

# DOWNSIZING STRATEGY AND ORGANIZATIONAL RESILIENCE OF AEROSTRUCTURE MANUFACTURER IN MALAYSIA: THE COVID - 19 ERA PERSPECTIVE

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## Abstract

This work seeks to establish the relationship between downsizing strategies and organizational resilience of Aerostructure Manufacturer in Malaysia known as Company CAC during pandemic COVID-19 perspective. This study commenced during the COVID-19 pandemic which made the study relevant to the present times. More specifically, this study aims to identify the downsizing strategy and the effectiveness for the organization to remain resilience. The quantitative data are used as main source of analysis and supporting by secondary source such as publish company annual report and articles from media. SPSS method is used to analyze data gathered from a survey of executives and higher are part of the respondent. This paper will present an effective tools for downsizing strategy in businesses and how it affect an organizational resilience. It is will be an additional data and knowledge for the company about dealing with distress problems and how to gets through it to the corporate turnaround stage.

## 1.0 INTRODUCTION

The Covid-19 pandemic has rapidly spread entire of the world and affected the economies. In aviation industry, the impact is huge. Numbers of traveler has decreased, global flight numbers also been hit by the pandemic when only 40% aircraft were flew during the pandemic (Figure 1). Furthermore, due to the decrease number of aircraft fly, AIRBUS the giant aircraft manufacturer cut the production by 40% (Figure 2). Aircraft manufacturers are highly dependent on demand from the air transport sector, directly or through leasing companies. Because both the activity level and the strategic decisions concerning air transport, airports and aircraft manufacturing are linked. The Malaysian Supplier to Airbus is also not exclusive from it.

As results impacted from this pandemic COVID-19, the organization are forced to cut out wasteful and unproductive activities and concentrate resources in the areas of core competence in order to achieve sustainable competitive advantages (Teryima et al., 2012). It is worth noting that some of the Aerostructure Manufacturing in Malaysia have been able to undergo downsizing in one way or the other. The post COVID-19 ripples would force the Manufacturing to adjust to the trending realities.

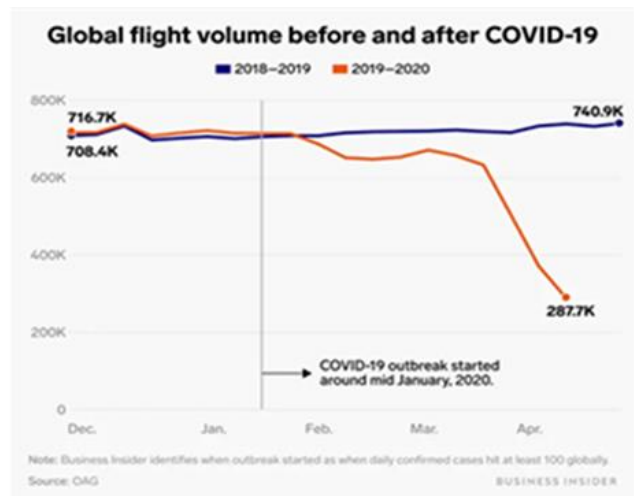


Figure 1: Global Flight Data from (Slotnick, 2020)



Figure 2: Article from simpleflying.com, June 2020

### 1.1 Background of the Aerospace Industry in Malaysia

The aerospace industry has been identified to be one of the key elements for Malaysia to become a developed country (MAIA, 2019). Through the Aerospace Blueprint 2030, initiated by the Malaysia Aerospace Industry Association, Malaysia is targeting to be the first in South East Asia in supplying competent workforce and also the top manufacturer in South East Asia for aerospace parts and component sourcing by targeting to be large sub-assembly, Tier 1 and Risk Sharing Partner.

The Aerospace Industry which is vital to the world business economy is the major long-term determinant of the Malaysia national economic growth (MIDA, 2006). The aerospace industry is in fact one of the unique sectors of commerce and technology in the modern world. It is amazing to observe that the aerospace industry is now a key player in the global transportation sector, and more significantly a substantial contributor to the global economy considering its non-existence some 100 years ago (MIGHT, 2008).

In the Malaysian context, the aerospace industry definition includes activities related to the design, development, manufacture, construction, maintenance and disposal of aircraft, spacecraft, missiles and rockets. These include possible activities such as regulatory of civil and military aviation, talent development education and training, and infrastructure such as airports, permanent operators (FBOs), and technology parks. This does not include "operation" aircraft, spacecraft, and missiles and rockets (i.e. commercial, general and military aviation). However, the two main categories of the aerospace industry in Malaysia are first manufacturing and maintenance, and secondly, repair and overhaul (MRO).

