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Voluntary Redundancy

A tool for restructuring or a temporary pain reliever?

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Abstract

Title: Voluntary Redundancy – A Tool for Restructuring or a Temporary Pain Reliever?
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Key words: Voluntary Redundancy, Intellectual Capital, Knowledge Management, Organizational Restructuring, Ericsson.

Purpose: This thesis has two aims: The main purpose is to describe and illustrate how a large Ltd. company can use voluntary redundancy as a tool for restructuring. The additional purpose is to challenge the concept of voluntary redundancy trough outlining alternative ways of reaching the intended achievements of the voluntary redundancy programme.

Methodology: The qualitative method and an abductive reasoning have been utilized in this thesis. The interview methods during the case study were semi-structured in order to receive broad information and to lead to the insights and understandings necessary for the thesis purposes.

Theoretical Framework: The theoretical framework that has been used primarily contains knowledge assets theories. The chosen theories are intellectual capital and knowledge management theory to approach and analyse the empirical findings. The Knowledge-Profile was used in order to structure and present the knowledge processes of the case study.

Empirical Findings: The empirical work in this thesis has been based on the different interviews conducted at Ericsson Sweden. The interviewees were Mats C Andersson (responsible for design and implementation of the voluntary redundancy programme at Ericsson), Anna Guldstrand (union representative and deputy director and knowledge manager at Ericsson), Anders Weihe (chief legal adviser of employer issues at the Association of Swedish Engineering Industries) and three former employees. The findings are presented in a case study in order to fulfil the main purpose of this thesis.

Analysis: The knowledge processes that occurred during the implementation of the programme is structured and analysed trough the organizational K-Profile model. To challenge the concept of voluntary redundancy, an analysis matrix is presented that analyze and compares the "Ericsson way" against the theoretical approaches of intellectual capital and knowledge management.

Conclusions: Intellectual capital theory and the voluntary redundancy programme both manage to handle Ericssons intended purposes with the programme. It seems like a decision making process occurred, without a sufficient analysis that would provide alternatives. A consequence of the implementation is that questions arise considering the sustainability of the achieved effects. Ericsson has concentrated on acquiring new human capital, but there has not been enough focus on the multiplier connection between human and structural capital. However, voluntary redundancy, in the way it has been used in this case, can be a very efficient way of restructuring an organization without interfering with LAS regulations.

Sammanfattning

Titel: Voluntary Redundancy – A Tool for Restructuring or a Temporary Pain Reliever?
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Fem Nyckelord: Avgångsvederlag, intellektuellt kapital, knowledge management, Organisatorisk omstrukturering, Ericsson

Syfte: Huvudsyftet är att genom en case studie beskriva och illustrera hur ett stort börsnoterat företag kan använda avgångsvederlag som ett organisatoriskt omstruktureringsverktyg. Tilläggssyftet är att utmana konceptet avgångsvederlag genom att studera alternativa tillvägagångssätt för att uppnå de tilltänkta målsättningarna med avgångsvederlagsprogrammet.

Metod: En kvalitativ och abduktiv ansats har använts i denna studie. Intervjuerna var semistrukturerade för att få ett bredare perspektiv som skapar den insikt och förståelse som är nödvändig för att uppfylla uppsatsens syften.

Teoretisk referensram: Den teoretiska referensramen består av knowledge assets teorier. De teorier som använts för att analysera de empiriska resultaten är intellektuellt kapital och knowledge management teorier. Knowledge-Profile användes för att strukturera och presentera case studiens kunskapsprocesser.

Empiri: Empirin har baserats på intervjuer genomförda på Ericsson Sverige. Personerna som intervjuades var Mats C Andersson (ansvarig för design och implementering av avgångsvederlagsprogrammet på Ericsson), Anna Guldstrand (facklig representant i Ericssons styrelse och knowledge manager på Ericsson), Anders Weihe (chefsjurist och ansvarig för arbetsgivarfrågor på arbetsgivarorganisationen Teknikföretagen) samt tre före detta Ericsson anställda som antagit avgångsvederlagserbjudandet. Resultatet är presenterat i form av en case studie för att uppfylla uppsatsens huvudsyfte.

Analys: Kunskapsprocesser som påverkades till följd av implementeringen struktureras och analyseras i en organisatorisk K-Profile. En analysmatris presenteras med syftet att utmana begreppet avgångsvederlag. Matrisen analyserar och jämför Ericssons tillvägagångssätt mot de teoretiska ansatserna av intellektuellt kapital och knowledge management.

Slutsatser: Både intellektuell kapital teori och avgångsvederlagsprogrammet uppfyller Ericssons syften med programmet. I vissa avseenden verkar det ha funnits en beslutsprocess utan en penetrerande problemanalys där alternativ har övervägts. Detta resulterar i att en rad frågor uppstår kring avgångsvederlagsprogrammets långvarighet. Det har framkommit att vikten av strukturkapital till viss del har förbisetts av Ericsson och istället har fokus legat på att tillgodogöra sig nytt humankapital. Detta är något som intellektuellt kapital teori bättre hade hanterat. Dock lyckas avgångsvederlagsprogrammet kringgå LAS effektivt utan att påverka rådande organisationsstruktur samt företagets dominerande logik. Humankapitalet vitaliseras även med hjälp av nyrekryteringen, men frågor uppstår kring företagets förmåga att kunna tillgodogöra sig dessa kunskaper på bästa sätt.

Acknowledgement

A certain amount of whiskey stored in a barrel evaporates through the oak wood: this is known as the angels' share…

A fine Irish whiskey is triple distilled. This implies that you loose a certain amount of the spirit, but it contributes to the excellent quality. Our thesis has gone through the same procedure, distilled by our tutors Professor Leif Edvinsson and Professor Christer Kedström, our opponents and their contribution which helped us sift the material.

