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HRM as Downsizing: From Cost to Strategy

Introduction: the significance of downsizing

This chapter raises the curtain on the empirical studies which are the core of the book by examining a little-studied Human Resource initiative taken by developing country governments especially in the 1980s and 90s, one entirely unrelieved by the application of HRM specialist knowledge. This is the phenomenon of what has usually been called ‘civil service reform’ or, more narrowly, ‘employment reform’ in developing countries. Reform in this context refers to those deliberate measures that developing country governments have taken to alter the employment and payment of their staff, typically within some larger programme of macroeconomic reform. ‘Reform’ is often a euphemism, since in practice the most prominent measure has been job reduction, with which civil service reform has frequently been synonymous (Pronk, 1996). That is why our chapter has the title it does: ‘downsizing’ is a suitably ugly label for an ugly phenomenon.

It is appropriate to discuss it early in this book, as it is the HR measure that ushered in the age of reform in the early 1980s. For despite the bullish claims made for the emerging strategic HRM model which we reported in Chapter 1, it is downsizing that has towered over the HRM landscape in developing country governments. Between 1987 and 1996 the World Bank assisted no fewer than 68 developing and transitional countries with reform programmes (Nunberg, 1997). China, the world’s most populous nation, embarked in 1998 on a reform programme designed to cut the number of its civil servants by half – in other words, by a projected four million people (Economist, 1998), and studies reported below demonstrate that it has made good on its intention. Similarly dramatic reports from individual countries
are also available, such as Ghana and Uganda (McCourt, 1998a). Even in industrialized countries the scale has been dramatic: staff retrenchment programmes were carried out between 1987 and 1992 in the public sectors of 22 of the 27 member countries of the OECD, making it by some distance their most widespread Human Resource initiative (OECD, 1994). The number of public employees in Germany went down from 381,000 in 1992 to 315,000 in 1998; the US reduced by 17 per cent over roughly the same period (Manning and Parison, 2004).

This chapter presents an integration of the rather disparate literature that bears on employment reform in developing country governments and in industrialized country (mainly North American) private companies. It also incorporates material from field interviews in six countries, including Malaysia and Sri Lanka, two countries whose HR experience we look at more broadly in later chapters.

**The experience of reform**

With the important exception of China, which we discuss below, a review of the literature on downsizing in developing countries is largely a review of what World Bank and IMF staff have had to say on the subject. It is impossible to exaggerate the dominance of the twin Bretton Woods institutions over the reform debate. Their Washington headquarters are veritable research factories, and the leverage which their lending powers give them in the field (both institutions are lending institutions first and foremost) means that when they evaluate the success of reform, it is largely the success of their own prescriptions that is being evaluated, and that their perspective influences what they study (Mallaby, 2005); hence the Bank President’s characterization of its role in the 1990s as having been that of a ‘professorial policeman’ (Mathias, 2005, p.11). By contrast, the capacity of developing countries to undertake their own research is weak. A HR specialist wishing to understand, let alone influence, the conduct of reform must therefore engage with the Washington literature.

In studying the downsizing experience, we can regard 1982, when Ghana’s bellwether programme began, as a *terminus ab quo*. As country after country followed in Ghana’s footsteps, a blueprint emerged in which a reduction in the size of the civil service, typically expressed as a conditionality or ‘structural benchmark’ in a World Bank or IMF loan, was specified in the context of a reduction in overall government expenditure whose aim was to restore macroeconomic stability and