Malaysia is currently home to more than 200 aerospace companies comprising both international and local industry players. These include 66 companies involved in MRO activities, 33 companies in aero-manufacturing, 25 companies in education and training, and 11 companies in systems integration, as well as engineering and design. By 2030, the industry is

projected to contribute revenues of RM20.4 billion for MRO, RM21.2 billion for aero-manufacturing, and RM13.6 billion for engineering and design services.

### 1.2 Background of Study

The nature of business in this complex environment means that unforeseen events must arise, both within and outside the company. The COVID-19 pandemic has suddenly forced businesses to redefine their strategies to survive. For an environment characterized by turmoil, unpredicted situations and a constantly evolving environment, only flexible, agile and inexorable dynamic organizations can thrive (Lengnick-hall et al., 2011). Developments arising from the dynamic nature of the environment and the need for business organizations to survive in today's aggressively global market have led many organizations to rethink new ways of doing business to stay relevant in the business environment, therefore companies adopt various strategies to survive, grow and adapt with this ever-changing environment.

Companies with excellent management and outstanding performance must face setbacks, disruptions and uninvited surprises. What differentiates winning and losing companies is their resilience (Megele, 2014). Scholarly studies have demonstrated that resilience is needed to better respond to and to "bounce back" from setbacks, whether major life changing events or less significant daily hassles (Fletcher & Sarkar, 2013). (Taylor & Seo, 2012) emphasizes that resilience is the ability to recover quickly from disruptions in functioning. In an organizational context, (Luthans, 2002) from his own view stated that resilience is 'the developable capacity to rebound or bounce back from adversity, conflict, and failure or even positive events, progress, and increased responsibility' (Bardoel et al., 2014).

Organizational success and survival is measured in terms of its continuous adaptation (Eketu & Continue, 2015). Therefore, for an organization to achieve success and still survive, downsizing is currently one of the most popular strategies being used by organizations in an effort to achieving success, survive and compete in the current business scenario (Bhattacharyya & Chatterjee, 2005).

Studies have shown that there is limited empirical researches to ascertain the relationship between downsizing strategies and organizational resilience. Most studies have majorly looked at downsizing strategy and how it affects organizational performance or downsizing an effective tool for businesses, forgetting the part where it can be used as an effective tool for organizational resilience. Similarly, there is a paucity study from the angle of the Aerostructure Manufacturer Company, hence, creating a gap in literature, which this study intends to fill and essentially as the effect of the COVID-19 pandemic would force such firms to ventilate out of distress.

## 2.0 LITERATURE REVIEW

### 2.1 Organizational Resilience

Resilience is a multidimensional, sociotechnical phenomenon that addresses how people, individuals or groups, manage uncertainty. Organizations respond to uncertainty in many ways; they centralize internal controls or they learn by being creative and adaptive (Lee et al., 2013).

Usually, discussions on resilience are characterized with concepts like bouncing back, robustness, absorption, flexibility and surviving and thriving within that environment (Lee et al., 2013). The traditional definition of resilience is backward-looking. A more effective approach is to use the organization's resources and capabilities to overcome current challenges and to build for greater opportunities and success in the future (Vogus & Sutcliffe in (Megele, 2014).

To be resilient, organizations rely on strong leadership, an awareness and understanding of their operating environment, their ability to manage vulnerabilities, and their ability to adapt in response to rapid change. These characteristics run parallel to a competitive organization whose leaders are able to leverage its strengths to adapt, ahead of its competitors, to rapid changes in their market or industry sector (Lee et al., 2013). (Megele, 2014) Suggest that approaches required by organization can be drawn on the collective knowledge, skills and capabilities of its members through flexible routines and malleable processes to harness the potential of change.

### 2.2 Workforce Reduction Strategy

A number of different implementation strategies have been identified. (K. Cameron et al., 2005), (Sugiharti, 2018) have conducted one of the most extensive empirical studies on labor reduction to date, in which they identify three different forms of reduction (Ritter-Hayashi et al., 2020). These forms are referred to as the three main implementation strategies - manpower reduction, organizational restructuring, and systemic strategy. This is shown in Table 1. This study adopts the workforce reduction as a way of downsizing.

Workforce reduction generally thought of as a quick fix, short "grenade" type's solution. It includes transfer, outplacements, retirement incentives, buyout packages, layoffs and attrition (Sugiharti, 2018); (Chen, 2001); De Meuse et al, 1994 in (Teryima et al., 2012). (K. S. Cameron, 1994) Contend that workforce reduction is targeted at having less headcount and this is achieved through layoffs, sacks, early retirement, by-outs or attrition.

