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Sustainable human resource strategy

The sustainable and unsustainable dilemmas of retrenchment

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Keywords *Social economics, Human resource strategies*

Abstract *Sustainable human resource (HR) strategies could help companies manage their human resources HRs to achieve “net optimality” of companies’ objectives as well as a stable community. Using a theoretical model, an attempt is made to explain the “externality” of retrenchment and highlight the need for sustainable HR strategies to achieve the “unitary economics” of human life. Further, the sustainable benefit of HR conservation and HR recuperation in understanding the HR asset, and how this can be used in reducing the externality effect of retrenchment and downsizing strategies on the social and emotional web of the community is discussed.*

Introduction

“Company reduces workforce by 200 workers” reads the heading in the newspaper. It is not the first time we have read this, and will definitely not be the last time. Despite warnings from human resource (HR) professionals, each year thousands of individuals find themselves the victims of cost cutting, restructuring and downsizing. In May 1997, more than 685,000 Australian workers were retrenched, that is approximately 11.5 per cent of the total Australian workforce (ABS, 1997). In July 1998, 242,600 (35 per cent) of unemployed persons had been jobless for at least 12 months or longer (ABS, 1998). According to Laabs (1999), one of the contributing reasons in strategic downsizing is the high cost of labour and the ensuing freeing of resources can be used somewhere else for a better return on investment. As employees are seen as payroll costs rather than long-term investments, companies can free resources by removing unwanted employees (Kaye, 1998).

US research has shown that downsizing, as a cost cutting strategy does not work. Companies, which have been employing this method of cost cutting are still cost cutting years later (Caulkin, 1995). This result is not surprising in the context of other studies that show that downsizing does not necessarily increase productivity or profits (Laabs, 1999).

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Of course, one cannot blame organisations wanting to increase profits and reduce costs in a very competitive global market. After all there are shareholders who want a return on their investments. Companies frequently opt to downsize for the sake of profit. But is it always in the company's best interest to downsize and retrench a large proportion of their workforce in the name of profits and shareholder satisfaction? The author believes that it will have an unsustainable impact on the company as well as the community if it is not done for mutual benefit and is not painting a negative picture about downsizing and retrenchment, but attempting to highlight that it should benefit companies with least effect on the community. That is, economic reality of the companies and economic welfare of human society are the two sides of a coin and proper balance of the two is important (Sun *et al.*, 2001).

Here, the aim is not to point at companies as being socially irresponsible. An attempt is made to explain how companies can use sustainable HR strategy to optimize HRs, by using the HR value approach to overcome the externality of retrenchment. This approach is based on the employee's long-term benefit to the company rather than retrenchment, which is the unsustainable use of HR with short-term perspective of "payroll costs". To achieve this aim, a theoretical basis for the development of sustainable HR strategies using externality of retrenchment and the unitary economics (Sun *et al.*, 2001) is provided in the initial section of this paper. Subsequently, a theoretical model to explain the sustainable and unsustainable effect (externalities) of retrenchment is discussed.

A theoretical development of sustainable HR strategy

An attempt is made to explain sustainable HR strategy using "externality". The concept of externality is widely used in economics and public management, but it is sparingly used in the HR management. Externality in a generic sense means interdependence and inefficiency. The inefficiency is the action with respect to some objective, in this case the employee retrenchment effect on the community, that somehow was not properly "accounted for" by the unit of account (i.e. the company). Labour is a potential resource for other firms and community; much of its activities would have some effects outside the firm and thus is treated as external. Economists have characterised externality with many meanings and names (Papandreou, 1994). Papandreou (1994, p. 5) has provided a standard characterization of externality "as being present when the actions of one agent directly affect the environment of another agent, i.e. the effect is not transmitted through prices". Using this characterization of externality, the author has attempted to explain sustainable HR strategy by providing information about how companies as agents pass on the social cost of downsizing and retrenchment on to the other agents, i.e. government and community.

The rationality for discussing externality is because the communities and the companies that retrench employees internalize all their actions with respect

to their own welfare (Papandreou, 1994). Internalising is a process of weighting the consequences of action according to some welfare functions; in this context, it is profit and social harmony for the company and community, respectively. Sustainable HR strategy abstracts and considers the interdependence of company and community actions instead of just internalising its own benefits.

The company's failure to assimilate the social cost (externality) is explained by many factors in economics, namely, market failure (Bator, 1958); market inefficiency (Meade, 1952); public goods (Samuelson, 1958); phenomenological approach (Baumol and Oates, 1975); institutional framework (Buchan and Tullock, 1962) and property rights (Demsetz, 1967).

