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# Employment Restructuring in Polish Companies During Economic Transition: Some Comparisons with Western Experience

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## **Employment Restructuring in Polish Companies during Economic Transition: Some Comparisons with Western Experience\***

*Tomasz Mroczkowski, Mark Wermus, Linda D. Clarke\*\**

*This paper summarizes the results of a survey of downsizing practices in 90 Polish manufacturing companies. Unlike Russia, where very few employment reductions have been carried out, downsizing in Polish companies is pervasive and appears to be accelerating. The factors that drive downsizing in a transition economy like Poland are not the same as those in the west. Nonetheless, the results of this study indicate that downsizing in Poland has had mostly beneficial effects on company functioning.*

*Dieser Aufsatz fasst die Ergebnisse einer Umfrage über Einsparungsmassnahmen in 90 polnischen Industriebetrieben zusammen. Im Gegensatz zu Russland, wo nur sehr wenige Personalkürzungen durchgeführt wurden, sind Personaleinsparungen in Polen allgegenwärtig und sie werden scheinbar beschleunigt. Die Faktoren, die zu Personalentlassungen in einem Übergangsländ wie Polen führen, sind nicht identisch mit denen im Westen. Nichtsdestotrotz zeigen die Ergebnisse der Studie, dass Entlassungen in Polen meist einen positiven Effekt auf die Betriebsperformance haben.*

*Key Words: Downsizing / Poland / employment / international human resources management*

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## **The Economic Transition and Employment Rationalization in Central Europe**

As economies transition from the industrial to the information age, manufacturing workforces have been shrinking. Even after the huge wave of company downsizing in the early 1990s in the United States, the manufacturing sector in America is expected to decline at an average rate of 0.2% through 2005 (Castells 1996).

In Japan and Europe, the challenge of employment restructuring is even more salient. The economies of Central and Eastern Europe for example, are a special case in that their employment structures are far more antiquated than in the West, and they face special problems resulting from the past policies of the socialist period. Whereas Western Europe has considerable experience with restructuring, for the managers in the post-socialist countries of Central Europe, downsizing is a relatively new experience. As a result of the economic transformation occurring in the region, however, massive shifts in employment have taken place since the early 1990s as companies privatised and new entrepreneurial ventures emerged.

Given the tremendous significance of these changes to the region, there have been surprisingly few studies dedicated to assessing how the process of job reduction is actually carried out inside Central European companies. This study attempts to help fill this gap in the literature by examining the rationalization of employment in Polish companies during the period of post-communist economic transition.

Despite the relevance of downsizing to practicing managers, some authors have pointed out our inadequate understanding of the problem. For example, Cameron (1994) claims that downsizing remains one of the most understudied aspects of business life. Studies of American downsizing have been critical of the way it has been managed by U.S. companies (Cascio 1993). Downsizing programs of many U.S. companies have been criticized for poor planning and management and for not bringing about expected improvements in company performance as measured by costs, productivity, and especially employee morale (Cascio 1993; Mroczkowski/Hanaoka, 1997). Surveys of American job elimination provide evidence of persistent problems with the collapsed morale of the remaining employees (AMA 1995; AMA 1999). Some writers point out that sudden disruption of key relationships within a downsized organization leads to a loss of "corporate memory" that can be damaging to creativity and growth (The Economist 1996). Organizations may thus be threatened by a breakdown of tacit knowledge resulting from excessive turnover or poorly managed downsizing (Baumard 1999; The Economist 2000). Some of the literature, however, outlines strategies of well planned and managed organizational downsizing that avoids the pitfalls and maximizes the benefits (Cameron 1994).

To what extent are the Western experiences with managing employment reductions relevant for managers in transition economies? Managers in Central

and Eastern European countries are certainly familiar with the problems of overstaffing, which they inherited from their command economies. Some of the early studies of enterprises operating under a socialist command economy revealed the consequences of full employment policies: overstaffing, low productivity, poor work discipline, and misallocation of employee skills (Kabaj 1972; Mroczkowski 1977). Economic models of transition from a command to a market economy indicate the necessity for companies to reduce employment levels sharply (Commander et al. 1995). The actual pressures on the post socialist manager to reduce employment have varied depending on the transition policies pursued, the competitive position of the industry in question, the governance structure in the company, and other factors. An empirical study of downsizing in Russia, Ukraine and Belarus suggests that downsizing is influenced by industry specific factors reflecting prolonged structural crises and institutional changes which in turn force changes in governance structures in newly privatised companies (Filatotchev et al. 2000). This study is hardly generalizable to Central Europe, however, where privatisation has been far more successful in having an impact on restructuring than in Russia, let alone Ukraine or Belarus. Studies of post-Soviet Russian productivity show dramatic drops in labour productivity – well below the already low levels observed in the final days of communism, which is hardly a testament to successful restructuring (Beltyukov 2000).