In a study carried out by (Saunders, 2019), they found out that attrition, induced redeployment, involuntary redeployment, layoffs with outplacement assistance and layoffs without redeployment assistance constitute the five ways of implementing workforce reduction.

	Workforce Reduction Strategy	Organization Redesign Strategy	Systemic Strategy
Focus	Workers	Jobs and units	Culture
Target	People	Work	Status quo processes
Implementation Time	Quick	Moderate	Extended
Temporal Target	Short-term payoff	Moderate-term payoff	Long-term payoff
Inhibits	Long-term adaptability	Quick payback	Short-term cost savings
Examples	<ul style="list-style-type: none"> <li>• Natural attrition</li> <li>• Hiring freeze</li> <li>• Early retirement</li> <li>• Buyout packages</li> <li>• Layoffs</li> <li>• Retrenchments</li> </ul>	<ul style="list-style-type: none"> <li>• Abolition of functions</li> <li>• Merging of units</li> <li>• Job redesign</li> <li>• De-layering</li> <li>• Reduction of overall work hours</li> </ul>	<ul style="list-style-type: none"> <li>• Staff involvement</li> <li>• Simplification of processes</li> <li>• Bottom-up change</li> <li>• Continuous improvement</li> </ul>

**Table 1:** Main implementation downsizing strategies

Downsizing using the workforce reduction strategy has been regarded as the harshest way of improving efficiency, productivity and worker competencies because of its impact on both the leavers and survivors. The effectiveness of downsizing strategies is ultimately dependent on the reactions of both the survivors and leavers of the process.

#### 2.2.1 Flexibility

Flexibility is the degree to which an organization has a variety of managerial capabilities and the speed at which they can be activated, to increase the control capacity of management and improve the controllability of the organization (Sharma et al., 2010). Flexibility is a multi-dimensional concept that portrays; a demanding agility and versatility; associated with change, innovation and novelty; coupled with robustness and resilience, implying stability, sustainable advantage and capabilities that may evolve over time (Sugiharti, 2018). But its translation with respect to flexibility in organizations highlight this ambiguity and suggests that closer examination of these definitions are required to obtain a clearer grasp of the concept (Volberda, 1996). There is therefore room for an organization to be flexible in their business environment as it gives room for a considerable advantage over their rivalry in the industry.

#### 2.2.2 Adaptive Capacity

In particular, organizations' ability to adapt has received a lot of attention from researchers. An organization's ability to adapt is at the heart of its ability to display resilient characteristics (Lee et al., 2013). (Kendra & Wachtendor, 2002) As cited in (Lee et al., 2013) argue that the idea of resilience as adaptive behaviour is increasingly being applied to the business

environment to help explain how organizations manage the balance between stability and change. Adaptability is the degree to which an organization has the ability to alter behavior, structures; and systems in order to survive in the wake of the environmental change (Denison, 2007). Adaptability entails translating the demands of business environment into action. Organizations as an open systems exist in environment that is complex and uncertain. To survive and make profit, organizations need to adapt continuously to the different levels of environmental uncertainty (Amah & Ahiauzu, 2014).

### 2.3 Relationship between Flexibility and Organizational Resilience

Study by (Ritter-Hayashi et al., 2020) they examined how successful flexible companies were in nine developing countries in South Asia and Africa (Bangladesh, Ghana, India, Kenya, Nepal, Pakistan, Tanzania, Uganda and Zambia) for the year. 2013 and 2014. How workforce flexibility can sustain company innovation at a time of downsizing. This study focuses more on processes rather than product innovation because the reduction of measurements poses a specific challenge for the latter as it relies on knowledge exchange and collaboration across a network of technology companies and institutions. The results show that the reduction of the company's workforce has a negative impact on process innovation in SMEs in developing countries. However, studies show that workforce flexibility can be a way for companies to overcome the innovation challenges associated with downsizing.

(Chen, 2001) In his study examined downsizing and flexibility: Recent employment restructuring in Chinese State-owned machinery manufacturing companies. The research focuses on the drive, process, and outcome of downsizing with respect to labour flexibility in the two state-owned machinery manufacturing companies from the management perspective. By employing the Western downsizing approaches as developed by (K. S. Cameron, 1994), empirical findings on downsizing in the two studied Chinese state firms are examined and analyzed. The research concludes that downsizing is a necessary but not sufficient policy. Massively laying off staff does not come without costs. To the contrary it generates new personnel problems such as unwanted quits and drain of human capital that are critical for the continuous business process of the downsizing firm.