The author would like to use externality as a market failure because it explains, "any situation where some Paretian costs and benefits remain external to decentralized cost-revenue calculations in terms of prices" (Bator, 1958, p. 362). That is, the companies have not been able to perceive or weigh certain consequences of retrenchment on the community. While making a decision of employee retrenchment, the area of responsibility of the company is confined to its accountability to the shareholders and does not extend the boundaries beyond the company to include the community to accommodate the social costs. Sustainable HR strategy advocates the "collective mind" approach to the externalities of retrenchment as well as to achieve "net optimality".

Optimal-enforcement rule in externality by Becker (1968) is meant to prohibit those whose gains from violation (i.e. retrenchment) is less than the loss implicated by the violation action (i.e. aftermath of retrenchment to the community). The actual violators will be those whose gains outweigh the losses. In this case, the violator is the company because it retrenches employees without evaluating the sustainable effect and hence shedding away its responsibilities to the community of handling the aftermath of retrenchment.

In this context, the author would like to introduce "unitary economics" as suggested by Sun *et al.* (2001): "it tries to unify capitalism and socialism so as to provide a social environment most conducive to a balanced development of both the material and spiritual aspects of human life. In this way, unitary human beings capable of attaining optimal individual happiness and social welfare can be created" (p. 557). That is, the company shareholders should influence the management to achieve a balance between shareholder's happiness due to company's profit and the social welfare of the community.

There are many studies that highlight the external economies (benefits) of downsizing and retrenchment like re-distribution of human capital (Einarsson and Marquis, 1996) and human capital accumulation (Baranano, 2001; Lucas, 1998), whereas there are limited studies available regarding the external diseconomies (harmful) effect of downsizing and retrenchment. In the present study, the economies and diseconomies of downsizing are expressed using sustainable and unsustainable HR strategies, because this explains the Pareto-optimality; that is, any benefit to one is detrimental to one or more

individuals. The following section explores the employee retrenchment literature to provide evidence to highlight the externality of retrenchment and the need for sustainable HR strategies.

A survey conducted by the Wyatt Company indicated that fewer than half of the respondents who were using restructuring as a cost reduction method actually met their cost reduction targets (McKinley *et al.*, 1995). Also, many managers reported that layoffs have a decidedly negative effect on their subordinates' productivity, morale and commitment to the company (Littler *et al.*, 1997). "Organisations in Australia that have carried out job cuts since 1990 are more likely to report increases in the number of employees filing disability claims, both among workers directly affected by the eliminations and by 'survivors', according to the survey results" (*HR Focus*, 1997). But some "survivors" do adapt to the work environment following catastrophes like downsizing or retrenchment that are unavoidable in a dynamic business environment (Griffeth *et al.*, 1999). It seems in major cases that cost efficiency has taken precedence over developing and building a stable workforce (Kaye, 1998).

Furthermore, quite ironically, American companies have been downsizing their organisations through most of the 1990s, and yet, they have emphasised the importance of innovation to long-term success. Amabile and Conti (1999) investigated the level of creativity in a large high-technology firm before, during and after a major downsizing, and showed that creativity declined during downsizing, and appeared to have suffered considerably, even several months after the downsizing ended. The prevalence of downsizing has created an environment where employees often see their organisations as a place to go to work rather than to develop careers, with far less productive people (Kaye, 1998; Laabs, 1999).

History has indicated that downsizing does not enhance productivity as anticipated. Furthermore, it has also indicated that downsizing does not necessarily increase profits either. One comprehensive study examined 210 layoff announcements, and collected information on financial performance in the years preceding and following each layoff announcement. On average, net income relative to sales, return on assets, and return on equity increased in the first year following layoff announcements, but not in the later year. In no case did post-layoff performance match the maximum levels achieved prior to the announcements. These findings indicate that layoffs are followed by some improvement in profitability, but the improvements are temporary, and do not represent a recovery to pre-post-layoff levels (McKinley *et al.*, 1995).

So what is sustainable HR strategy? Many organisations take HR for granted, because it is made readily available to them by the community and government. Companies recruit employees from the community to work for them and this is sustainable to both the community and companies. But the unsustainable (external diseconomies) aspect is where the company pays only for the services rendered to the company, but not for pre-organisational costs

(e.g. up-bringing of the child, schooling and higher education costs) and post-organisational costs (e.g. re-training, health, crime and suicide costs) after retrenching an employee.