On the other hand, there is evidence of successful restructuring in Central European countries like Poland. A recent study of the Polish economy found the manufacturing sector has already shed many jobs since 1994 as a result of a rapid rise in productivity (DiLodovico et al. 2000). What kind of managerial practice led to these accomplishments in the case of Poland and other Central European countries is largely unknown, however, as we have almost no research on Central European downsizing beyond a few case studies (Redman/Keithley 1998).

Western research has established a link between well-designed human resource management practices and specific dimensions of manufacturing performance such as product quality, cost, and productivity (Jayaram 1999). As it has been noted, however, the Western literature is replete with warnings about the negative consequences of unplanned, indiscriminate reductions. Some authors raise the concept of “organizational slack”, which suggests that organizations cannot afford to cut employment levels to the bare minimum: “Downsizing can eliminate slack below the efficient level. A certain degree of slack can be an important resource for innovation for managerial learning” (Lieb/Meyer 2000). The dilemmas of effective rightsizing practice are indeed formidable under any circumstances.

As Central European managers ponder how to approach employment downsizing, what can they learn from Western theory and practice? Do these lessons apply to the particular transition situation or should there be a distinctive approach taken to downsizing in transition economies that would differ from

typical Western practice? What are some of the most important concepts and principles that can provide guidance to Central European managers? How are Central European managers coping with the challenges of downsizing and what can be learned from their experiences?

Poland was selected as the subject country of this study because it has not only the biggest, but also one of the more successful economies in Central Europe, and it has undergone a great deal of employment restructuring in recent years. Further, as a new accession state to the European Union, the success of its employment restructuring is crucial to its future competitive position within this group.

### **The Structure and Sample of the Research Study**

Macroeconomic statistics on employment and unemployment do not tell the complete story of how employment structures change inside companies, and they say nothing of how the decisions on employment policies are actually made and implemented. For this reason, whenever possible in this study, an effort was made to compare the Polish experience with other countries, particularly the U.S., while exposing the special circumstances inherent in the Polish economic transformation process.

The sample for this study was chosen from the Polish manufacturing sector because, as in most transition economies, it is the economic sector where the most significant employment downsizing has been taking place. A mail survey approach was chosen in order to obtain sufficient numbers of responding firms to enable statistical analysis. In order to ensure some compatibility with American research, the survey instrument, consisting of 43 mostly closed-end questions, was partly modelled on questions included in the American Management Association Survey on Downsizing (AMA 1994). The specific questions utilized were also designed to reflect the new regulatory and institutional realities that have emerged in Poland after 1989. An early version of the questionnaire was tested on approximately 10 responding companies and some corrections were made to the early version before final data collection began.

In terms of location, two industrial regions were initially selected for the study: Krakow and Wroclaw, with the area of Poznan being added later. Over 300 questionnaires were distributed in the spring and summer of 1999, and a total of 90 valid responses were received (48 from the Wroclaw region, 30 from Krakow, and 12 from Poznan). It should be noted that many companies returned the questionnaires only after repeated solicitations. The reluctance of these companies to respond can be explained, however, by the sensitive nature of many of the questions. Only companies that had 250 or more employees were chosen to participate in the study.

The question has to be confronted whether those companies that chose not to respond may have had more significant problems with downsizing as compared

with those that did. An effort was made through follow up interviews to determine whether such a bias was indeed present. The interviews and additional information gathered from local academics and businessmen regarding reputations of the companies did not substantiate the existence of an obvious and significant bias of this kind. Nevertheless, the results have to be interpreted with some degree of caution.

Among the responding companies only 12% had employment levels of 1000 persons or more, and the majority, (57%), employed between 250 and 499 persons. The responding companies were equally divided into producers of consumer goods (43%), and industrial goods (47%). Only 25% of the firms had sales of more than 100 million PLN, (approximately U.S. \$25 million), and only 3 had sales over 250 million PLN (approximately U.S. \$62 million).

