Business ethics and the bandwagon effect: an analysis of downsizing in the South African industrial situation

David A.L. Coldwell

Faculty of Economics and Management, Department of Business Administration, University of Natal, King George V Avenue, Durban 4001, Republic of South Africa

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Downsizing has become a widely used managerial instrument for ensuring the continued profitability of organizations in adverse business/economic situations, both within South Africa and overseas. However, the ethical and business/economic implications of downsizing have not been extensively researched in the South African context. The aim of this article is to expose and analyze the ethical and managerial issues that underlie the downsizing process. It is suggested in this article that a macro, strategic solution to the downsizing problem is required and that piecemeal tinkering is ineffective. It is maintained that downsizing in the current South African industrial situation is neither ethical nor managerially prudent.

Afskaling het 'n algemeen gebruikte bestuursinstrument geword om winsgewendheid van organisasies in ongunstige sake/ekonomiese situasies te verseker, beide in Suid-Afrika en oorsee. Die etiese en sake/ekonomiese implikasies van afskaling is egter nog nie breedvoerig in die Suid Afrikaanse konteks nagevors nie. Die doel van hierdie artikel is om die etiese en bestuursproblematiek wat die afskalingsproses ten grondslag lê, te analiseer. Daar word voorgestel dat 'n makro-strategiese oplossing vir die afskalingsproses nodig is en dat veranderinge wat broksgewys plaasvind oneffektief is. Daar word ook aangetoon dat afskaling binne die huidige Suid Afrikaanse bedryfsituasie nòg eties nòg bestuursverstandig is.

Downsizing is a deliberate managerial action to reduce costs by reducing staff numbers. Downsizing necessarily involves retrenchment but not necessarily redundancy. In other words, to cut costs by downsizing management retrenches employees whose skills remain useful (potent), whereas redundancy involves the laying-off of employees whose skills have been made obsolescent by, for example, the introduction of a new technology.

In the South African industrial situation the 'triggers' leading to the downsizing process have been many, including, for example sanctions and disinvestment, the decline in the price of gold, the increasing cost of labour resulting in a switch from labour to more capital intensive production methods, inflation both of cost push and demand pull varieties, incompetent management and political uncertainty.

The 'original triggers' that set the process in motion are difficult to ascertain because of the interrelatedness of the various explanatory variables. However, it seems likely that although the necessity for downsizing came as a reaction to *both* exogenous and endogenous factors, the 'original triggers' were exogenous and resulted from, inter alia: sanctions, disinvestment, the decline in the gold price and international pressure for unionization.

The overriding objective of this article is to analyze the ethics of downsizing in terms of the likely effects of its widespread use on business activity and unemployment in South Africa.

The article gives an overview of deontological and teleological approaches to ethics with specific reference to the downsizing issue. It then describes, using a diagrammatic model, the problem of downsizing for business in South Africa as a whole, when each organization considers only its own economic advantage.

Finally, various methods that management could use to avoid retrenchments arising from downsizing are described and planning for both unexpected and anticipated circumstances is emphasized. It is maintained that, downsizing *without* a greater awareness of its harmful 'bandwagoning' effects, is an imprudent and unethical managerial practice in South Africa today.

Ethics of downsizing: deontological and teleological perspectives

In Western moral philosophy, the deontological and teleological approaches are two different but widely acknowledged methods for assessing whether a given course of action is ethical or not. Both perspectives will be briefly outlined and considered in the light of their usefulness in assessing the ethical status of downsizing in the South African situation.

Management's many duties: a deontological perspective

Briefly stated, the deontological perspective of rule-based morality

> 'proposes that an action is right if it conforms with a proper moral rule (where the rule does not necessarily refer to the consequences of the action) and that an action is wrong when it violates such a rule' (Brody, 1983: 24).

Brody (1983) points out that when a specific rule prohibits a particular action, the rule holds even if performing this action generates beneficial consequences to individuals in a given situation. From the managerial point of view, the problem with this approach is that the rules governing their behaviour are sometimes contradictory, or at the very least, incompatible. Managers have a plethora of duties to stakeholders within and outside the organization such as: shareholders, employees, suppliers, customers, their own families and the wider community (McHugh, 1991).

Downsizing generates precisely this kind of conflict for management. Here, for example, their duties to shareholders on the one hand and employees on the other, come into direct conflict. In other words, the preservation of profits to satisfy shareholders comes into direct conflict with the preservation of employee jobs in situations where the profitability of the organization can apparently only be maintained by retrenchments. Therefore, in the context of the duties dilemma produced by downsizing, the deontological approach to business ethics falls short in offering a practical basis for managerial decision making.

