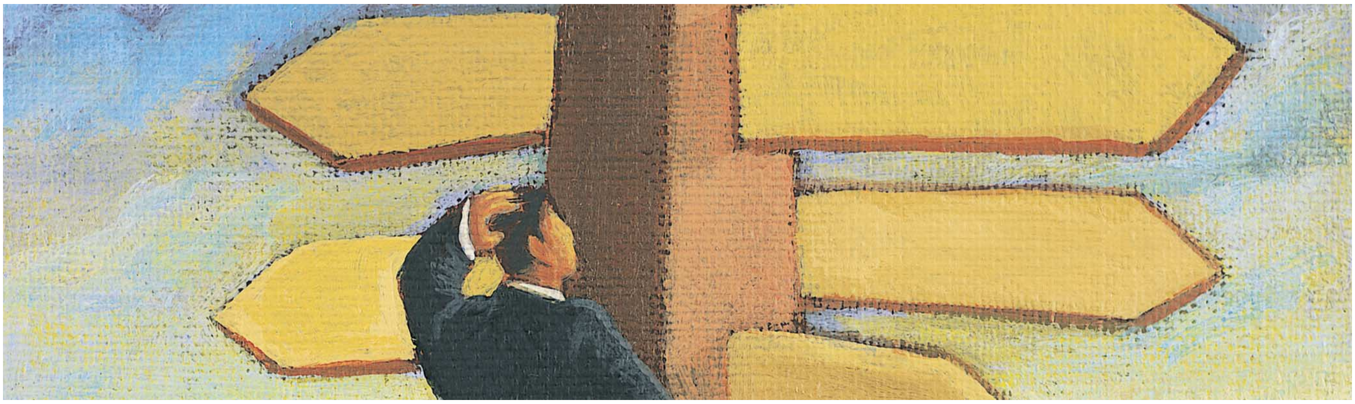
Downsizing–still an ethical challenge

Downsizing has resurfaced as an ethical issue for engineers. Involved in downsizing in many ways, professional engineers need to ensure that the issues are better understood and better addressed. It's in the profession's best interest.



by Jim Ridler, P.Eng.

Downsizing is back in North America with a vengeance. The phrase, "jobless recovery," is being heard again after its introduction a decade ago. In the U.S., payrolls have been dropping for two and half years and the ranks of the self-employed and independent consultants, often the havens for those who have lost a job and cannot find a replacement, are swelling. Some individual company downsizings, such as Nortel, have been dramatic on their own.

While financial scandals have overshadowed downsizing as an ethics issue, the latter has returned with reinforced old concerns and fresh new ones, as well as some new ideas for dealing with related ethical problems.

Professional engineers are involved in this issue in many ways: their efforts to improve technology, and thus productivity, can lead to job losses; they can be involved in decisions by management that result in downsizing; they can be the "executioners" facing their own subordinates with the reality of being fired or offered early retirement; and they can also be the victims of downsizing.

As well, an engineer's foremost duty is to protect the public, and society at large. Safety, health and environment issues are obvious examples. However, the negative impacts of downsizing, such as increased stress and lower morale, can endanger the public when standards slip. This increases the risk of damage to the profession's image. Thus, engineers and engineering are enmeshed in this major issue.

Old and new concerns

Serial downsizing, once a theoretical concern, is now a reality for both employers and employees. I know colleagues and adult students who have lost jobs through downsizing two or three times. My former employer has gone from 15,000 employees to 6000 employees since the early 1990s.

"Secondary downsizing" is a new phrase, referring to the job losses that occur in the communities around a firm or industry that downsizes, as incomes fall and savings are used up. Suppliers, retail stores, distribution firms and service organizations are all hurt and are forced to cut their own staff. The amount of taxes paid falls, as do charitable donations, thus reducing support activities at the time they are most needed. Think of how many residual job losses there must be after layoffs at companies like Enron in Houston, the high-tech industry in Ottawa, or your own local example.