Thank you all interviewees, Mats C Andersson, Anna Guldstrand, Anders Weihe and the former employees at Ericsson for making this thesis possible. Thank you Mick Cope for the inspiration of your Knowledge-Profile, and your input that helped us interpret the Organizational K-Profile. Thank you Marilyn Clarke for contributing with important information about voluntary redundancy, provided in the early stages of this thesis.

We want to express a special gratitude to Professor Leif Edvinsson and Professor Christer Kedström for the inspiring and useful insights provided during the study. Without your guidance this adventures journey would have been difficult.

…Thank you all for contributing to the appropriate evaporation of this thesis angels' share!

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1 Introduction

This chapter aims to provide a background and to introduce the concept of voluntary redundancy. The purpose and delimitation of this thesis will be presented and then followed by a short disposition.

1.1 Background

Thomas Jefferson once said;

> *"If two individuals get together and exchange a dollar, they each walk away with a dollar. If the same individuals get together and exchange an idea, they both walk away with two ideas."* (Cope, 2000, p.36)

This quote can be thought of as symbolizing the knowledge economy. The organizations of today must be agile and adaptable to be ready for changes in a more global world, where deregulations and changeable structures are common items (Grant, 2005). The new economic reality is one where knowledge is the basis of competition and where the employees are the most important assets. They are the path to the company's strategic success. The value of organizations is today directly related to their knowledge and Intellectual Capital (Edvinsson & Bonfour, 2004). Brian Arthur summarizes the shift this way:

> *"In the old economy, people bought and sold congealed resources – a lot of material held together by a little bit of knowledge. In the new economy, we buy and sell congealed knowledge – a lot of intellectual content in a physical slipcase."* (Stewart, 1997, p. 16).

Sustained competitive advantage and superior profitability in the knowledge economy, is achieved through the creation and sharing of knowledge (Nonaka et al. 2001). Many organizations know that they need to improve the efficiency of the knowledge work, but it is a rather complex task with many different solutions and various outcomes.

An important corporate resource in the following decades will be the talent of the individuals, thus a company needs to discover, attract, recruit and retain the best and the brightest people. Competitive advantage is highly based on the people working within the company, but people are also mobile assets that can choose to work wherever they receive

the best offers. Human capital management plays an important roll for capturing and spreading knowledge, and has a great impact on how well a company is performing (Fishman, 1998). When a company creates a change in business structure and alignment or is faced with strategic problems such as low innovation rate and slow technical development, the top management must consider options to boost the organization with Intellectual Capital that inspires performance. Restructuring the work force is one way of trying to achieve this, and it seems like it is a way that will remain in the future. A relatively new strategy for restructuring the work force, that has arisen lately, is to implement voluntary redundancy programmes (Clarke, 2005).

1.2 A Short Explanation of Voluntary Redundancy

Voluntary redundancy is a relatively new strategy for downsizing and restructuring in organizations. It has, in some countries, been widely used for about two decades as a downsizing strategy, but far more uncommon as a tool for restructuring (Clarke, 2005). The use of it has however increased significantly the last decade and the first major programme, of the later kind, in Sweden was implemented by Ericsson. Ericsson offered a voluntary redundancy option to 17 000 employees in the age between 35-50 years, as a way to create possibilities for recruiting younger people and to lower the, according to Ericsson, overrepresented middle age category (Privata Affärer, 2006-11-14).

Voluntary redundancy offers include substantial financial incentives to encourage employees to volunteer. From an organizational perspective it appears to be a gentle, but in the short term expensive, way to retrench or restructure. It has also been shown that it tends to mask underlying problems of morale and commitment, as well as it sometimes can create expectations that voluntary redundancy is a corporate norm. From an individual perspective it seems to encourage volunteers for redundancy and offers a chance to leave jobs that are no longer satisfying (Clarke, 2005).

1.3 The LAS-Regulation

LAS is the short name of the Swedish employment association restriction law, and is regulated in (1982:80) of the Swedish law. LAS was introduced in 1974 and apply to almost all employees in the country, except for example those on top manager positions. An employment should, according to LAS, be permanent after 6 month if nothing else is agreed.

When a person is permanently employed, any notice must be based on correct reasons, or it will be regarded as a wrongful dismissal. Correct reasons can be either shortage of work or a high degree of misbehaviour of different types etc. When a situation with shortage of work arises, the employer must follow a certain rule of priority list. The list is decided due to the length of the employment, with some exceptions in smaller companies. This means that the individuals that have been employed most recently are also the first ones to leave. If the employer does not follow LAS they will have to pay damage compensations. Apart from the law, any larger organization that does not follow LAS, will also get bad publicity in media, which can further damage the company (Nationalencyklopedin, www.ne.se, 2006-12-19) (The Statute Book of Sweden, 2005, 1982:80).

1.4 Problem Discussion

In a historic perspective voluntary redundancy has primarily been used as a downsizing strategy and to lay off non-performing top managers (Clarke, 2005). The target for these programmes is usually to cut the costs of personnel, without having to follow employment association restrictions, and the output is easily measured. When a voluntary redundancy programme is used as a tool for restructuring it is of a different character. Intentions of using it this way can be to change the age structure and to get a certain degree of staff turnover in the company. The desirable result is to recruit young talented individuals that will generate new ideas, creativity and motivation. Questions that arise are if this is an effective way to stimulate organizations human capital or if there could have been alternative ways that perhaps would have provided a more valuable output. How can a large Ltd. company explain voluntary redundancy as a restructuring tool? What are the motives of today's voluntary redundancy programmes? How is the output measured? Can a sustainable result be achieved? Providing a better understanding of these matters called for a need to empirically describe and illustrate how a large Ltd. company can use voluntary redundancy as a tool for restructuring; which is the main purpose of this thesis.

Imagine a scenario where a company recruits as many people as the number of employees that accepts the voluntary redundancy offer. In addition to the financial compensations to those who accept the voluntary redundancy option, there will also be costs for recruitment processes and training of new employees. This means that the newly recruited employees will have to perform at a superior level during an undefined amount of time, to compensate

for these costs. How does a company evaluate and measure the superior performance and what will happen if the staff turnover remains low? Will the company then offer new voluntary redundancy programmes? What will happen to the corporate human capital when people are leaving the organization? How will the structural capital manage the redundant employees' knowledge?