**H1: Flexibility possess a direct positive influence on Organizational Resilience**

### 2.4 Relationship between Adaptive Capacity and Organizational Resilience

In general, all organizations have good resilience until the resilience of the organization meets with failure. The organization may face a variety of disruptive sequences of events and the organization has the ability to survive and continue its functions, making the organization continue to exist. The ability of an organization to survive and continue to function indicates that the organization is capable of adapting to change.

In the definition of organizational resilience used in this paper, the resilience of an organization is the adaptation to rapid environmental changes especially changes to 'situations' and contexts. In dealing with change, organizations can activate existing strategies, modify existing strategies or create / implement new strategies.

Scholars who adopt the capability perspective regard organizational resilience as a dynamic and flexible organizational capability synthesized from predictive capability, resilience capability, adaptive capability, coping capability, and learning capability demonstrated by organizations in response to crises (Duchek et al., 2020),(Ma et al., 2018)

**H2: Adaptive Capacity possess a direct positive influence Organizational Resilience**

### 2.5 Research Framework

From the current study carried out by other researchers, the basis of a theoretical framework model shows how both dependent and independent variables are developed.

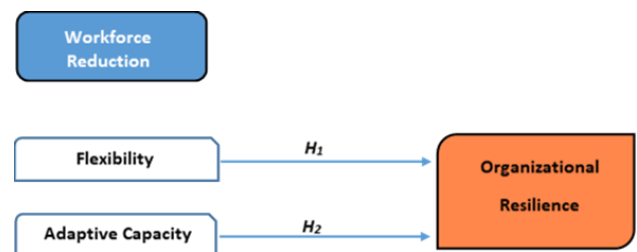


Figure 3: Research Framework

## 3.0 METHODOLOGY

### 3.1 Research Method

Based on the explanation in the section of research design, it is evident that the suitable strategy for this particular piece of research as per below.

a) Survey:

The survey is a popular and a very common research strategy in the field of management and business (Saunders, 2019). It is applied if the researcher is using the deductive approach which is the case in this

particular piece of work. Survey strategy allows collecting large amount of data in a very cost effective way (Saunders, 2019). The current research is explanatory in nature and employs deductive approach therefore the most suitable available research strategy is survey. The given research mainly requires quantitative data to achieve the research objective and answer the proposed research question. Survey strategy can serve as feasible strategy for the given research because it is low cost strategy both in terms of time and money. A large number of respondents can be targeted even if they are geographically dispersed.

b) Secondary Source:

Published company annual reports and financial statements of the company. Also articles from media or websites were studied to extract the required information.

### 3.1 Data Analysis Method

SPSS is known to be used by researchers for data analysis, it is the most widely used software package. Initial data entry, editing, coding and transformation of data are done using SPSS. SPSS is also utilized to describe the data using descriptive analysis. Furthermore, charts, i.e. bar chart and pie chart, are developed to make the data visual to aid in further analysis.

## 4.0 CONCLUSION

Various organizational plans and management have been implemented so that organizations say their organizations have a high level of organizational resilience in day -to -day operations and also capable of dealing with disasters, but in reality, they still face difficulties in day -to -day operations, even worse when faced with a disruption that never expected such as natural disasters, financial crises and others.

Organizations engage in downsizing of their workforce during periods of change, uncertainty or when disruptive conditions occur that allow companies to adapt to the environment better. The Corona virus pandemic (COVID-19) has changed the dynamics of the aerospace manufacturer company that cannot be simply eliminated. This strategy as an option will help most organizations to increase efficiency and reduce costs during this period. Evidently, most company that are unable to meet their annual capitalization or engage in mergers and acquisitions typically use this strategy to overcome an intense competitive environment.

Excellent level organizations should have the ability to cope with risks, potential stress, the ability to control and respond to surrounding threats to resurface after a disruption and also, if necessary, the ability to adapt to any changes in the environment.

Therefore, this study concludes that organizational reduction strategy has a positive and significant relationship with adaptability but has a significant and negative relationship with flexibility. With regard to these negative outcomes, there is an urgent need to be done in Aerospace Manufacturer Company especially on their employees in their ability to respond quickly after the reduction of manpower in company.

With the discussion of the necessary characteristics to achieve excellent organizational resilience in this study, it can help organizations achieve excellent resilience whether normal 'situations' or abnormal 'situations' that are uncertain and unstructured.

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