More than half (63%) of the companies surveyed do business (sales) with partners in foreign countries, with about one-third doing more than half of their business with international clients. Of those, 43% had partners in the former COMECON countries, 40% with Western European countries, while only 8% of the companies did business with U.S. entities. The structure of purchasing from abroad was not very different; the majority (69%) bought significant amounts of their inputs from abroad.

The questionnaires were completed by each company's human resources management director in 52% of the cases. The company's CEO completed the questionnaire in 14% of cases, while the remaining respondents were senior human resources management staff specialists.

### **Mixed Ownership**

None of the responding firms were totally owned by the government, but 57% of the companies were still partially owned by the government, with State holdings ranging from 3% to 65% of equity.

Only two companies in the sample were wholly owned by foreign investors, while 21% had partial foreign ownership of between 48% and 97%. Regardless of the ownership structure, however, all managers in all responding companies were Polish citizens.

### **Workers and Unions**

All of the respondents had at least 95% of their workforce employed as full time workers. Thus, the use of part time workers was of marginal importance. Unionisation rates varied in the companies, but were generally high by international standards. Two trade union organizations have dominated the post-communist workplace in Poland, the OPZZ and the Solidarity Trade Union. Membership in these two unions in our sample varied from 45-58% of the workforce. Other trade unions had generally lower membership rates.

## Employment Dynamics: Persuasive Downsizing That Appears to be Accelerating

In only one of the responding companies was there an increase in employment since 1990. Four companies reported no change, while the rest, (94%), underwent significant employment reductions. As Table 1 shows, since 1990 the majority of companies reduced their employment levels by 20-40% of the labour force, while about 20% of companies downsized by more than 40%. Downsizing appears to be an ongoing process that rather than showing signs of levelling off, was actually accelerating in many companies.

*Table 1. Layoffs Distribution*

<b>% of laid-off workers as of total workforce</b>	<b>% of respondents</b>
1 to 10	4
11 to 20	3
21 to 30	25
31 to 40	41
41 to 50	16
51 to 60	5

To illustrate, respondents were asked to indicate those years when employment fell most: 20% of companies indicated 1996, 33% indicated 1997 and 30% 1998.

Employment reductions can be caused by a variety of factors often acting in combination. Table 2 summarizes the responses to the question “Rate the importance of the following factors on management’s decision to reduce employment in 1998.”

The results shown in Table 2 are interesting as they indicate how Polish downsizing differs from downsizing in developed market economies such as the U.S. The decisive reasons for downsizing are organizational restructuring and the need to improve manpower utilization. Privatisation in itself comes only after these factors in priority, and is recognized by the majority of respondents as an important but not decisive factor. Cyclical business downturns are recognized as decisive by only 26% of respondents, with 41% saying that like privatisation, it is an important factor, but not decisive.

*Table 2. Rationale Behind Layoffs in 1998.*

<b>Rationale</b>	<b>Percent of Responding Companies</b>			
	Not important	Important but not decisive	Decisive	No answer
Business downturn	23	41	26	10
Privatisation	15	47	28	10
Organizational restructuring	10	23	57	10
Improve staff utilization	12	46	32	10

Outsourcing and contracting	78	12	0	10
Result of a merger	87	2	1	10
Result of acquisition	54	35	1	10
Plant obsolescence	51	36	3	10
Transfer of production to other localities	69	18	3	10
Automation or other new technological processes	59	32	2	10
Loss of government funding or contracts	66	22	2	10

Several groups of factors which are major causes of employment downsizing in the United States still occur very infrequently in Poland or play minor roles in the process. These include mergers and acquisitions, outsourcing and contracting, and technological improvements, including automation.

*Table 3. Change in Staffing Levels by Function, from 1997 to 1998.*

Function	Higher		No change		Lower	
	Poland	US	Poland	US	Poland	US
Administration	1	19	12	56	85	21
Customer Service	8	33	69	49	11	10
Finance & Accounting	3	21	40	59	56	17
Human Resources	2	18	44	63	54	16
Information Systems	43	41	50	44	3	9
Manufacturing	2	44	29	26	69	26
Purchasing	3	12	87	69	10	13
Marketing	33	35	62	46	2	11
Sales	11		80		6	
Research & Development	0	23	77	45	2	11

Downsizing in the United States is frequently followed by creation of new jobs as soon as business conditions improve. The Polish results showed that this scenario was infrequent in Poland, with only 14% of companies creating significant (more than 10) new jobs in 1998. Once implemented, the layoffs tended to be permanent: very few companies reported bringing dismissed workers back, hiring part-timers, or offering different positions to displaced workers. Seventy-eight percent of respondents stated that as a result of layoffs they were better able to utilize the time and skills of the workers left behind.