The scenario above calls for a company to evaluate the opportunities, but also to consider looking at alternative ways and compare those, before implementing a voluntary redundancy programme.

1.5 Positioning Towards Earlier Research

There has not been much earlier research conducted about voluntary redundancy. The few studies that have been made concentrate on voluntary redundancy as a downsizing strategy, and mainly illustrate the situation from the employee's perspective. Voluntary redundancy as a restructuring tool is a rather new phenomenon that needs to be explored by empirical approaches, since it is now implemented under different circumstances. The empirical data in this study will be assembled from personal interviews, which will give the thesis a unique character and outline evidence for further research.

1.6 Focus of the Thesis

The purpose of implementing a voluntary redundancy programme can have various motives, depending on what achievements that are wished to be fulfilled. It has historically mainly been used as a downsizing strategy, but this thesis highlights voluntary redundancy as a restructuring tool without decreasing the headcount within the company. As a consequence of the ten weeks time limit and the need for a descriptive study the thesis will further concentrate on the organizations perspective at corporate level, even though there will be brief discussions concerning the employee's perspective as well. Another important issue is that the empirical findings relay to one case study, and is therefore not intended to be generalized. The thesis will not discuss the differences and possible influences of employee restriction laws in an international perspective.

1.7 Purpose

This thesis has two aims:

The main purpose is to describe and illustrate, as a case study, how a large public Ltd. company can use voluntary redundancy as a tool for restructuring.

The additional purpose is to challenge the concept of voluntary redundancy through outlining alternative ways of reaching the intended objectives of the voluntary redundancy programme.

1.8 Definition of Key Concepts and Terms

Intellectual Capital (IC) – IC is the future earning capabilities and consists of human- and structural capital. These intangible assets do not usually have a correct value in the balance sheet of a company.

LAS – The abbreviation of the Swedish employment association restriction law, which is there to protect employees and regulate if a company can lay off people, and in what order they must lay off employees.

Voluntary Redundancy – A voluntary redundancy is a financial incentive that is intended to encourage volunteers to leave the organization, in order for the company to be able to implement downsizing and/or restructuring strategies.

1.9 Disposition

The model below intends to give an overview of the disposition and structure of this thesis. Further on, every chapter will start out with a brief explanation concerning the content and intentions of the particular chapter, aiming for the reader to more easily follow the main thread of the thesis.

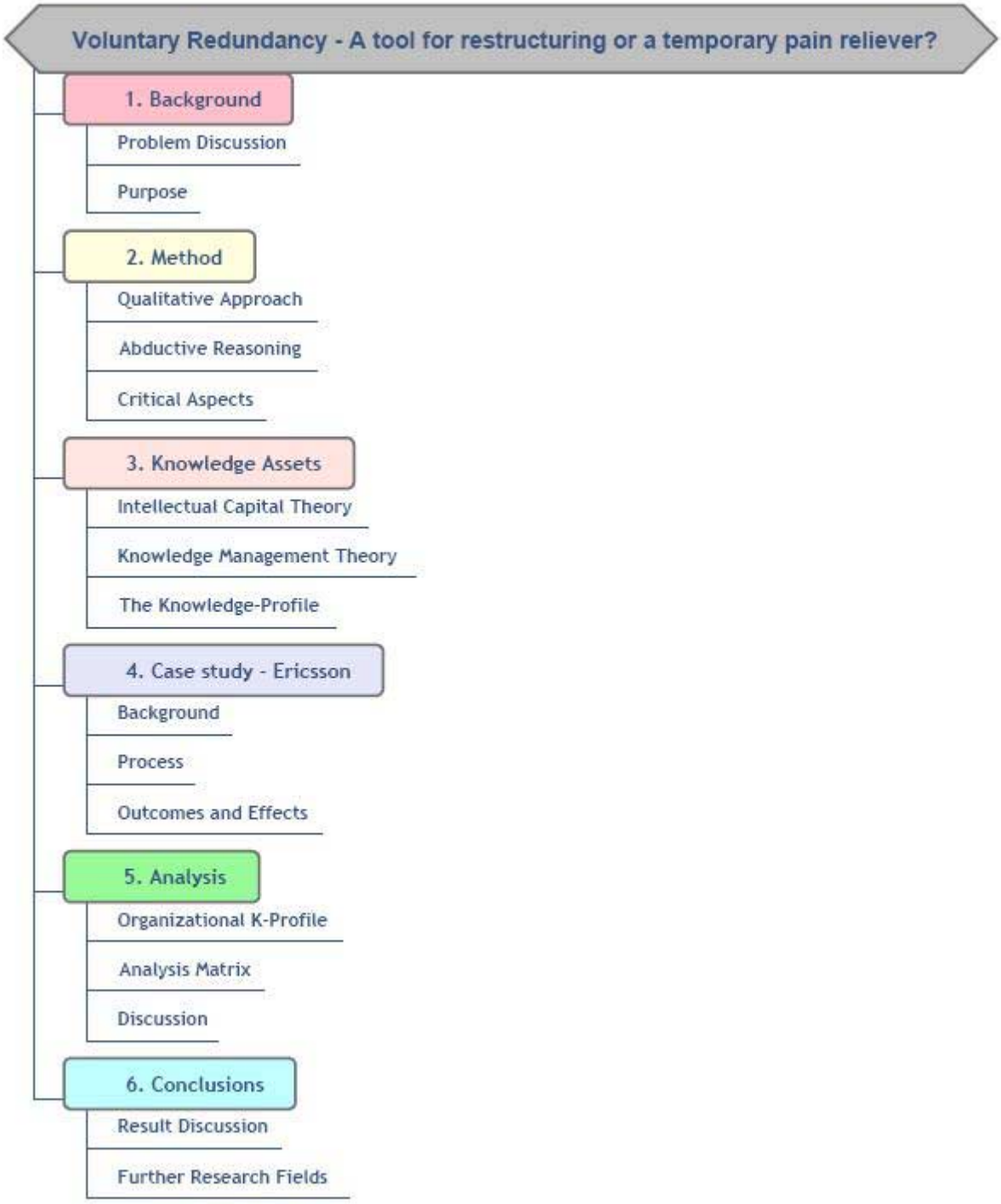

Figure 1.1: Mind Mapping the Disposition

2 Method

This chapter provides an understanding for how the study was performed and which methods were used. The theoretical framework, reliability and validity will be discussed and finally some methodological criticism is presented.