Assessing the consequences: a teleological perspective

Consequentialist or the teleological approach suggests that the ethical status of a given course of action can only be assessed in view of its consequences, as Brody puts it:

> 'The basic thesis of this approach is that the rightness or wrongness of an action is based solely on the consequences of performing it: the right action is that which leads to the best consequences' (1983: 10).

The consequentialists regard actions as neither intrinsically right or wrong, the rightness or wrongness of actions depends on their consequences. Thus for them the end justifies the means. Without going into a detailed account of the various forms of consequentialism, it is necessary to note the following aspects of this approach.

First, the standard for evaluating consequences can be divided into hedonist and nonhedonist camps (Brody, 1983). The hedonists maintain that the best consequences are those that generate the most pleasurable consequences (Brody, 1983). Consequences may not, *sui generis*, be pleaserable (e.g. truth, beauty and health) but they *lead* to pleasure since if they did not, they would be worthless. The ultimate criterion for evaluating consequences for hedonists is, the awareness of satisfaction of desires, since pleasure arises from both the satisfaction of desires and an *awareness* that certain desires have been satisfied. On the other hand, the nonhedonist consequentialists criticize this approach on two grounds: the satisfaction of a desire may be valuable even if the individual is unaware of this desire satisfaction, and the satisfaction of a desire may not be valuable even if the individual is aware of his/her desire satisfaction (Brody, 1983).

Second, the question arises as to whose interests are to be considered when assessing the consequences of a given course of action?

The egoist thesis maintains that the action that should be chosen is the one that generates the best consequences for oneself. The altruist thesis, on the other hand, argues that the best consequences are those that afford the most pleasure (happiness) to the greatest number of those affected by the action (Brody, 1983).

The position taken in this article in terms of the above classification (Brody, 1983) is one of hedonism with regard to evaluating consequences and altruism when considering interests.

At first sight, downsizing appears to be ethical in terms of the consequentialist paradigm outlined above. Managers downsize in order to ensure that the firm remains profitable and the majority of employees retain their jobs. How much better this appears to be than allowing the firm to slip into bankruptcy by holding onto staff and forcing its closure. Undoubtedly this is the ethical perspective that most managers would use to justify a downsizing programme. However, is this in fact the case? Is downsizing justified using this approach to consequentialism in the South African industrial context? Before going on to answer this question, it is necessary to outline a consequentialist perspective that was first popularized by Hardin (1977) in an essay titled 'Living on a lifeboat' — this is the objective of the following section.

Lifeboat ethics

Hardin (1977) uses an analogy of lifeboats filled with the world's rich people being surrounded by poor people who are desperately trying to clamber on board. What course of action should the rich take? They cannot allow all the poor to come on board since the lifeboats would then overfill and capsize. If they allow only a few poor on board, this would remove the lifeboat's safety margin and in any case, how would they decide who to allow on board? Hardin suggests that the only practical solution is to ignore the cries for help and maintain spare capacity.

> 'We cannot safely divide the wealth equitably among all present peoples, so long as people reproduce at different rates, because to do so would guarantee that our grandchildren — everyone's grandchildren — would have only a ruined world to inhabit' (Hardin, 1977: 276).

Hardin's (1977) position is manifestly 'consequentialist', i.e. in order that the lifeboat remains afloat some people have to be left to drown. In terms of this approach, the idea that some people survive while others perish is considered better than all people perishing needlessly. The deontological rule against killing innocent people (allowing them to drown) is disregarded because the ends (saving some people) justifies the means (allowing others to drown).

Consequentialism is a form of situation-ethics *in this sense*, in that it adopts an approach to moral issues whereby the moral quality of an action is regarded as varying from one situation to another (Brody, 1983).

The parallels between Hardin's (1977) environmentalist thesis and downsizing as a business tool for reducing costs are not difficult to discern. Management justifies downsizing as a means for keeping the organization (lifeboat) afloat (solvent) and although this means retrenching some employees (allowing them to drown) it allows others to keep their jobs (be accommodated on the lifeboat). However there are some strong ethical and managerial non-sequitors to this argument in relation to the South African industrial context, perhaps the most important being the 'bandwagon effect'.