Sustainable HR strategy can be defined as the management of human resources to meet the optimal needs of the company and community of the present without compromising the ability to meet the needs of the future. This definition is based on Nove's (1983) explanation of market failure (i.e. separation of ownership or decision making unit) and "net optimality" by Becker (1968). Sustainable HR strategy seeks to maximise the efficiency of companies' HRs, while considering the unsustainable social and economic impact on the community and government. Sustainable HR strategies to downsizing are those that have least damaging and harmful effects on the community and government, while still maintaining productivity and profitability for the company.

Clearly, the current retrenchment and downsizing practices without measuring HR conservation is inefficient. This inefficient use has resulted in unsustainable impact (costs) to companies and to the wider community. Indeed it has created a workforce that does not have too much faith in their employers any more, which in turn is expressed in less than desirable performance.

Apart from explaining externality of retrenchment, the sustainable HR strategy also encompasses the "utilitarian instrumentalism" and "developmental humanism" of HRM (Storey, 1995). The "utilitarian instrumentalism" emphasizes the quantitative and calculative business strategic aspects of managing HR, just as "rationally" as any other "factor of production". Whereas, the "developmental humanism" without disregarding the importance of strategic HR management, perceives employees as an asset and stresses the significance of their development, learning and commitment to yield better "economic performance" as well as satisfied staff. Thus, sustainable HR strategy aims to integrate economic profitability and socio-economic equity.

Sustainable HR process model

A theoretical model, sustainable HR processes, is used to explain the different translation of HR process variables from pre-organisational costs through HR conservation to post-organisational costs (Figure 1). The sustainable (external economies) and unsustainable (diseconomies) effects of retrenchment on a tripod (community, company and government) are explained using these sustainable HR processes. The tripod approach is different from the triple bottomline. In the tripod approach, the company, community and government perspectives are used as the three foundation pillars of a sustainable society, whereas in the triple bottomline approach, the community, shareholders and company resources are used for developing various company strategies. The relationship between the sustainable HR processes is explained using a cyclic model by beginning with HR supply and how the company's objectives