2.1 Choice of Subject

When Ericsson implemented the voluntary redundancy programme in April 2006, it was given much attention in the media and a lot of people seemed surprised and could not really understand the logic behind the programme. When we came in touch with the news we were introduced to a new type of restructuring tool, which had not been used to a greater extent in Sweden before. We discussed the matter and decided that we would like to look closer into the topic, thus we started to read articles about the process at Ericsson and also more general articles about voluntary redundancy. Quite soon we realised that there was not much written about voluntary redundancy, and the little research that was found concentrated on voluntary redundancy as a downsizing strategy or a way to lay off non-performing managers.

When reviewing earlier research we found an article in the British Journal of Management, written by Dr Marilyn Clarke from the University of South Australia. Her research gave us a better comprehension concerning the topic and we decided to contact Dr Clarke via e-mail to get more input. We presented our thoughts and ideas, and after a week we received a positive reply. She thought it was an interesting topic to undertake, and then told us that there was not a lot of theory around the concept of voluntary redundancy. Some of the findings of her studies have concluded that many organizations has lost a lot of competent staff and then had to rehire them on contract to retain organizational knowledge. Another effect in companies that implement voluntary redundancy programmes has been that they loose efficiency because employees tend to sit around waiting for packages to be offered. She also explained her interest in hearing how our project goes, and that she wanted to be informed about the conclusions (Clarke, e-mail, 2006-11-20).

Through personal communication with our tutor, Professor Leif Edvinsson, we developed our ideas and got the feedback needed to work in a well-considered direction. It became clear that we first wanted to undertake a case study of Ericsson due to lack of relevant theories, and then to work with the concept of voluntary redundancy in the context of Intellectual

Capital and the knowledge economy. Since being new to the concept, the pilot study helped us moving from a blank page to evolving a clearer picture and understanding of the topic. A lot of time and effort was put into developing a suitable approach to the subject and to extract the main focus area. Since there is not much theory around the topic, an important aspect of the approach is that the case study will work as a foundation for building logics around the concept.

2.2 The Methodological Approach

2.2.1 Qualitative Research

To get a profound understanding of how and why a company uses voluntary redundancy as a restructuring tool, we argue that the most suitable methodological approach is a qualitative research, rather than to quantify data. The qualitative research generates options for studying voluntary redundancy in both depth and detail (Bryman & Bell, 2003, p.425). The fact that there is a lack of theoretical understanding concerning the topic provides further arguments for the qualitative choice. There is a need to understand the logic behind the concept, due to the purpose of the essay, and the case study is intended to provide an understanding that can not be received through a quantitative study. The lack of earlier research also made it hard to predict in what direction the thesis was heading and because of this there was a need to create possibilities for a change of focus area, if necessary. The qualitative approach gives the authors a guideline for what direction the research is going, and provides possibilities for intervention if a change of direction is necessary, by making follow-up interviews (Cassel & Symon, 1994).

If a quantitative method would be used in the thesis the answers would be of a more rigid character, comparing to the qualitative approach. Further on there would be difficulties in creating the questionnaire since this would be based on the researchers' limited perception of the topic, thus important perspectives and details might be left out.

2.2.2 Abductive Reasoning

In this thesis an abductive reasoning most correctly describes the constant oscillation between theory and empirical results, and also describes the way that the theoretical selection process was carried out. The starting point was a deductive method, which means that the theoretical considerations deduce hypotheses that must be subjected to empirical scrutiny

(Bryman & Bell, 2003, p.9). Intellectual Capital and Knowledge Management theories were selected and partly tested during the interviews and a new method, "the Ericsson way", emerged. The theories were used as a tool to pinpoint possibilities, problems and alternatives for using a voluntary redundancy program. The inductive reasoning, where empirical results is tested and compared to theory (Bryman & Bell, 2003, p.10), was the method that the case study was based on, due to lack of earlier research.

2.3 Interviews

2.3.1 Selection of Interviewees

The purpose of this essay claimed special demands on interviewees that had a broad and overriding knowledge about Ericssons control systems and who also were involved, in one way or another, in the process which resulted in the offered voluntary redundancy programme. Therefore we primarily contacted the senior vice president and human resource manager, Marita Hellberg, to receive information of whom to contact regarding our purpose. We were able to get access to Mats C Andersson, who is responsible for the design and layout of the voluntary redundancy programme. Thereafter we contacted Confederation of Swedish Enterprise (Svenskt Näringsliv) and where directed to the Association of Swedish Engineering Industries (Teknikföretagen) who represents more then 3000 engineering companies, among them Ericsson. We were able to contact and arrange a meeting with Anders Weihe, chief legal adviser of employer issues, to hear his version of the voluntary redundancy program. To receive the opinions of the union we contacted CF (The Swedish Association of Graduate Engineers) and Anna Guldstrand deputy director and knowledge manager at Ericsson, who spends 25 percent of her employment as employee representative. We chose to interview these persons to get a better understanding of the motives behind the voluntary redundancy program and how it was conducted. They represented different views and had a classic, in some way fundamental, interest conflict; one representing Ericsson, the other representing the employer confederation and the third the union.

