the new CEO also kept their progress updated by holding regular meetings with the employees. Not forgetting the open door management concept that is adopted by Ledzworld which created a fun, energetic, and flat-structure, which drove innovation. Based on the case study, there are two major suggestions that can be given to Ledzworld on performing downsizing. The first suggestion is to seek for Merger and Acquisition (M&A), which will benefit their small business in this LED industry. Research from Schuler, Jackson and Tarique (2011) suggested the potential reason for gains to stockholders from mergers, to generate productive efficiencies that result in higher operating profit and/or reduced capital spending. Managers offer this further support, if Ledzworlds managed to merge with another company. It is possible that, their OD practitioner would not need to perform downsizing by offering VSS to its employees due to the increased value generation to the company.

Fundamentally, the main limitation of this study is

methodological design. The quantitative approach should be applied in order to statistically validate for complete acceptability of the nature of the problem. Similarly, such case studies should be explored in any other context and industry. The contextual variation is significant, because every business environment has got diversified attributes. In this way, the results might be different and more interesting in future studies. Other than the design of the study, it could be kept in mind that, downsizing in general got characteristics of multi-layered business phenomena, whereas this research considered minimum layer/ few aspects of downsizing and its impact for organizational development practices. In order to have a greater understanding on the concept, its implications for future research must be incorporated or should be taken into consideration, the broader phenomena of the downsizing.

Looking into another perspective of reducing the resistance of accepting downsizing, the suggestion that can avoid the aftershock of downsizing is to provide future career support and engagement to employees. Management support, encouragement and rewards can create a fine atmosphere that allows employees learn and accept change (Raluca Mutihac, 2010). This can be done, when the OD practitioner in the company aid affected employees with jobs that are available, by connecting them to potential employers, for instance, by engaging them with headhunters. Not only that, OD practitioner, be it the immediate superior, the HR manager or the department manager, can take initiative to be their reference through the employment process. Also, Human Resource personnel can help affected employees by giving guidance on resume writing to minimize their fear and anxiety. Through this engagement and support given by the OD practitioner, affected employee is more likely to accept change at the same time protecting the reputation of the company. Hence, it reduces the impact and consequences while adopting downsizing. Meanwhile, as for the existing employees, managers can consistently engage with them by celebrating the festive season and annual dinner to continue the tie-up with all the employees together. This can then keep up a favorable

culture in the workplace. Lastly, the key points that have been highlighted in this case study is generalizable to other organizations. This can be shown when Ledzworld adopted OD practices that reduced the resistance of change, at the same time increased the motivation to accept change. The OD practices that can be learned include effective communications with employees, leadership of managers in an organization, reward system for employees, as well as negotiation with employees.

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