THT bandwagon effect and the tragedy of the commons

As the recession has grown deeper in South Africa and abroad more and more companies have jumped on the downsizing bandwagon. As the *Economist* puts it:

'"Downsizing", became a management buzzword in the 1980s, when it was on the lips of every firm hoping to make the harsh business of cutting costs by sacking people sound cuddlier. As companies have struggled to contain their labour costs in the face of recession, downsizing has come to be a catch-all-term for plant closures' (1992: 81).

In South Africa it is estimated that at current economic growth rates unemployment could rise to 10 million by the year 2000 (IPM, 200, 1990/91).

The problem with the bandwagon effect was noted by Hardin (1968) in the environmental context in his article entitled 'The tragedy of the commons'. In Hardin's (1968) case the 'tragedy' was instigated by the overutilization of the commons grazing by medieval cattle herders, as each herder (quite rationally) sought to maximize his advantage by increasing his share of the grazing area by introducing an additional cow which, in itself, seemed quite innocuous but, taken together, led to the ultimate destruction of the commons resource.

The business manager similarly uses the common (bandwagoning) approach to maintain, or even enhance his organization's profitability by retrenching employees. The problem is that the overutilization of this method by managers country-wide is generating a gradual erosion in the business environment which may ultimately lead to a total breakdown in the functioning of the economy.

At the personal level, the consequences of downsizing are well documented. Tomasko writes:

'The disappointment of losing a job, sometimes summarily, and the bleak prospects some people feel they have of finding ways to re-use their skills, can lead to depression, drinking and drug problems, family difficulties and other damaging mental and physical disorders' (1990: 44).

Closer to home, a South African Institute of Personal Management 'fact sheet' suggests:

'The major impact on an individual is lowering of self-esteem, accompanied by changes in family role, financial insecurity, self blame and lessening of social contacts. In addition, the unemployed experience greater stress than those with work, including high blood pressure, anxiety, insomnia and increased levels of smoking and alcohol intake' (1990/91: 3).

There is little doubt, therefore, that downsizing often has the most devastating consequences for individuals affected by it. In spite of this, in First World countries it could be argued that downsizing is ethically defensible because of the cushioning effect of unemployment benefits, and because, in many instances, the population of these countries (e.g. Germany and Britain) is an ageing one and the necessity for providing work for young job seekers is thereby substantially reduced. Not so in the South African situation, however, where the Unemployment Insurance Act makes provision for benefits which are largely inadequate, and where there are increasing numbers of young people seeking work (Keenan-Smith, 1992).

Moreover, in the South African situation downsizing is detrimental to the business environment on at least two additional counts. First, unemployment, largely brought about by retrenchments particularly in the manufacturing, construction and retail industries, is having and adverse effect on personal consumption expenditure (Daly & Gordon, 1992).

Second, unemployment is correlated with criminal behaviour (Cloete, 1982), although the 'cause and effect' relationship between the two may be obscured by 'unemployment pay and other welfare work' (Mannheim, 1972: 587) which in the Western context have a crime preventing effect. The South African Chamber of Business (SACOB) maintains that unemployment is fanning a surge of violent crimes and that:

'Violence in the black townships is replacing fast disappearing sanctions as the main ailment afflicting South Africa's shrinking economy' (*Natal Mercury*, 1992: 14).

In the South African situation much is expected from the absorptive capacity of the informal sector for providing the jobs the formal sector is unable to generate, but with few reliable statistics to work with, it is difficult to assess its ability to do so in the medium to long term. However, Hirschowitz suggests that:

'the informal sector cannot be regarded as making a significant contribution to creating viable employment opportunities' (1992: 13).

To bring the various aspects of the arguments in the article together, the core thesis is as follows. South African organizations are increasingly jumping on the downsizing bandwagon to find a solution to the protracted recession which, as we have already seen, is caused by both exogenous and endogenous factors. The increasing number of retrenchments has exacerbated the recession and generated a large and growing underclass of unemployed people. The growing number of unemployed has increased the degree of violent criminal behaviour to the extent that it is threatening the very fabric of business in South Africa.

There is therefore not only a decreasing level of business activity as unemployment increases, but also the increase in criminal behaviour witnessed as unemployment increases has begun to threaten the possibility of there being any sort of business activity whatsoever, not simply 'downsized' business activity. The central thrust of this idea can perhaps be best explained by means of a diagram (see Figure 1).