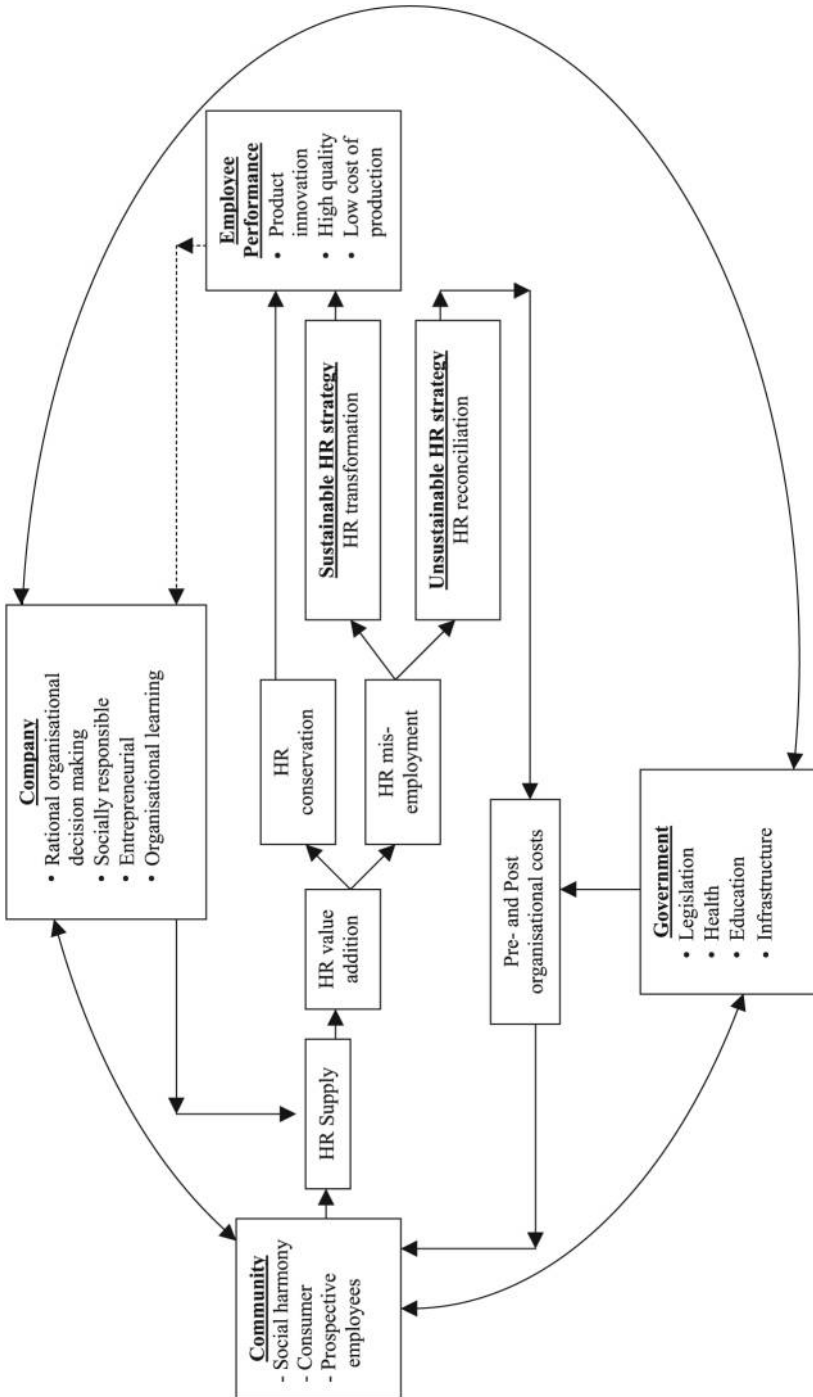


Figure 1. Sustainable HR process model for retrenchment

influence the effective use of HR leading to HR conservation. Finally, it also explains how retrenchment affects the community (the psychosocial and economic well-being of the retrenched employees) and government's unsustainable costs in the reconciliation of retrenched employees during the post-organisational phase.

The author has attempted to explain the sustainable and unsustainable effects of the "sustainable HR processes" from the tripod perspective, because only few of the processes are expected to have sustainable and unsustainable effects on all the tripod perspectives. That is, HR supply, HR value addition, HR conservation, HR mis-employment and HR transformation affect the company; HR reconciliation affects the community and post-organisational costs affect the government. Hence, it is logical to analyse the externality of retrenchment from the tripod perspectives using the understanding of sustainable HR processes in the model.

HR supply

Organisations do not exist in vacuum. In fact, organisations interact with the government and the wider communities to utilise the HR supply. The government provides resources to the community to build HR supply so that the company can recruit and select employees to achieve its objectives and also provide an opportunity for people in the community to have a meaningful work life. The government in the era of "consumerism" spends its revenue for the physical, social and emotional well-being of its citizens so as to enjoy work and leisure. Monies spent on childbirth, childcare, primary, secondary, vocational and tertiary education, welfare and health are the pre-organisational costs. The government spends on pre-organisational costs with the anticipation of generating higher revenue for the government in the future by providing competencies to people in the community so that they can be employed in meaningful work. Subsequently, the organisation adds value to their employees as per their strategic objectives.

HR value addition

When does one decide that HRs have added value? In order to answer this question, one needs to determine first what can be regarded as value. Any human asset such as competence, capabilities and commitment has the potential to increase HR value. For example, an individual who has gained the skills to repair a car engine could be regarded as being competent in auto mechanics, and as such have value to a car dealer. The individual might have got his or her knowledge by having done an apprenticeship or maybe even self-taught by reading books. If this individual also learns how to deal with customers, then the individual has added value.

Nevertheless, as suggested by Dolmat-Connell (1999), capabilities are critical in adding value; however, they are insufficient without commitment to the company. Conversely, commitment is powerful, but only if the employees

demonstrating the commitment possess the talent that the company needs. Highly capable employees who are not committed to a company and its success are far less valuable than employees who are both highly capable and committed.

The moment an individual has gained or improved his or her competencies (skills and knowledge) and has commitment to the company, that individual has added value. The real question is whether the company utilises this added value and treats it as an asset or simply allows it to slip away. Consider any new employee in any company. The moment a position becomes vacant and some individual starts to invest energy into hiring a new employee for this position, the potential individual to fill the vacancy is becoming a cost to the company. Research has indicated that it can cost somewhere between US\$5,000 and US\$50,000 to hire a replacement (Cascio, 1993, cited in McKinley *et al.*, 1995).

Let us assume that the individual has been employed for a year and has been familiarised with the processes in various departments and roles in the company. At this stage he or she has gained competencies and commitment, which go beyond what is needed to perform one single job. This individual now has added value. Another manner in which an individual can have added value is by earning more income for the company, due to increased competence and skill, than the individual is being paid in wages or salary. In a sense, HR value becomes an asset to the company in the same manner as physical assets such as machinery; money is invested and production is improved.