Three former employees, in different management positions, that accepted the voluntary redundancy programme were also interviewed to get a comprehension of how their expectations and perceptions matched with the company's intentions. The purpose of these interviews were not to collect conditions for carrying out an employee-centred analysis, due to the delimitations of the thesis, but rather to create a more trustworthy validity and to get a

"journalistic depth" in the case study at Ericsson. We came in contact with the former employees through the human resource department, and selected individuals that matched different representative profiles for the people who accepted the programme. The characteristics of the representative profiles were asked during the interviews with Mats C Andersson and Anna Guldstrand. The reason for the three employees to accept the programme was that one wanted to do something completely different as self-fulfilment. The second already had a new job and the third had been thinking of leaving within a couple of years to do something different due to personal reasons, but when the programme was offered he could not reject it.

2.3.2 Selection of Interview Structure

There are several different methods of how to conduct an interview: (Andersen, 1998, p.161 fw))

- The informant interview, with a person who can describe a course.
- The open interview, with question that will lead to descriptive answers.
- The semi structured interview, with a, to some extent, prepared questionnaire.
- The focus group interview, with a group involving several respondents.
- The standardised interview, with questions from a uniform questionnaire.

Due to the purpose, to describe and illustrate how a larger Ltd. company uses voluntary redundancy as a restructuring tool, it required, to some extent, answers to already prepared questions. However it was necessary to supplement with some additional questions during the interview, as well as letting the interviewee speak freely. Therefore we decided to conduct a semi structured interview, since this also matches our qualitative approach (Bryman & Bell, 2003, p.119). Additional respondents were not necessary within the scope of the purpose and the delimitations that has been made. The questions were more specific about how the company acted, and they did not concern much personal opinions.

2.3.3 Selection of Context

To conduct an interview with one individual at the time is the most common occurring method. This implies decisions regarding the following: Will the interview be implemented face to face or via telephone? In which context will the interview occur? Will the aim be hidden or outspoken? In which way will the answers be recorded? How long will the

interview last? Will multiple interviews with the same individual be conducted? (Jacobsen, 2002, p. 161 fw) (Bryman & Bell, 2003 p.119 fw)

To meet the interviewees face to face is considered to be a priority in cases where it is possible (Bryman & Bell, 2003, p.120). This in order to easier be able to explain the questions and to comprehend the replies correctly. The disadvantage with physical meetings is that the interviewer effect becomes larger. The physical presence of the interviewer and the interview arena can influence the respondents' answers and behaviours towards that he/she wants to reply the questions "correctly". If the questions are asked via telephone the respondent is screened off and the interviewer effect is less present (Jacobsen, 2002, p. 162). Due to the requisites above we decided to go to Stockholm for a couple of days to carry out the interviews face to face. Interview-questions were sent out, in order for the respondents to be able to prepare themselves.

The place for the interview creates context effects. To meet in the respondents natural environment creates a feeling of security for the respondent and tend to lead to a more natural behaviour. In contrast, to meet outside the interviewees environment risk leading to an artificial and forced behaviour. Since the interviewees are persons in top corporate positions they are therefore difficult to reach and get appointments with, it felt natural that the interviews were implemented at their respective workplace. This also minimized the risk for affected behaviours (Jacobsen, 2002, p. 164). Finding a quiet private space in which to conduct the interview is crucial. Therefore we avoided to hold the interviews at the respondents own office and instead conference rooms were booked to minimize disturbing issues like phone calls etc (Bryman & Bell, 2003, p.122). To further minimize the interviewer effect we decided that the same person should ask the question to all the interviewees to reduce the risk that the question would be explained differently to different interviewees. We also decided that the other person should take notes during the interview for backup purpose but also to be able to copy figures that the interviewee outlined. The most important role for the "note taking person" was however to ask follow up questions during the interview to receive a deeper understanding and to eliminate the risk for misinterpretations.

A digital voice recorder was used to register the interviewees answer. The advantage of using a voice recorder is that the interviewer can maintain eye contact and create a natural conversation. Another advantage is that it does also eliminate the risk for misquotations. The negative aspect is that the interviewee can be frighten about the fact that he/she is being recorded, which to some extent may work counter to spontaneous and honest answers (Jacobsen, 2002, p. 166). We could not however notice any fear or hesitation among the interviewees. The interviews where then transcribed and this helped us to further examine what people said, what they meant and in those cases where it was necessary, to follow-up with further, examining questions. The downside is that transcribing is quite time consuming. (Bryman & Bell, 2003, p.157)

The first interviews where taking place during approximately one hour. The length of the interview affects the quality of the answers, and the respondent gets tired of too many questions. Therefore interviews should last on for a maximum of one and a half - to two hours (Jacobsen, 2002, p. 167). On top of this the length of the interviews was dependent on the respondents hectic work situation.

The former employees that were interviewed were spread over the country, and we therefore decided to conduct these interviews via loudspeaker telephone. These interviews, which were recorded, were semi structured and lasted for about 45 minutes each.

2.3.4 Number of Interviews to Be Held

It was difficult to decide in advance how many interviews to be held. Initially we booked one occasion with each respondent and decided to take a stand in this matter after the first interviews were conducted. It turned out, not completely unexpected, that we needed more time with some of the interviewees. One of the reasons for this is that it takes some time for the respondent to come to trust with the interviewers. Therefore, some researchers argue that brief contacts, as one interview occasion, are not enough to create information development (Jacobsen, 2002, p. 167). Due to the fact that the process of the thesis was only ongoing for ten weeks was reductionistic considering the amount of interviews that were possible to hold. Considering the facts above we decided to ask for possibilities to conduct further interviews later on. The response was positive and we decided to book a time for a follow-up interview. It was also a safety issue for us to know that we, if necessary, had a possibility to ask more

detailed questions during the progress of the thesis as we looked deeper into the subject. The follow-up interviews were held via loudspeaker telephone for approximately 30 minutes, and were of a similar semi structured character.

2.4 The Theoretical Framework

The approach to the theoretical pre-study research was to provide a framework needed to understand the logic behind voluntary redundancy and what intentions and outcomes it may have. The criterions were to find models and concepts that matched the purpose of the thesis and that could efficiently be used in the analysis of the empirical findings. After the preparatory study it became clear that voluntary redundancy affects the structure of the workforce in an organization and therefore also changes the knowledge structure, hence we entered more deeply into knowledge assets theories.