### **Who is Affected: Rationalization of Employment Structures**

Our results indicate that in order of importance the groups most affected by layoffs are: 1) blue collar and clerical workers; 2) middle management and supervisors.

The least affected groups are technical specialists and top management. The process of rationalizing the employment structure is captured in Table 3.

The functions most affected by layoffs were administration, followed by manufacturing, finance and accounting, and human resources. The functions that registered clear employment gains were information systems and marketing.

*Table 4. Change in Staffing Levels by Employment Position, from 1997 to 1998.*

<b>Position</b>	<b>Much higher (20% or more)</b>	<b>Higher (1% to 19%)</b>	<b>No change</b>	<b>Lower (1% to 19%)</b>	<b>Much lower (20% or more)</b>
Administrative & Clerical	0	0	15	71	14
Blue Collar	0	5	21	68	6
Supervision	1	0	51	48	0
Middle Management	0	6	54	40	0
Top Management	0	17	82	1	0
Technical	0	46	42	12	0

Table 4 illustrates the results of changes in staffing levels by type of position. Most affected by downsizing are administrative and clerical positions, followed by blue-collar workers, supervisors and middle management. Least affected are top managers, while technical specialists posted gains in terms of numbers of positions.

A similar rationalization of employment by skill types is taking place and is illustrated by Table 5.

As Table 5 illustrates, unskilled workers as well as workers with only vocational training or business education at the high school level are being replaced by employees with technical/business college degrees and workers with technical diplomas earned at the high school level.

*Table 5. Change in Staffing Level by Education, from 1997 to 1998*

<b>Education</b>	<b>Much higher (20% or more)</b>	<b>Higher (1% to 19%)</b>	<b>No change</b>	<b>Lower (1% to 19%)</b>	<b>Much lower (20% or more)</b>
Technical College	0	51	42	4	2
Business College	1	26	66	6	1
Technical High School	0	30	58	12	0
Business High School	0	10	54	36	0

School					
Skilled, Vocational	0	13	27	59	1
Unskilled	0	2	16	54	27

## Downsizing Expected to Continue

In spite of the relatively deep levels of employment rationalization in the companies studied, 61% of respondents still consider employment levels to be too high, while 38% said that they were at the right level (only 1% said they were too low!) Consequently, 62% of respondents expect downsizing to continue. For 1999 alone, 34% respondents anticipated a further reduction of the workforce by to 10%, while 31% of the responding companies expected to cut jobs by between 10 and 20% that year.

*Table 6. Short- and Long-term Effects of Job Elimination.*

	Percent of Responding Companies					
	Immediate (Up to One Year)			Long-term (Beyond One Year)		
	Down	Same	Up	Down	Same	Up
Morale <sup>a</sup>	36	33	30	5	44	50
Productivity <sup>a</sup>	22	35	42	2	43	55
Resignations	20	67	10	22	70	5
Sick Leave <sup>a</sup>	24	44	31	23	66	9
Absenteeism	34	58	7	26	68	5
Accidents	13	84	1	12	86	0
Quality <sup>a</sup>	2	63	33	1	45	52
Customer Relations	2	72	24	0	67	30
Training Budget	2	53	42	2	52	43
Training Activity	2	35	61	2	45	51
Production Costs	58	36	1	62	32	4
Profit	4	52	41	1	46	50

a:  $p < .01$  for Wilcoxon Matched-Pairs Signed-Ranks Test when comparing immediate and long term impacts.

## The Beneficial Effects of Downsizing

The improvements in employment structures and skill sets appear to have significant effects on Polish enterprises. In Table 6, the short and long term effects of job elimination as evaluated by respondents are shown.

There are some immediate costs associated with downsizing, but according to the respondents, the longer-term effects are overwhelmingly beneficial on nearly all dimensions of company functioning.