Indicated in Figure 1 is the fact that the 'trigger' to the downward spiral in business activity can be attributed to a number of factors of exogenous origin. Business activity is reduced such that it results in employees being retrenched (A in the diagram). Retrenched workers' personal consumption expenditure (an endogenous trigger) declines, which ultimately leads to further unemployment (C–D in Figure 1). This leads to a further decline in personal consumption expenditure and business activity (E–F in Figure 1). At this point violent behaviour among the enlargening pool of unemployed people begins to occur and starts threatening the continued existence of business activity per se. (The broken arrow connecting exogenous and endogenous 'triggers' indicates that these aspects are interrelated as might occur through, for example, the foreign trade repercussion effect).

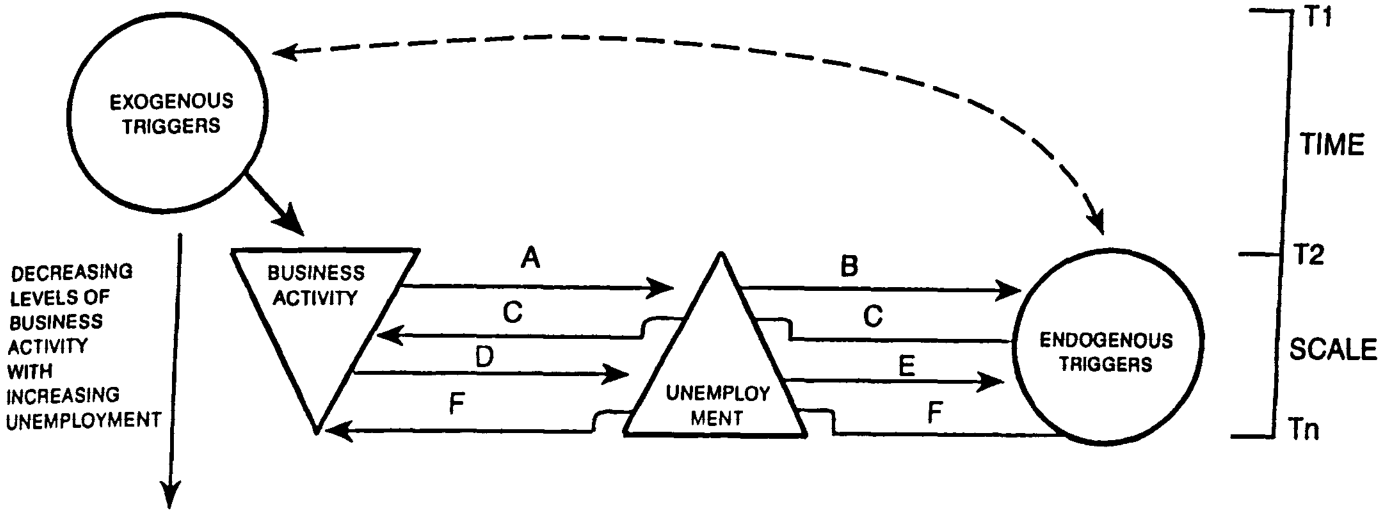

Figure 1 A diagrammatic representation of the bandwagon effect of downsizing

In Hardin's case 'Living on a lifeboat' and 'The tragedy of the commons' lead him to the conclusion that the survival of some people justifies the loss of others, except as the critics of Hardin have noted (O'Riordan, 1990), those floundering in the water around the lifeboat are effectively able to sabotage it and take everyone to the bottom. In our case, it is precisely because everyone will be 'taken to the bottom' through the bandwagon effect of downsizing that the ethics of a lifeboat is not an acceptable consequentalist moral principle for management in the South African situation. The upshot is that management who see their own organization as their singular responsibility may regard themselves as ethically justified in using the downsizing method as this would offer the best consequences to the majority of those affected by the process (e.g. employees, shareholders, etc). However, when viewed in the wider South African context, this ceases to be a cogent ethical argument. In other words if the bandwagoning use of downsizing is not curtailed, the danger arises of not simply the survival of firm X here and firm Y there, but business activity in general. Thus using the ethical yardstick of best consequences for those involved, it becomes quite clear that downsizing in the South African context is not morally defensible.

Avoiding retrenchments through downsizing: what can management do?

In Table 1 some of the more important retrenchment avoidance instruments at management's disposal are listed.

