

Reflections 4: OD and Retrenchment.



Organisation Development (OD) as: *“an effort planned, organization-wide, and managed from the top, to increase organization effectiveness and health through planned interventions in the organizations “processes,” using behavioral-science knowledge”.*
(Richard Beckhard)

In reflection 2, we referred to Bechards’s definition of Organisation Development (OD). For reference, it is again set out above. Perhaps as introduction, we should spend a few paragraphs dissecting the definition.

When looking at the scope, OD can be seen as Planned, Organization-Wide and Managed from the Top. When companies experience problems, we often hear that they will be implementing a “Turnaround strategy”. OD practitioners do not usually talk about “turnaround strategies” but rather refer to improvement strategies or processes. More about “turnaround strategies” later!

A second aspect of OD is its focus. It is grounded on behavioural-science knowledge. This specifies a human focus and does not usually address, other than on a basic level, other fields of work. The focus is on working with the people who work in the different disciplines. OD practitioners that function strategically, do require, and usually have, the functional skills required for managing cross-functional projects.

Lastly, the objective of OD is organizational effectiveness and health. Effectiveness - although easier said than done – aims to optimize and create organisational processes and systems that will assist people in achieving organisational goals.

It might sound strange to speak of organisational health.

When explaining OD, we can use the analogy of the medical model. When a person’s body experiences some sort of performance problems, they visit a medical practitioner. The practitioner diagnoses and prescribes some form of treatment that may range from a pep talk, to ointments, plasters, diets, serious surgery or even amputation.

OD is similarly a process of diagnosis and treatment, with the difference being a systems perspective of groups and group functioning. As with a medical practitioner, the proposed intervention may not be what people want to hear or experience. It might even mean that people think the OD practitioner does not care about people. One such unpleasant intervention is retrenchment of staff.

The most publicised of the ‘turnaround strategies’ we referred to earlier often seem to include retrenchments as a core component.

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is a husband and wife team that supports Individuals, organisations and communities in their development.

Jan and Lyn bring together more than 70 years of experience. They share a passion for helping people, teams and organisations optimise their potential.

Although they work together at times, they each have their own unique strengths and consult individually under their own names.

Lyn supports organisations and individuals to bring social wellbeing and change through advocacy, mentoring, training and communication, while Jan works primarily to enhance understanding and support improvement through development/training and systems thinking.

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Competitiveness and Affordability

Sample of employee Costs

1. Base wage/salary
2. Bonuses e.g.
 - a. Performance
 - b. Annual 13th cheque
 - c. Long Service
3. Medical Aid contributions
4. Pension fund contributions
5. Various allowances e.g.
 - a. Transportation,
 - b. Housing,
 - c. Meals,
 - d. Telephone,
 - e. Travel,
 - f. Cost-of-living,
 - g. Scarce Skills.
6. Training costs.
7. Insurance
8. Leave an sick leave (non-productive days)
9. Housing, land, etc. (Office space required for staff)
10. Job security, prestige, social privileges, Reputation, (reemployment after retirement)
11. Share options, Profit Sharing and many more.

Adapted from

<https://bit.ly/2RBNvk5>

From a business perspective, there are really only two fundamental principles to be considered when considering retrenchments. These are the affordability of the wage bill and the competitiveness of the organisation.

Starting with cost and affordability, it is common knowledge that salaries and wages often make up a large part of company expenditures. In a May 2018 article in Business Day, it was reported that South African “salaries for public servants ... consumed 35% of expenditure in 2017, up from 32.9% in 2007”. <https://bit.ly/2rIN2R8>. It is not clear if these numbers involve salaries only or comprises total labour “cost to company”. It is important to realise that actual salaries and wages paid to employees is only a part of the total cost a company incurs on staff. There are many direct and indirect costs and components. Some labour-related costs are set out in the block.

If we look clinically at affordability and cost cutting, the decision to retrench staff seems an easy solution to financial strain. Having fewer staff members means less spent on salaries and wages, resulting in an “improved” cash flow and eventually an improved bottom line. In non-accounting terms: “if I do not have money, I cannot employ so many people and some must leave”.

This could seem as if people are considered merely as a commodity and not necessarily as a resource. Although the conclusion is understandable, it is not always true.

Just as a person might have to undergo surgery for future survival, organisations might have go through difficult times to ensure continued employment of the larger group / organisation.

Retrenchment is a complex concept with numerous people – and business - factors to consider.

Some Implications

Staying with the medical model, retrenchment can be compared to serious surgery. Unfortunately, surgery is sometimes required and hoping the problem will go away - sticking the proverbial head in the sand - will not work. If surgery is required, one has to accept that the process is going to be expensive, painful and will negatively affect performance even further in the short term. The process may however be necessary for long-term wellbeing and perhaps even survival.

In the longer term, retrenchments may be beneficial as it usually cuts down on medium term expenditures and improves company bottom line.

However, retrenchments cut deeply into the “psyche” or “memory” of an organisation with repercussions long after the process is completed. It will also require rehabilitation - OD - costs post-“surgery”.