Employee morale is a good case in point. Many respondents indicated lower morale (anxiety) as an immediate consequence of downsizing. But as our statistical analysis demonstrates, the same respondents declared in the longer term (beyond 1 year), morale actually improved as a result of employment reductions. In other words, with the passage of time, those who remained felt more secure and became more productive. A minority indicated that productivity fell initially, but a majority of the respondents felt it recovered quickly and improved over the longer-term.

The views regarding production costs were even more unequivocal: costs fell immediately and remained lower according to a majority of respondents, while profits tended to improve. Quality and customer relations improved in both the short and long term. Various comments from the respondents suggest that this effect, as well as better productivity, was simply the result of better qualified workers remaining in the organization while marginal employees were laid off. Moreover, both training activity and the training budget grew in both the short and long term, thereby further enhancing the average skill level.

On average, sick leave increased slightly in the short term, as some employees sought to protect themselves in this way against layoffs. Most respondents noted, however, that in the longer term, levels of sick leave remained the same or were somewhat lower than before. Absenteeism also appears to be reduced in both the short and long terms. According to some respondents, even the accident rate was affected and declined after downsizing.

Overall, the beneficial effects of downsizing seemed to outweigh the negative ones. Other than a temporary problem with lower morale, downsizing in Polish manufacturing has been a boon for product quality and customer relations, leading to lower costs and higher profits.

Such a strong endorsement of downsizing by Polish managers contrasts with some results of surveys in the United States. In the U.S., improved profitability does not automatically follow a downsizing effort, and productivity and cost reduction outcomes vary. Furthermore, a recurrent effect of downsizing in the U.S. is collapsing employee morale and commitment (AMA 1994).

These differences in downsizing results may be driven by a variety of factors. Although American employment reductions are primarily driven by business downturns, downsizing in the U.S. is increasingly driven by long-term strategic factors. The immediate circumstances resulting in U.S. employment downsizing are transfer of location, automation and mergers/acquisitions, none of which were viewed as important causes of Polish job reductions.

It appears that Polish downsizing is driven simply by the impact of market forces, which are forcing companies into a long overdue rationalization of employment. "Shallow reserves" of productivity improvement are tapped as overstaffing is eliminated; and work organization and skills utilization also improve.

Modern American downsizing occurs at a different stage of economic development and within the context of a much more sophisticated market economy. The weaker labour unions and a less regulated job market in the U.S. as compared with Poland also play a role.

## Forms of Assistance and Impact of Regulation

Although Poland has been a leader in free market reforms in Central Europe, several aspects of its economy, including employment, remain regulated to a greater degree than in the United States. Thus, the employment policies that management pursues tend to be constrained by a variety of factors as illustrated in Table 7.

*Table 7. Impact of Various Factors on Employment Policies.*

Factor	Percent of Responding Companies				
	No effect	Limits very little	Limits some	Limits	Limits very much
Existing labour law	0	18	29	39	15
Minimum wage	23	50	22	3	1
Social security taxes	3	17	30	44	6
Unemployment benefits of making jobs less attractive	29	45	22	3	1
Strength of labour unions	2	19	40	31	8
Shortage of apartments for workers	45	49	3	1	1
Other fringe benefits	44	49	6	1	0
Central government policies	9	14	39	32	6
Regional government policies	38	42	17	2	1
Local government policies	51	44	4	1	0

The two most important factors that impact employment policies are existing labour laws and the strength of labour unions. Both of these factors make very rapid downsizing as practiced in the U.S. more difficult in Poland. In addition, high social security taxes actually act to discourage rehiring of laid off workers, as they add an additional 45% to labour costs.

In a follow-up question, respondents were asked to evaluate the actual degree of freedom they have in shaping employment policies in their companies. Only 8% felt they had all the control they needed. While 24% expressed no opinion, the rest – a clear majority - felt conditions “external to the company” constrained their decisions regarding levels of employment.

Respondents were also asked to predict what categories of workers they felt there would be a shortage versus an excess supply of in the coming years. The distribution of responses paints a distinctive picture of the imbalances in the

Polish labour market. Unskilled workers and workers with vocational or high school level skills are generally rated to be in surplus supply. The most serious shortages were of experienced managers. Some managers also reported moderate shortages of workers with technical skills, and to a lesser extent, those with business degrees.

In contrast, for example, Japanese companies, with their surplus of corporate welfare, are known to pursue complex policies designed to reduce the necessity of layoffs (Mroczkowski, 1997). Table 8 summarizes the responses of Polish respondents to a question about what was being done to soften the impact of downsizing in their own labour force.