HR conservation

HR conservation is an invisible asset of companies. Not all competencies and skills are obvious in how they can add value. For example, Nonaka and Takeuchi (1995) view knowledge as being primarily “tacit” – something not easily visible and expressible. Tacit knowledge is highly personal and hard to formalise, making it difficult to communicate or to share with others. Subjective insights, intuitions, and hunches fall into this category of knowledge. Furthermore, tacit knowledge is deeply rooted in an individual’s actions and experiences, as well as in the ideals, values, or emotions he or she embraces, which leads to HR conservation. It is conservation because employees acquire this tacit knowledge based on their attitudes and commitments. HR conservation is different from skill training because in HR conservation, employees can acquire additional company specific or transferable competencies based on their membership in the company and not based on formal skill training. Employers also gain with HR conservation, because the cost to acquire these competencies is negligible for them. HR conservation can also happen because of job rotation, enlargement and enrichment apart from other job experiences.

HR conservation is explained as the extent to which an employee has acquired company specific or transferable competencies (knowledge, skill and

interpersonal skills) to perform a variety of jobs effectively in the future by retaining his/her membership in the same organisation with limited formal training.

It is increasingly true that the organisation's human capital is added value by HR conservation. This creates competitive advantages, because these advantages are from HR conservations that cannot be replicated by other organisations, unless they acquire those people. As a result, a company's human or intellectual capital is indeed its only true source of sustainable competitive advantage. Technological, financial, sales, manufacturing, and distribution capabilities can all be copied, but not human capital (Dolmat-Connell, 1999).

Added value may be measured by employing several methods. However, one should ask some questions before making a judgement of whether their HRs have added value or not. Does an organisation's HRs and capabilities add value by enabling it to exploit opportunities and/or neutralise threats?

Although an organisation's resources and capabilities may have added value in the past, changes in customer taste, industry structure, or technology can render them less valuable in the future. One of the most important responsibilities of strategic management is to evaluate constantly whether or not their firm's resources and capabilities continue to add value, despite changes in the competitive environment. Socially complex resources and capabilities, organisational phenomena like reputation, trust, friendship, teamwork and culture, while not patentable, are much more difficult to imitate than, for example, machinery (Barney, 1995).

According to the resource-based view, firms possess unique bundles of resources that cannot be duplicated by other competitors, and which provide sustainable competitive advantage. Some of these resources accumulate in a path-dependent manner, thereby making them difficult and expensive to replace or acquire quickly when needed. Moreover, some resources are simply not tradeable, for example, HR conservation.

Firms possessing such difficult-to-create resources, must work with existing stocks and not rely on creating them again, as and when needed (Raghuram and Arvey, 1994), leading to competency continuity. Competency continuity provides knowledge about employees' skills and the ability to enhance and refine these skills in a cumulative manner. Over time, the skills become firm specific and embedded with tacit knowledge. These inimitable and unique resources form the basis for sustainable advantage.

As the employees in the company have added value, there comes a stage where the company decides to use downsizing or retrenchment or mis-employment as a strategy to be competitive. This is where the company is in a dilemma whether to use sustainable or unsustainable HR strategy. Mis-employment as an unsustainable strategy is discussed first and HR transformation is discussed as a sustainable strategy to the community and companies.

The unsustainable effects of retrenchment on the company

HR mis-employment

Mis-employment is defined as employees who are out of jobs because the organisation perceives that the employees' skills and competencies are redundant and decides to offer voluntary or forced redundancy. The difference between mis-employment and unemployment is based on the following reason. Unemployment is defined as a state of being unemployed and this state can be caused by many factors like organisational, personal, health and family reasons. The author has attempted to distinguish the process (instrumental) and the end-state (terminal) of unemployment by utilising mis-employment as an instrumental variable, explaining the "organisational" processes leading to unemployment. The impact of mis-employment is different on employees' psychosocial and economic well-being compared with the effect of unemployment and hence, mis-employment and not unemployment is used as a variable in the sustainable HR process model.

The aim of this paper is not to suggest that downsizing or retrenchment or mis-employment is "bad", but to understand the big picture of retrenchment using a sustainable HR process model. The paper also aims to introduce "HR conservation" as a sustainable HR strategy to measure employees in a company so as to make an informed decision about the potential losses to the company as well as the community. Sustainable HR process models suggest that when the company fails to realise the tangible value of HR conservation and decides to downsize or retrench (mis-employ) then it is an unsustainable HR strategy for the company because it allows the employees to go with HR conservation. Companies sometime re-use or "transform" the mis-employed employees so as to appreciate the HR conservation, which is a sustainable strategy.