Chapter three will begin with a brief introduction to knowledge assets, and this will be followed by Intellectual Capital theories. The reason behind choosing Intellectual Capital is to elucidate the possible non-financial asset effects, when a voluntary redundancy programme is implemented.

Knowledge Management theories are closely related to Intellectual Capital, since Intellectual Capital, for example, aims to profit from the knowledge in an organization and to measure it. The Knowledge Management part of our framework is intended to analyze the knowledge aspect. The concept of Knowledge Management is based on two cornerstones; knowledge and the characteristics of the knowledge worker, and they will therefore be presented afterwards. The knowledge theory fauna is very broad and therefore it needed a careful selection process, where we choose to select parts that are commonly referenced. A more practical Knowledge Management example about how knowledge domains in an organization can be developed and how new domains can be built, will be given. This theory is chosen to constitute analytical possibilities, due to the additional purpose, for outlining alternative ways of reaching the intended achievements of the voluntary redundancy programme.

Finally, the Knowledge-Profile will be presented. It is a framework that offers a simple but powerful system to map out, define and structure knowledge tasks, in terms of explicit and tacit knowledge combined with the three elements of how we think, act and feel.

2.4.1 Critical Aspects of the Theoretical Framework

Some of the literature and the articles in this thesis are more then ten years old. This could motivate some contemporary criticism. Despite this we, in this case, do not believe that the age of the articles is synonymous for the quality of the thesis. The reason for this is that many of the authors we have used are more or less the founders of Intellectual Capital theory, and to neglect their contribution to the subject would be impossible. Instead we have based our choices on the trustworthiness of the authors. We have chosen to select articles that are seen to be credible due to the author, or which magazine it has been published in. Initially we also had our tutor, Professor Leif Edvinsson, as a great help in verifying the quality of different authors and sources. However, Professor Edvinsson was just working as a sounding board.

We would also like to attract attention to the possibility that a different choice of the theoretical framework could have affected the outcomes of our additional purpose; to challenge the concept of voluntary redundancy through outlining alternative ways of reaching the intended achievements of the voluntary redundancy programme.

We will below, as a service to the reader, present some author criticism towards the theories of the framework. One is towards that the coupling of “Intellectual” with “Capital” and the assumption that such a linkage legitimises measurement. Further criticism concerns the frequent use of metaphors used in Intellectual Capital related works. The author of the article have analysed the work by authors such as Davenport, Nonaka, Prusak, Takeuchi and Stewart, who are all prominent authors in the fields of Intellectual Capital and Knowledge Management. Based on the textual analysis they suggests that at least 95 per cent of all statements about knowledge or Intellectual Capital are based on metaphors. Therefore the definitions of the concepts are, according to the author, quite vague (O’Donnell et al, 2006).

When it comes to the K-Profile model, the reader must be aware that it is initially created to map out knowledge processes on an individual level, but in this thesis it is used to map out an organizational knowledge task. The K-Profile is not a rigid scientific model that exactly

describes a certain process that everybody should follow; it is rather a symbolic representation of a complex concept that can be interpreted in different ways. The model is intended to develop a simple process map and provides possibilities for structuring knowledge tasks (Cope, 2000, p.27-29). We also had personal contact with Mick Cope, author to "Know your Value?" and the originator of the K-profile, via e-mail and telephone. Our interpretation which led to the organizational K-Profile used in this thesis was sent to Mr. Cope via e-mail. We received feedback through a telephone conversation, and he expressed his agreement in our interpretation and gave us some additional input. He regarded the disposal square as highly interesting for an organization to consider, so that the organization not only contemplate what knowledge that is important to acquire and retain – but also what knowledge they need to dispose (Cope, 2007-01-04, personal communication). With these dynamic interpretation conditions and the personal contact with the author, we cannot observe any obstacles that would make the mapping of an "Organizational K-Profile" impossible.