*Table 8. Policies for Reducing the Necessity of Layoffs.*

Policy	Percent of Responding Companies					
	Applied		Did not apply but should have		Did not apply and should not have	
	Wage workers	Salary workers	Wage workers	Salary workers	Wage workers	Salary workers
Hiring freeze	33	26	37	46	30	28
Mandatory short week	0	0	48	39	52	61
Reduction in compensation	6	6	11	11	83	83
Transfer to different position	35	64	58	35	7	1
Transfer to part-time	7	30	48	46	45	24
Early retirement	45	70	54	29	1	1
Temporary layoffs	0	0	50	43	50	57

Polish managers mention early retirement and job position transfers among the measures actually used, along with hiring freezes. Typical Japanese solutions such as reduction in compensation are very rarely used and are deemed by most managers as inappropriate under Polish conditions. Shorter working hours are not used either: a majority of managers deemed the idea as inapplicable, although a sizable minority would like to see it implemented. Transfers to part-time positions are more popular, especially with regard to salaried workers. Temporary layoffs are not used, however, a good number of managers would like to see them implemented, although a majority deemed such a measure inappropriate.

Among the forms of assistance extended to displaced workers, U.S. companies most frequently offer outplacement services (over 84% of cases by the mid 1990s). Less frequently offered are extended severance and benefits (around 40-44% of companies), and job retraining is rarely offered in the U.S., (15% of companies), (AMA 1994).

In Table 9, the Polish respondents' answers to a question about forms of assistance are summarized.

*Table 9. Policies for Forms of Assistance to Displaced Workers.*

Policy	Percent of Responding Companies					
	Applied		Did not apply But should have		Did not apply and should not have	
	Wage workers	Salary workers	Wage workers	Salary workers	Wage workers	Salary workers
Outplacement services for all discharged	4	4	44	45	52	51
Outplacement services for selected groups	6	7	52	47	42	46
Severance pay beyond normal policy provisions	37	37	39	40	24	23
Extension of health benefits	0	1	42	44	58	55
Job training to gain new/better skills	2	3	68	61	30	36

*Table 10. Policies Regarding Remaining Workers.*

Policy	Percent of Responding Companies					
	Applied		Did not apply But should have		Did not apply and should not have	
	Wage workers	Salary workers	Wage workers	Salary workers	Wage workers	Salary workers
Profit participation	17	16	75	77	8	7
Increase in salary and/or bonuses	74	74	25	25	1	1
Employment guarantee	7	12	35	31	58	57
Training in new duties	53	81	47	19	0	0

In contrast with the U.S. companies, Polish companies very rarely offer outplacement services and the majority of managers did not feel it was a service they should be offering. Retraining is also rare, although a greater proportion of respondents declared a need to at least consider using such a measure. The only commonly used form of assistance, used in 37% of the responding companies, was extra severance pay.

Polish companies do extend a variety of benefits to workers who survive the downsizing process, however, and these are described in Table 10.

Seventy-four percent of responding companies provided increased salaries or bonuses to retained workers, and the majority offered training in new duties, especially to salaried workers (81%). Profit sharing was used in only 16-17% of

cases, but was judged to be a good idea by 75% of the respondents. Employment guarantees were relatively rare and not very popular with management.

## **Discussion – The Challenge of the “Advanced Transition” and EU Membership**

Although the era of full employment ended over a decade ago, Polish society is still uncomfortable with the phenomenon of unemployment. At the same time, the success of the transformation notwithstanding, the country must prepare for further restructuring and downsizing in manufacturing, mining and agriculture as well as in some services that are still state-operated such as railways and busses. This is a necessary condition for competitiveness at least within the enlarged European Union. Thus, how to manage employment reductions will no doubt preoccupy Polish managers, worker, unions, and politicians for years to come.

Compared with their Western counterparts, Polish managers are relatively inexperienced at managing layoffs. In light of the results of the survey, they appear to have been doing a relatively good job, however. Such a conclusion is supported by the preponderance of reported benefits attributed to the downsizing process.

The results of our survey support the view that the waste, demoralization, and inefficiency inherent in gross overstaffing resulting from full employment policies are so severe that a well-planned, gradually implemented rightsizing program quickly brings very positive results for productivity, product quality, morale and work discipline. The relatively restrictive Polish labour code and influential unions – acting to constrain excessively radical downsizing policies - may have actually helped Polish managers to “optimise the tempo” of employment reductions, making them socially more acceptable.