Sustainable effects of retrenchment on the company

HR transformation

Every employee in a company conserves some type of knowledge, job and interpersonal skills beyond the needs of the current position. If this type of HR conservation is not measured and used for decision making during downsizing or retrenchment, then the company will have only limited organisation capital left. High employee performance determinants like product innovation, quality and reduced cost of production can be achieved by aligning and integrating HR systems for HR conservation and value addition to the key company objectives.

Sustainable HR strategy attempts to explain that the organisations need to orient their decision strategically to long-term focus rather than the short-term focus of "pay roll costs" approach. The lack of success by organisations to improve themselves through downsizing or retrenchment is because once a company downsizes or retrenches, it not only lets go of unwanted and maybe unproductive workers, but also of good, productive employees. In many cases,

post-downsizing reasoning indicates that organisations need to re-hire and therefore end up spending more than had they refrained from downsizing in the first place; hence, this is unsustainable to the organisation. This occurs not only within departments and positions, but also between departments and positions. An American survey revealed that some 41 per cent of companies involved in the survey eliminated jobs, while at the same time two-thirds of these companies were creating new positions (Laabs, 1999).

Besides the added cost involved in retrenching and re-hiring employees, a lot of firm specific knowledge is lost. For example, Kransdorff (1996) notes that a popular perception among managers is that change means old practices are no longer relevant to the current business climate and that new blood will accomplish the job much more effectively. Despite the fact that the new employee's knowledge was obtained somewhere else, the perception is that the new employee's experience and expertise will generally compensate for those of the departed ones and this is not true.

However, no two companies are identical, each having its own management style, culture and market. Business requirements also differ between the companies. Hence, requirements for one company cannot be synchronised with the new employee's own market experience and environment. Despite the fact that the world continues to change, in general companies owe their success to the building of one experience on another. Without access or reference to its past experience, a veteran business loses the advantage it should have over a new or much younger company. Without continuity, companies have little ability to learn from their own special experiences. As such, they run the risk of repeating past mistakes (Kransdorff, 1996) and also become unsustainable to the company as well as the community.

Research has indicated that "organisational resources and capabilities that are rare, valuable, non-substitutable, and imperfectly imitable form the basis for a firm's sustainable competitive advantage" (Lado and Wilson, 1994, p. 699). According to this view, it only logically follows that HRs can contribute to sustainable competitive advantage through facilitating the development of competencies that are firm specific, produce complex social relationships embedded in a firm's history and culture, and generate tacit organisational knowledge.

As suggested by Tomer (1999) "organisational capital is a kind of human capital in which productive capacity is embodied in the organisational relationships among people; it is not simply embodied in individuals, as is the case of human capital derived from education". The firm's organisational capital reflects the degree to which, and the manner in which, the organisation's actors have become socially connected to each other and to the organisation as a whole, and the degree to which, and the manner in which, the organisation has become connected to the society. This is where HR conservation helps human capital to be converted to organisational capital.

The best choice is for displaced managers to acquire the new skills they need to qualify for reassignment within their own companies or find new jobs, even though some will have to start at levels that are low relative to their overall work experience and maturity (which should make them a valuable asset for new employers). Another solution is to accept being temporarily “underemployed” in jobs that somehow relate to their profession, allowing them to maintain their dignity and add value. Any competence can be applied to more than one area to leverage HR assets. Someone may be a regional sales manager by title, but his or her core competency may be marketing, communications, or supervision.

Alternatives to downsizing are possible. “If companies are serious about seeing their people as assets and as the key to profits and – as a consequence – about avoiding layoffs, almost anything is possible,” says Pfeffer (cited in Laabs, 1999). Pfeffer does not say that companies should never downsize, but he says that there is more than one way to do it. “Even for firms that need to reduce the number of employees, downsizing can be accomplished while still treating people as important assets and maintain morale and trust.”

Rather than downsizing some departments and upsizing others, in many cases, it is more beneficial for the organisation to invest in re-training its existing employees, according to Dolmat-Connell (1999). Hence, it is sustainable for the company to “transform” its existing employees by considering their HR conservation and encouraging them to acquire new skills than it would be to hire new staff. HR transformation is a process by which organisations can achieve sustainable HRM by leveraging HR assets using HR conservation, to identify employees for re-training, to perform re-designed jobs and avoid HR reconciliation. However, this takes a great deal of foresight, something that is all too atypical with respect to workforce planning.

The unsustainable effects of retrenchment on the community

HR reconciliation

The once active and productive employees are mis-employed by downsizing or retrenchment, and the company leaves it to the community and government to perform the reconciliation processes. In downsizing or retrenching employees it not only means the company has lost its valuable HR conservation, but also that the community has an unsustainable HR practice because it is the community that pays for HR reconciliation of retrenched employees and not the company. HR reconciliation is an unsustainable post-organisational process in which the individuals, government and community utilises different resources to handle the aftermath of mis-employment in managing increased social security, health and crime costs and also retraining the retrenched/downsized employees.