2.5 Mind Mapping the Case Study

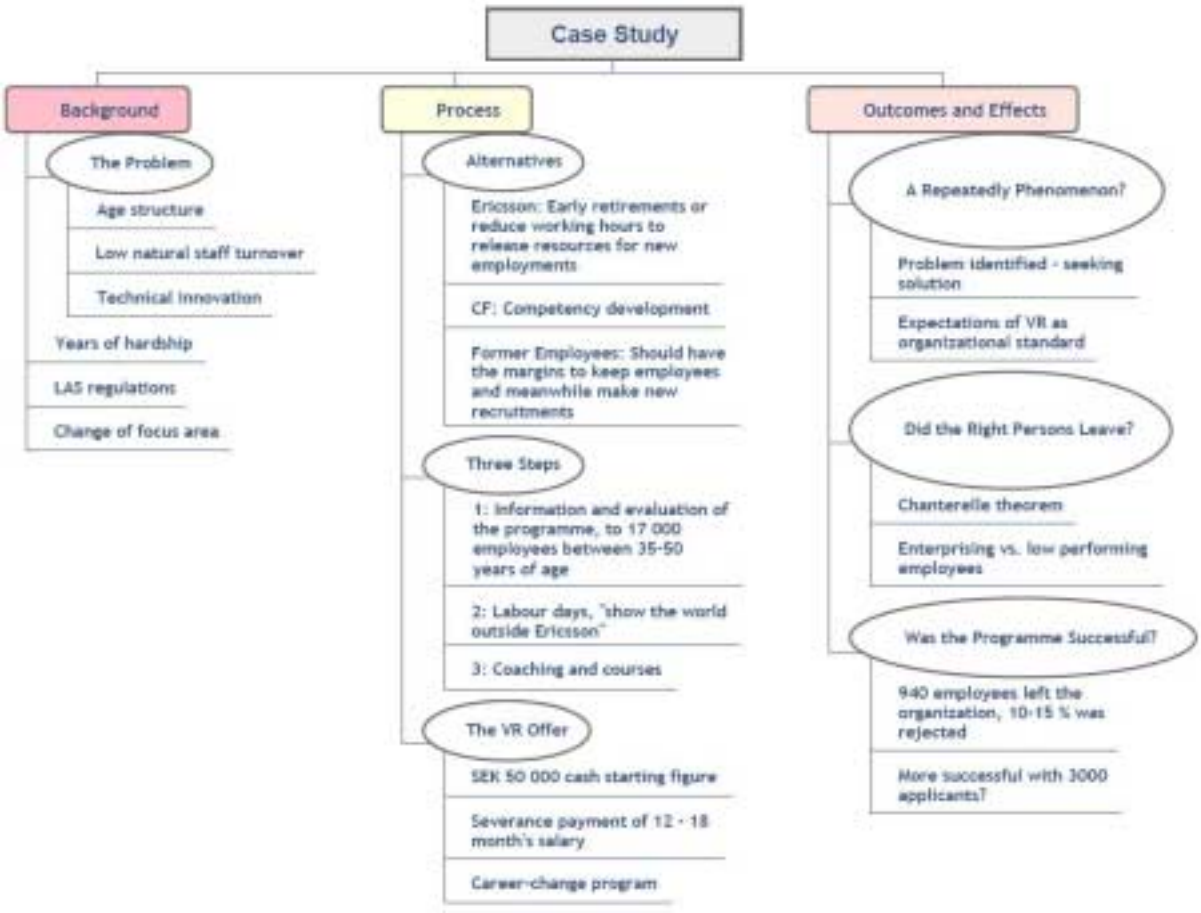

Figure 2.1: Mind Mapping the Case Study

2.5.1 Critical Aspects of the Interview Sources

The fact that little research had been made about voluntary redundancy, created a risk that our personal reflections affected the preparatory study. The questions that were prepared before the interviews were partially based on the preparatory study. Even though the case study was of an exploratory character, and with semi structured questions, the personal reflection risk may have affected the interviews. We were aware of this problem, and that's why we often let the respondent's speak freely during the interviews with the aim to avoid leading questions.

2.6 Method for the Analytical Phase

The recorded interviews were transcribed, in order to make it easy to scan the material, compare answers and find analytical patterns. The collected empirical material is then presented as a case study at Ericsson. The case study is intended to give a clear picture of the background, process and outcomes of the voluntary redundancy programme. The case study will constitute the foundation for the analytical phase of the thesis.

The analytical phase is divided into two main parts. The first part is to categorize and map the voluntary redundancy programme and the knowledge processes that occurred due to the implementation at Ericsson. This is conducted through the K-Profile model by Cope. The logic for choosing the K-Profile for this matter is that it's a model without clear delineations that provide possibilities for interpreting the empirical material. At the same time it gives a well structured overriding picture and considers both conscious and unconscious motives through the tacit and explicit discussion. Due to the purpose, this thesis does not aim to complete a full organizational K-Profile, rather it will keep to the voluntary redundancy connected knowledge processes. The second part is a matrix that aims to fulfil the additional purpose; to challenge the concept of voluntary redundancy. The matrix challenges the concept through analysing alternative ways to reach the intended achievements from a theoretic Intellectual Capital and Knowledge Management perspective. The matrix also analyses the possible consequence differences between "the Ericsson way" and the theoretical alternatives.

Finally, a discussion will be held concerning possible advantages and disadvantages due to the various perspectives. This discussion will also reflect on the explicit and tacit knowledge

that might have occurred during the voluntary redundancy process, hence it will connect the matrix to the K-Profile model.

2.8 Reliability & Validity

Reliability and validity concerns the quality of the study. Minimizing disturbing moments, and by not letting the environment affect the interviews, creates a valuable reliability. High validity is achieved through maintaining control and by continuously questioning the study and its empirical results (Bryman & Bell, 2003, p.33).

To achieve reliability and validity we formulated some prerequisites that we aimed to fulfil. To start with we stated in the purpose that the case study aimed to illustrate how a larger Ltd. company can use voluntary redundancy as an intended tool for restructuring, and not to generalize the empirical results. Secondly, we aimed to get a clear and correct picture behind the intentions of the voluntary redundancy programme and how the process was carried out. To achieve this we decided to get different perspectives by interviewing individuals that represented the company, the union, the enterprise confederation and some former employees that accepted the programme. To receive interviews with the right people, we took on a top-down approach where we first contacted Marita Hellberg, senior vice president and human resource manager, and through her received information of whom to contact. All interviews were recorded to make sure that we did not miss out on important details. We also adapted a critical thinking during the analysis of the material and tested different theories against each other.

A qualitative study must have high demands on the information given, since the researchers develop a relationship towards the research object. This type of relation can wrongly affect the researchers view on the object and create expectations concerning the patterns of behaviour (Patel & Davidsson, 1991). This objectivity problem may have affected our interviews, even though the aim was to act as objective as possible. Another possible problem that may have occurred is that the case company might wish to maintain a good reputation and to protect their corporate activities; hence it can be hard to assess some empirical aspects, which in turn can affect the reliability. To counteract this, interviews where conducted with different interested parties within the organization. Initially our intention were not to evaluate

and measure the quality of the actions taken by the company, however after the case study was conducted it was clear that an evaluation would be difficult to avoid.

3 Theoretical Framework

The theoretical framework, presented in this chapter, will be used to analyze the concept of voluntary redundancy. Intellectual Capital and Knowledge Management theories will be presented, and followed by theoretical suggestions of how organizations can work with developing their knowledge domain.

3.1 Knowledge Assets – The Main Thread

The knowledge assets, that earlier was known as goodwill, today constitutes up to 90 percent of a company's value, thus traditional accounting methods only represents a minority part. Information is the main driver of wealth creation in the knowledge economy, and knowledge workers have outnumbered manual labour workers. This statement highlights the importance of knowledge assets, even though it varies depending on the definition of a knowledge worker (Horibe, 1999, p.XI). When considering the implementation of a voluntary redundancy programme, an organization must consider that this will affect the structure of the knowledge assets, and therefore we claim that it is important to be oriented in the knowledge assets theories.