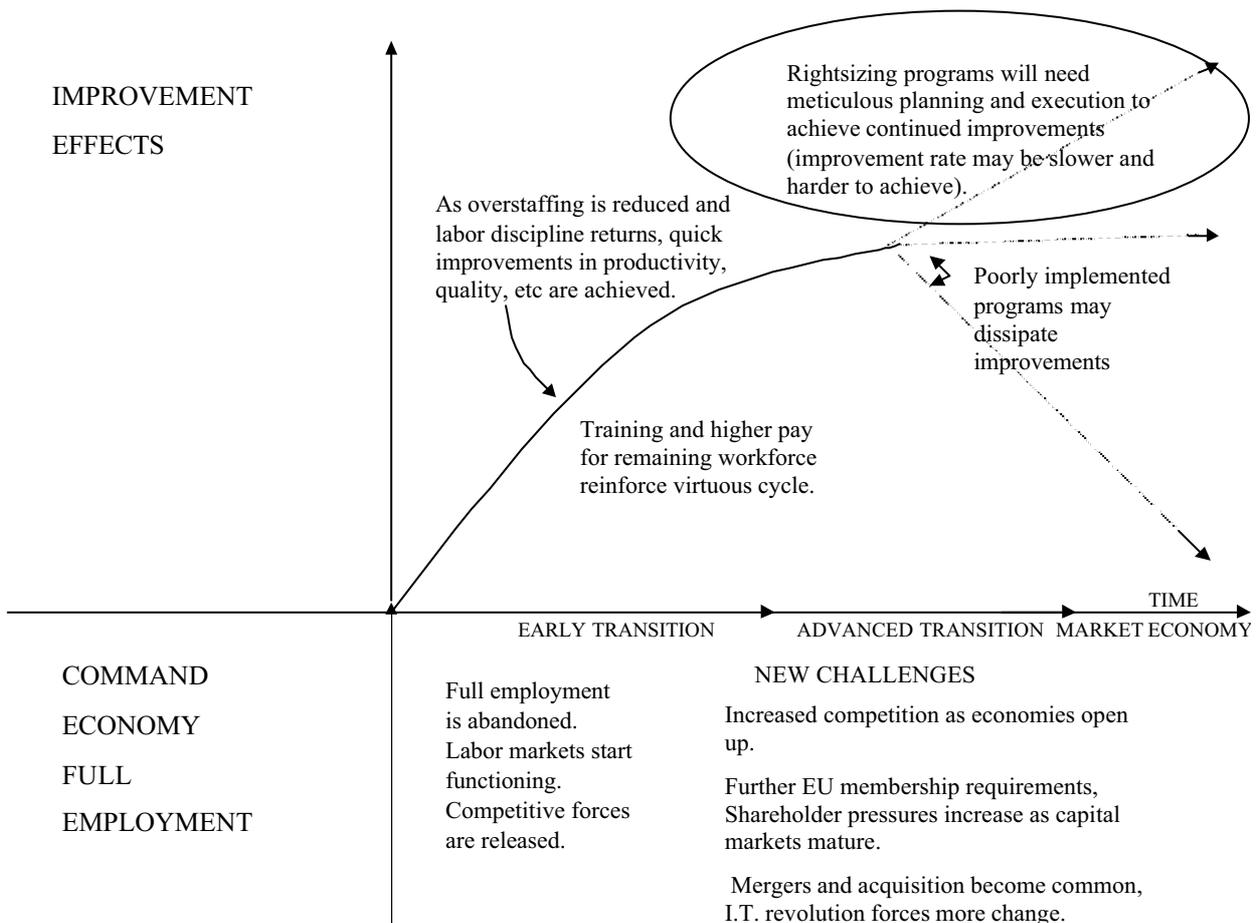
The generally supportive role of the Solidarity Trade Union for reforms at least in the earlier years of the transition needs to be acknowledged in this context. Thus far, Poland has managed a much deeper restructuring of its economy than some other transitioning economies, including the Czech Republic, which still faces major downsizing in many of its industries.

Comparisons of Polish downsizing with US experience included here must be treated with caution due to the vast differences in culture, legal and economic systems in the two countries. Nevertheless the comparisons have some meaning as Poland, like other transition economies, is evolving towards a common global standard of business practice.