Hypothetical concerns regarding the related stresses on remaining workers, the survivors, have been shown to be real. A recent Statistics Canada study on job stress found two of the most common stress sources were threat of job loss and excessive workload, both related to downsizing. Job stress brings a heavy cost to employees and employers through (a) deteriorating emotional and physical employee health and (b) absenteeism, medical costs and lost productivity.

A new concern is reduced volunteering in the service clubs and other not-for-profit organizations that provide a helping hand in our society. Downsizing has increased the workload of the remaining employees so they have less time available for philanthropic pursuits, and their employers are less sympathetic to employees diverting time to activities with no perceived short-term payoff to them.

A reinforced concern is the negative impact on the "downsized." They are often the victims of resultant "downward mobility." Even when they find jobs, these usually involve lower pay, lower benefits and less security. My students tell of the negative impact on their families when a parent is downsized. Often, the home is sold and the family must move, usually into "downsized" accommodations. These students are bitter after observing the financial pain and emotional upset imposed on their families, usually through no fault of the parent. These students make it clear that their experience tells them that employers were not loyal to their employees, the students' parents, so there is no point in employees (including themselves) being loyal to their employers. Thus, employers are going to feel long-term pain for past short-term gains.

Lack of balance

The above concerns would be serious enough on their own because of the hurtful impact on the downsized, the survivors and their communities. However, the ethical concern about downsizing is made worse by the win/lose approach usually taken by senior management, resulting in a lack of balance and fundamental fairness.

Announcements of downsizing usually result in a rise in a company's stock price, thus benefiting those who own stock or stock options, including senior management. Resultant improvements in short-term profits usually benefit the same people. Often, senior managers get bonuses based on the costs saved by cutting the number of employees. Some would call this "blood money." Indeed, there is a personal conflict of interest for senior management as they often directly benefit from downsizing others, and the more, the better, for their bonuses and stock options.

Add to this that downsizing is often the result of serious mistakes in judgment by the very same senior management. Seldom do the latter ever have the good grace to apologize to the downsized (and the survivors) for the pain inflicted on them through no fault of their own.

This lack of balance is made worse by the "golden parachutes" often negotiated by senior management to protect them financially if they are fired or take early retirement–a benefit not available to "lesser mortals," of course.

There is another imbalance that makes downsizing an ethical issue. Senior management has power (including advance knowledge of cutbacks) and protection against job loss (as noted above). Downsized employees have neither. They are the victims. A similar imbalance exists for the other winners in downsizing–the shareholders. They profit from downsizing, yet their risk also is relatively low compared to the employees. Shareholders have many investment options, generally diversified, and very limited commitment to them. On the other hand, employees generally work for one employer, are committed to them–in fact are quite dependent on them–and have invested their career, time, and learning in them. The risk imbalance is huge, as is the sharing of pain and gain.

Surely, it is ethically wrong to harm others significantly in order to directly benefit. Perhaps the resultant guilt is why there is so little study of what happens to the downsized and their families. Yet, there are many studies of the impact of downsizing on the companies that do it, the survivors still in the companies, and even the executioners who implement it. Indeed, when I gave my class a project to investigate the impact on the downsized and their families, they found few prior studies, despite this serious phenomenon having, at least, a 12-year history in North America. As an engineer with management experience, this makes no sense to me. Surely management should want to know the impact of its downsizing programs to learn from this knowledge and do it better next time? Is it possible that they do not want to know what their downsizing did to their former employees and their families?

New strategies

Organizations are coming up with helpful options to address the concerns. Personal obligations days give employees a specific number of days off that help to reduce stress. Scheduled personal absences, in the auto industry, are a similar example. New jobs are created and employees' families benefit. Some firms are using a "period of time off without pay" to reduce expenses without loss of jobs. This can be a morale booster, if senior management participates. Using part-time employment to phase out retirees and phase in recruits also cuts costs while moderating the negative impacts on all involved.

PEO's Code of Ethics provides excellent guidance to engineers involved in downsizing. It emphasizes fairness and loyalty, including to employees, as well as concern for public needs and welfare. It asks us all to use high ideals of personal honour and professional integrity. Following our code would lead to a needed, better balanced, and ethical approach to downsizing.

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