Very briefly, if the need for downsizing is sudden and unexpected because of an immediate and unanticipated economic threat, management can avert retrenchments by the following methods:

1. *Stabilizing funding*
   For example, the South African motor car industry set up a fund financed by one per cent of the wages of the national force of the industry, with employers matching this one per cent deduction rand for rand (Reese, 1991).
2. *Hedging*
   An example of this approach was recently reported in *Business Day* (13 April, 1992) relating to the mining industry. In essence it was suggested that after a hedging plan had been adopted by a gold mine, if the gold price fell, a bank or another financial institution would pay the mine a subsidy to compensate for each month's shortfall in the wages bill. In return the mine makes payments to the bank when the gold price has risen beyond an agreed upon level.[1]
3. *Pay cutting*
   An example of this was when Hitachi responded to a pre-tax earnings decline of 40% by cutting managerial and executive pay. The 6.800 Hitachi managers from section chief and above had 5% reductions in pay, while board members lost 10% of their earnings (Tomasko, 1990).
4. *Job sharing*
   This method of retrenchment avoidance aims at spreading the available work among existing staff more thinly by reducing individual working hours by, *inter alia* overtime restrictions, reduction in normal daily work hours, reduction in working days in a week, revolving lay-offs.
5. *Buy-out programming*
   Here, managers who have been shortlisted for expurgation are given the option of buying out the section of the business to be downsized.
6. *Redeploying workers*
   Workers are given the option of being employed at the

Table 1 Retrenchment avoidance methods

Unexpected downsizing	Planned downsizing
(Less than 1 year)	(1 year and over)
Stabilization funding (pre-planned)	Mobilizing the troops
Hedging (pre-planned)	Retraining
Pay-cutting	Loaning employees
Job-sharing	Attrition managing
Buy-out programming	
Redeploying workers to other branches/departments in the company and setting up co-operatives	

same level as they were in different departments and/or branches of the company.

Included under this heading is the setting up of worker co-operatives. For example, the downsizing company could offer retrenched workers financial loans at below the existing interest rates to start their own businesses.

Short-term downsizing requirements that potentially involve a large number of retrenchments can only be effectively avoided by preplanned stabilization funding or hedging. In the longer term, when the urgency for downsizing is not as great, then other methods of retrenchment avoidance become available to management. These can be briefly described as follows.

1. *Mobilizing the troops*
   Tomasko (1990: 204) indicates that this underutilized method of retrenchment avoidance focuses '... on cutting costs as well as increasing sales to forestall layoffs'. The South African Foreign Trade Organization (SAFTO) has used this approach with highly successful results.
2. *Retraining*
   This may involve, for example, multi-skilling so that employees are able to be transferred to do other work when their current job is in declining demand.
3. *Loaning employees*
   Employees can be loaned out to other companies while the parent company awaits an upsurge in the economy.
4. *Attrition managing*
   This is a longer-term method of retrenchment avoidance that involves normal employee turnover along with hiring freezes, or as Tomasko (1990: 203) puts it: 'Watching the front door as well as the back'.

The analysis of alternatives to retrenchment, in the downsizing process indicates quite clearly that downsizing which 'necessitates' large scale retrenchments can be regarded as evidence of mismanagement, managerial incompetency or even irresponsibility. If management was more careful in its strategic planning it is probable that downsizing would not involve a sudden spate of job terminations, but would set in motion a gradual process in which the firm would be whittled down to the required size over an extended period of time. Even in the case of unexpected and sudden downturns in the economic well-being of an organization, prudent and ethical management would have contingency plans to ensure that the need for retrenchments are minimized or eliminated.

Conclusion

Several overriding conclusions can be drawn in the light of the foregoing discussion. First, downsizing in the South African context is neither prudent nor an ethical managerial practice. Second, downsizing involving retrenchments can be averted by competent management strategic planning, particularly in the long term i.e. when there is the opportunity for a gradual downsizing programme. Third, piecemeal downsizing involving retrenchments, where each organization considers its own position without due regard for the combined influence of the bandwagon effect, can and should be avoided at all costs through the process such as stabilization funding and hedging as described earlier in the article.

Finally, recent evidence suggests that downsizing may not work. A survey reported in the *Economist* (1992: 8) of American firms which had recently downsized by retrenching workers, indicated that three quarters of the firms involved had not improved their financial performance and that two thirds of these firms had not witnessed any improvement in productivity. However, assuming that the downsizing process can beneficially improve the efficiency of organizations, there is little doubt that without careful strategic planning and with each firm working piecemeal, South Africa is heading for economic catastrophe.

Note

1. The initial reaction of mining houses to this proposal has been negative as it is viewed as being the equivalent of forward-selling of gold. What should be apparent, however, is the difference in the objectives of these two approaches. Forward-selling aims at maximizing profits, whether or not this preserves jobs, whereas hedging is specifically aimed at job preservation.

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