## Recommendations for Managers Facing Challenges of the Advanced Stage of the Transition

Now that many Polish companies have reduced their employment levels by 50% or more, what are the challenges for the future? According to our survey, most managers expect more downsizing. Are they to proceed as they have done in the past and can they expect similar outcomes in terms of profitability, cost, and productivity? What can Polish and other transition economy managers learn from the Western experience with downsizing?

Figure 1. Evolution of the Employment Process in Transition Economies.



In the Western literature, managers are sometimes criticized for following fads and downsizing can be such a fad. It can be applied as a quick fix that should impress shareholders, bring down costs and improve profitability (McKinley et al. 1995). Such behaviour often leads to disappointing results. Researchers therefore advocate a meticulously planned restructuring process where the reasonable and expected outcomes of downsizing are clearly spelled out. Such a plan would also detail how implementation will be tracked from the perspective of performances as viewed by the different stakeholder groups, including customers as well as shareholders, management, and the workforce.

As the transition economy matures, further downsizing may result in “diminishing returns” as well as the possibility of unexpected adverse outcomes. As Polish companies become more exposed to international competitive forces, managing what has become an ongoing employment restructuring process is likely to become more complex and very likely more similar to the patterns present in the U.S. and Western Europe. To help develop our understanding of this phenomenon, a conceptual model of the evolution of the employment rightsizing process in transition economies is presented in Figure 1.

Today, countries like Poland, Hungary and the Czech Republic find themselves somewhere between the end of the “early transition” phase and what might be called “advanced transition”, which leads to the establishment of a functioning market economy. E.U. membership is likely to take place during the phase of “advanced transition”, and act as a stimulus for the countries to achieve full market economy status.

Of course, the model is largely hypothetical and requires further research and elaboration. Nevertheless, it provides a useful background for the formulation of recommendations for managers in Central Europe pondering the downsizing dilemmas they are likely to face in the coming years.

### **Specific Recommendations**

1. Managers should expect pressures for further rightsizing to increase rather than decrease. Employees may have improved productivity, morale, and skills, but the reality of a continuing need to improve should be clearly communicated to them. Companies should advance the concept of “employability” of workers rather than secure employment, and provide career planning and counselling services to help employees make the adjustment to a system of flexible movements in employment structures.
2. The need for restructuring may be driven by new forces such as new technologies, business-to-business electronic commerce, and mergers and acquisitions resulting from international businesses entering the transition economies. As a consequence, the goals of rightsizing will go beyond simple improvement in staff utilization and more towards reshaping the skills mixes and creating flatter and more responsive organizational structures, thus building completely new business cultures.
3. New waves of employment restructuring are likely to occur in a situation of high productivity and full utilization of employee capacities. Therefore, the downsizing benefits in terms of productivity, cost, and profits may become harder to attain. Managing employee morale may become an even more challenging process than in the West where there is more acceptance of low levels of job security.
4. While staying very sensitive to the impact of new competitive forces on their employment structure, managers should think not simply in terms of

downsizing, but also of returning enough “slack” to the employment structure to allow for rapid expansion (especially in functions such as sales and information technology) when markets develop. The example of the dynamic U.S. economy demonstrates that embracing the information economy revolution does not lead to pervasive unemployment.

5. One good way to prepare for future challenges is to expand gradually the use of flex timers (which was uncommon in Poland). Opportunities must be pursued for using distance workers from home with computers and information technology – allowing vital skills gaps to be filled by using workers from outside the immediate locality.
6. Work to improve counselling and career management skills of supervisors and managers as well as of HRM specialists must proceed. Developing assistance programs for displaced workers, especially in the area of outplacement services should be considered. Well-developed services of this kind may help alleviate morale problems resulting from layoffs.
7. Business groups should lobby the government to change the legislative framework to increase the flexibility of the labour markets, especially in terms of expanding the use of flex timers. The government should be pressured to reduce the social security tax rate now acting as a disincentive to employers. Business should support education and public communication programs that prepare workers for career self-reliance.

If Poland is to compete successfully in the global economy, downsizing must become a way of life. Managing this process effectively will be a continuing challenge for managers. Further, to create a flexible environment enabling new company creation and growth will be a challenge to the entire society, its leaders, and the political system itself.

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