Some effects of retrenchments / downsizing on remaining staff:

- Increased short-term focus (survival)
- Restriction of innovation / Resistance to change, (risk reduction)
- Further turnover of staff (trust breakdown),
- Decreased morale / Guilt complex.
- Increased overtime / Increase in temporary workers
- Emergence of special interest groups (power blocks)
- Loss of credibility of top management (respect / trust)
- Loss of key personnel (Competitor gains)
- Often losing too many employees in general, loss of slack (Anorexic organisation),
- Need for retraining,
- Increased health costs (stress).
- Damaged organisational image as “safe” employer

The people-cost of retrenchments are often hidden and manifest in various subtle and indirect ways. Two results of retrenchments that can almost be guaranteed are an immediate and medium term drop in performance and serious breakdown of organisation – employee relationships. Retrenchments also have lasting effects on the organisational “psyche” that require extensive OD processes to address some of the possible outcomes listed on the left.

For effective retrenchment, careful attention should be given to pre-retrenchment planning (more on this later) the retrenchment process itself and post-retrenchment support of staff. Another key risk to manage is what is referred to as the Yo-Yo effect.

Yo-Yo Effect

In order to ensure physical health, people are often put on high or low calorie diets. However, research shows that people that go on diets often relapse to their old habits. There is consensus that a short-term diet is seldom helpful. To lose weight, and to keep it down, people must make lifestyle changes. The other side of the coin is of course people suffering from anorexia whose bodies cannot maintain the required level of functioning, leading to system breakdown.

The same concept of gaining and reducing also applies to companies. There are companies where people say “we are not coping” and more staff is employed. At times employing more people becomes the standard solution with no investigation into the reason for not coping. This usually results in over staffed companies where the wage bill – and competitiveness - becomes unsustainable.

The result is the need for staff reduction of some sort. Unfortunately, companies do not always look at the underlying issues and eventually they slowly start over-employing again resulting in a yo-yo effect of retrench / employ / retrench.

Some companies, as with people, tend to overreact when they retrench (start losing weight). They do not have a realistic view of what is required and retrench so many people that they can be compared to going on a “minimal” or even a “starvation diet”. At the same time, their “turnaround strategy” requires increasing levels of performance with the remaining staff.

The result is what some authors refer to as an anorexic organisation with too many demands on too few staff. Usually the result is staff burnout, loss of commitment, reduced engagement, increased staff turnover and reduced organisation performance.

Workforce based ROI

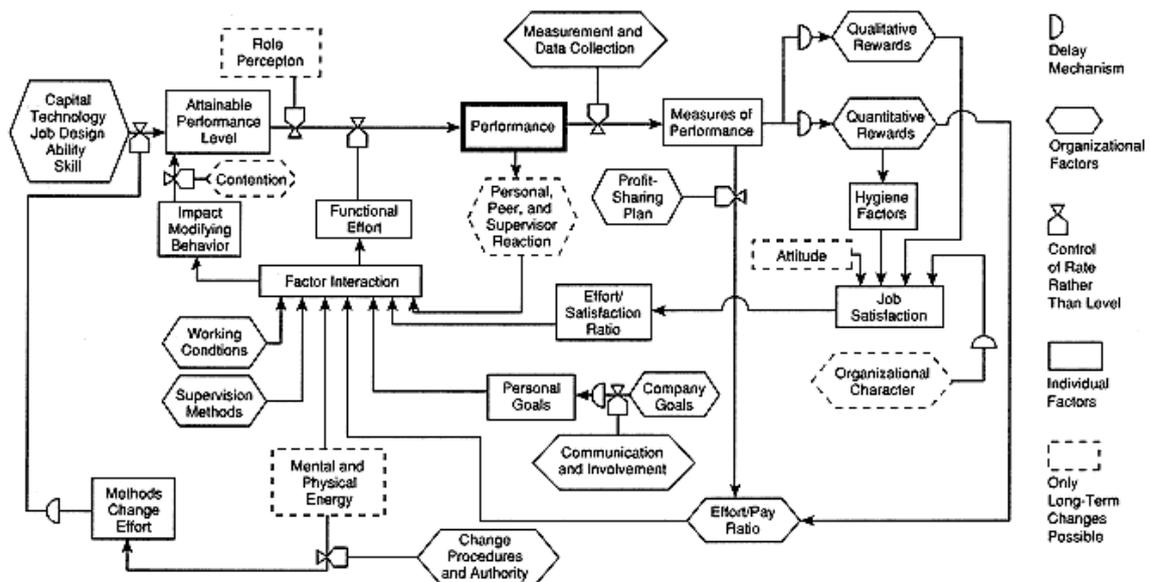
Rather than an overweight or anorexic organisation, the ideal can be described as a lean business. The idea is to have just the right number of staff and optimised processes. To determine this ideal number of required staff is relatively complex and multi-faceted and may start with retrenchments, not filling posts when people leave, or even a blanket freeze on employment.

An effective and future focussed retrenchment process must start with reviewing all business systems and processes (see reflections 1) through techniques included in e.g. TQM or BPR. The objective is to remove all bottlenecks, duplications and unnecessary steps in any task within the organisation processes and to simplify processes to its most basic . If this is not done in the pre-planning of a “turnaround strategy”, it could lead to a yo-yo effect.

The next step before retrenching involves determining system and human capacity. There are various methodologies available to do this. One of the most basic involves having people of different skills level complete a task, per functional group and for the overall workforce. The results are used to calculate expected performance standard and labour requirements.

Operations management (OM) has a saying that “what you measure, you can manage”. Just as with OM, staff utilisation or performance require ongoing monitoring including aspects such as labour satisfaction, productivity, value added, and organisational ROI, using models such as the one set out below.

It is only through ongoing monitoring and management that lean organisations be maintained and the possibility of future retrenchments minimised.



<https://www.nap.edu/read/2135/chapter/6>

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