The author has used literature on unemployment to explain “HR reconciliation” using externality, being aware that many researchers have

not explicitly distinguished between mis-employment and unemployment, but has used research that explain unemployment through job losses, which is similar to mis-employment, but not the same (refer to the definition provided in the earlier part of this article), and this is one of the limitations of this article.

Research has shown that joblessness can result in depression, anxiety, low self-esteem, cognitive efficiency, and strained personal relations. For example, Seligman (1975) postulates that one of the primary causes of depression is the realisation that valued experiences such as meaningful work may be independent of efforts to obtain them. Seligman's hypothesis is consistent with the results of clinical studies conducted by Beck *et al.* (1974), who found that the symptoms of depression are "earned" from past experiences such as unemployment. A recent study conducted by Clarke and Patrickson (2001) in Australia found that there is no significant relationship between voluntary retrenchment and health problems. But this study also indicated that the subjects might not have been able to recall the health problems after retrenchment, because the time of research was many years after the incident of actual retrenchment, which the subjects experienced.

There is some evidence that job loss could constitute the sort of traumatic event that could alter self-esteem. According to Akerlof and Yellen (1985), periods of joblessness are often a crucial experience interconnecting with many dimensions of a person's life, leaving a trail of vivid and persistent memories. Furthermore, just the fact that an individual has nothing to do, adds to lower self-esteem. For example, a study by Winefield and Tiggemann (1992) showed a negative correlation between self-esteem and aimless pursuits (e.g. doing nothing in particular, watching TV).

Joblessness affects the individual's emotional frame of mind, self-conception, general outlook on life, and attitude towards work. These factors can affect tastes for work and search strategies for the unemployed, which may influence whether or when they become re-employed. Moreover, if they do get another job, such factors can affect their productivity (Darity and Goldsmith, 1996).

Jahoda (1981) and Jahoda and Rush (1980) say that job loss is psychologically destructive because the individual is deprived of five latent benefits that people derive from work: employment imposes a time structure on the working day; employment implies regularly shared experiences and contacts with people outside the nuclear family; employment links individuals to goals and purposes that transcend their own; employment defines aspects of persona, status and identity, and employment enforces activity. In addition to the research, which has concluded that unemployment influences emotional well-being, other research has positively linked unemployment with crime rates (Hutchinson and Simeon, 1997).

So why should a hard, business-minded executive really care about what happens to individuals after they have left the company? Quite simple, because in the long-term, organisations will indirectly foot part of the bill for the

aftermath of mis-employment. The third “tripod” affect of downsizing on government can be analysed to answer this question.

The unsustainable effects of retrenchment on the government

Post-organisational costs

In September 1999, there were 713,300 unemployed individuals in Australia of which 211,800 individuals had been jobless for at least 12 months and 130,100 individuals had been jobless for more than two years (ABS, 1999). These figures probably do not come as a surprise to most of us, as we hear them quite frequently on the news. However, these figures might make more of an impact, if they are expressed in monetary terms.

In the financial year 1997-98, outlays by all levels of government in Australia for all purposes totalled \$194.6 billion. Of this total figure, government outlays for social security income support were \$45.4 billion. As a means of comparison, government outlay for health during this period was \$31.9 billion, for education \$25.3 billion, and for defence \$9.8 billion. Social security benefits accounted for 23.3 per cent of the total government outlays in 1997-98, followed by health at 16.4 per cent. This is quite an increase in social security benefits when compared to outlays in the last decade. In the financial year 1989/90, social security income support was \$22 billion, which was less at 17.7 per cent of the total expenditure. Health expenditure was \$18.8 billion (13.7 per cent of total expenditure).

It is difficult to translate all the different Australian taxes into specific sources and areas of expenditure. However, one might use American employee compensation as indicators of the amount of money spent by organisations in contributing to social security income support expenditure. American organisations spend approximately 8 per cent of employees’ actual wages or salaries as a contribution to social security benefits (Bureau of Labor Statistics, 1996). However, one has to keep in mind that the American social security system has limited provision for social security benefits. That is, once the employee’s accumulated contributions have run out, no more social benefits are being given. Nevertheless, the Australian social security system provides unemployment payments to its citizens for as long as the individual is unemployed and irrelevant of whether the individual has been previously employed. As long as the individuals are actively looking for work, they will receive unemployment benefits. Hence, the 8 per cent spent by American organisations does not allow for total social security expenditure to the same extent as in Australia. Therefore, 8 per cent of wages or salaries seems like a gross underestimate when used as a comparison for Australia.

