Productivity rises when companies are facing closure

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In companies that are slated to be shut down, productivity increases during the phase-out period itself. When management is busy dealing with matters other than daily operations, employees shoulder a greater responsibility for their work-and efficiency is enhanced. According to business economist Magnus Hansson at Örebro University in Sweden, this shows that it is possible to boost productivity considerably without investing. This is also an argument for longer phase-out periods, which would benefit both the employees and the company.

“Extending the shut-down periods creates better conditions for employees to find new jobs, for the surrounding business community to develop substitute jobs, and for company management to phase over production to other facilities.”

Magnus Hansson recently submitted a doctoral dissertation in business studies at the Swedish Business School, Örebro University. His research is based on the closure processes at ten manufacturing companies, two of them outside Sweden, between 2002 and 2007, and he has seen the same course of events in all cases:

“The patterns are surprisingly clear. When the decision to close is made public, there is an initial drop in productivity. People are angry, sad, and worried about their future. But when negotiations are over and everyone knows what the conditions are, productivity rises,” he explains.

And then, as management control of everyday operations lets up, there is suddenly scope for employees to act spontaneously and independently, and to reorganize their work.

“Innovative forces are released. They don’t have to lead to radical changes, but many minor changes can boost productivity. In several cases I studied it was also apparent that individuals who had no formal responsibility or authority took on greater responsibility and became informal leaders.”

“This is just the opposite of what happens when a company downsizes its employees. Even though the aim is to increase productivity, paradoxically it hampers production.”

The explanation for this difference, according to Magnus Hansson, is that a decision to shut down eventually leads to a situation where employees know what is going to happen, whereas employee downsizing creates uncertainty and conflicts.

Magnus Hansson’s research is based on the factories’ own production statistics, but to see what lies behind the figures, he also studied three companies in depth.

Interviews with plant managers, union representatives, and employees were complemented by his own observations, including what employees talked about during coffee breaks, what views they had of management and their work. Here he discovered several key factors that largely explain the increase in productivity:

“It’s about people and what motivates them. It’s surprising to see the commitment and efforts of employees in such an extreme situation as when they are losing their jobs.”

Source: Swedish Research Council