The effects of crime are obvious and as suggested by Cohen (cited in Flanigan, 1997, p. 1) “Crime exacts a heavy toll on governments, on society at large and especially on its victims.” He also stated that the cost of crime has two dimensions. There is a tangible dollar amount calculated by adding up

property and productivity losses and medical bills; and there is an amount that is less quantifiable, because it takes the forms of pain, emotional trauma and the risk of death from victimisation.

Despite best efforts, it is extremely difficult to put a net cost on crime. For example, the monies spent on the criminal justice system include wages to police, solicitors and lawyers. Yet, these individuals contribute to taxation revenues. However, in 1996, the minimum total cost of crime in Australia had been estimated between 11 and 13 billion US\$ each year (Walker, 1996). The cost of crime is in fact so high that, according to Flanigan (1997), there is an axiom going around that “it costs as much to send a kid to prison as to send him or her to Harvard”.

Obviously, the money spent on social security income support, work related health issues and crime could be spent on better things such as education. Nevertheless, the main issue here is not on where this money should be spent, but rather, where it is coming from. Hence, reducing the unsustainable effect of retrenchment or downsizing will result in less social security income support expenditure, which might translate into less tax. At the very least, it will free capital to have a sustainable effect on the community as well as the organisation.

An improved economy, providing jobs and hope, education and opportunity for its people can give society more productivity, better health and less crime. We may not pay less for crime prevention, at least immediately, but if violent crime totals continue to fall, we will reap many benefits, economic and otherwise (Flanigan, 1997). Further, Sun *et al.* (2001) also believe that, when the expenditure on law and order decreases because of the reduced crime rate resulting from the unitary economics approach, the tax burden for the rich would reduce rather than increase.

Conclusion

This article is not suggesting “life long employment”, but provides a new sustainable HR strategic perspective to measure HR conservation and use it to translate human capital to organisational capital. The author would prefer to term this as “sustainable retrenchment”, where it benefits the company while having the least unsustainable effect (externality) on the community. The unsustainable mis-employment costs the community as a whole, not to mention the disruption of service and lost customer relationships that may occur for the organisation. By being aware of the HR sustainable approach of measuring HR conservation and retaining (recuperating) few “*more*” employees than they would otherwise retrench, the company can maintain its sustainable advantage over its competitors as well as reduce the unsustainable effect (externality) of mis-employment on the community and government.

HR reconciliation costs the government and the community a lot of valuable resources to manage the unsustainable HR approach of the company leading to post-organisational costs. The company needs to have a long term focus rather

than “pay roll costs” or utilitarian approaches. This does not suggest that companies need to take over the roles and responsibilities of communities and government, but need to be aware of sustainable HR strategies to share the responsibilities. Companies are aware that skilled HR is scarce and they have to manage HR effectively and be more serious about their sustainable HR strategies rather than taking it for granted, because it is Mother Nature’s gift.

To advocate sustainable HR strategies, the author would like to draw on Ledyard’s (1976) assertion that a centrally planned economy would be more efficient than a market economy or some mix of market and planning institutions (government) would be optimal. Whatever the system, it would achieve a kind of “net” optimality, the level of social satisfaction attained after institutional costs are vetted out. The unitary economics approach to human life also suggests “the only way to reduce the government waste is to supplement profit incentive with moral incentive in the private production of public goods” (Sun *et al.*, 2001, p. 557).

Finally, it is important that the companies need to be aware of the unsustainable effect of retrenchment on the community and government, because without social harmony the existence of capitalism itself will be jeopardized. Hence, the companies should voluntarily practice sustainable HR strategies of retrenchment either individually or jointly with an institutional intervention (government) to achieve optimality of economic reality and social harmony of retrenchment.

There are limitations to this article because many research studies on employment referred to in this article have no clear indication that mis-employment (unemployment) is caused by retrenchment/downsizing. Further an attempt is also made to make a link between increase in unemployment rate and various budget expenses for social security, health and crime rates in Australia; but this might be perceived as a spurious relationship as of now. However, this can be a starting point for further empirical research to study this link. The author believes that the “saga” has already started. Even though very few researchers have explored the empirical evidence; it needs to be sharpened to understand the impact of mis-employment on the government expenses of social security, health and crime. Last but not least, many HR sustainable concepts used in this article are not common in HRM literature and they are drawn from the social economics, ethics, public management and environmental sciences.

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