3.2. Intellectual Capital

A traditional company is a collection of physical assets, bought and owned by capitalists who are responsible for maintaining them, and who hire people to operate them. On the other hand a new generation of company's is emerging, the "knowledge companies". This kind of company is different in many ways, not only are their key assets intangible, it is also not clear who owns them or is responsible for caring for them (Stewart 1997, p.32). The traditional book value focus is gone and instead it is now the human intelligence and intellectual resources that is the company's most valuable assets (Edvinsson & Malone, 1997, p.2 fw). Another difference is that Intellectual Capital (IC), in opposition to tangible assets, increases when it is shared and even failure makes the Intellectual Capital grow (McDougall & Hurst, 2005). This has created a need for the ability to share information broadly and fully without filtering it through a hierocracy (Stewart, 1997).

According to the Intellectual Capital researchers we are confronting an economic shift, Brian Arthur summarizes the shift by saying that no one can say for certain what new ways of working and prospering this revolution will create. In a revolution the only surety is surprise.

But what we already know, and that is according to Arthur obvious, is that success in a knowledge-based economy depends on new skills and new kinds of organizations and management compared to traditional companies (Stewart, 1997, p.17 fw). Instead of only using the above mentioned book value, Intellectual Capital is supplementary information to financial information and non-financial capital (Edvinsson, 1997). The reason is that today, the hard assets of a knowledge company contribute far less to the value of its product (or service) than the intangible assets, for example the talents of its people, the efficiency of its management systems, and the character of its relationships to its customers. According to Stewart this together is the Intellectual Capital (Stewart, 1997, p.57 fw). Edvinsson outlines that today in most of the organizations, the ratio of the value of Intellectual Capital versus the physical and financial capital is between five-to-one and sixteen-to-one (Stewart, 1997, p.63). This also reflects the stock exchange market both in terms of determining a company's market value but also for example when you invest in a company, you do it mainly by buying a set of talents, capabilities, skills and ideas, in other words the Intellectual Capital, not the physical capital. You don't buy a stock because of its factories or infrastructure, you buy the company's abilities and the price you pay is certainly dependent on the expected performance of the company (Stewart, 1997, p.55 fw).

Therefore Intellectual Capital studies the company's roots to value and to measure the hidden dynamic factors that underlie the visible company of buildings and products. (Edvinsson & Malone, 1997, p.11) To maximise the company's Intellectual Capital the organisations must cultivate spaces for innovating meetings to happen and to release potential brainpower. There need to be enablers for the exchange of knowledge and knowledge interaction (Edvinsson, & Grafström, 1998).

Figure 3.1: The company's hidden value is in its roots, which is where the creation for further innovation takes place.

Source: Leif Edvinsson, www.unic.net

Some researchers say that Intellectual Capital includes not only human brainpower but also brand names and trademarks. Other claims that it includes such factors as technology leadership, and ongoing employee training (Edvinsson & Malone, 1997, p. 3 fw). According to Stewart you can find Intellectual Capital in one or more out of the three places; people, structure and its customers (Stewart, 1997, p.75). Stewart presents a definition of Intellectual Capital by saying:

> *"Intellectual Capital is something that you cannot touch, but still makes you rich"* (Stewart, 1994, p.56).

The above quotation suggests that Intellectual Capital is something tacit. To use more of what people know, companies need to create opportunities for private knowledge to be made public and tacit knowledge to be made explicit. In other words, the structural capital is needed to make the human capital perform. (Edvinsson & Malone, 1997, p.45 fw)

According to Edvinsson people often mistake Knowledge Management for Intellectual Capital. The reality is that Knowledge Management is only a fraction of Intellectual Capital

while Intellectual Capital is about flow, Knowledge Management is about storage, transfer and migration of knowledge. It treats knowledge as an object while Intellectual Capital on the other hand is concerned with the future earnings potential of the organization (Edvinsson, 2002, p.23). Intellectual Capital is not a management technique like reengineering which you can choose to apply or not as the case may be. It is more fundamental than that, to all companies, communities, and even, societies (Edvinsson, 2002, p.26).

The real breakthrough in Intellectual Capital research came in May 1995 when Skandia, the largest insurance and financial services company in Scandinavia, after several years of internal pioneering work under the lead of Leif Edvinsson, the worlds first corporate Director of Intellectual Capital, released the world's first public Intellectual Capital annual report, as a supplement to the financial report. (Edvinsson & Malone, 1997, p.16)

According to research conducted by the management at Skandia Intellectual Capital typically takes two forms; human capital and structure capital. The human capital can be defined as the combined knowledge, skill and innovations of the company's individual employees that they use to meet the task at hand. It also includes the company's values, culture and philosophy. The structural capital is the hardware, software, databases, patents, organizational structure and trademarks. In other words, it is working as a supportive infrastructure for the human capital and the employee's innovation ability, productivity and possibilities to be able to share the information and knowledge that they accomplished. It also includes the developed relationships with key customers. One big difference is that human capital cannot, in contrast to structural capital, be owned by the company. The structure capital is thereby tradable, and it is left when the employees leave at the end of the day. (Edvinsson & Malone, 1997 p.11 fw fw)

Macdonald summarizes by saying:

> *Intellectual Capital is useless until it moves. It is no good having some guy who's is very wise and sit alone in a room.* (Stewart, 1997, p. 78)

Value, or Intellectual Capital, is created in the interaction between people (human capital) and organisational structural capital such as R&D processes. Professor Nonaka refers to this as knowledge creating dialectics or *Kenectics.* Nonaka also refer to the addressing of future

challenges *chi*. Innovative chi management involves integrating, optimising and sharing knowledge, and having conscious minds in harmony with the context (Edvinsson & Grafström, 1998).

Edvinsson identifies four phases of the Intellectual Capitals evolution. These phases are stretching from being focused to visualize the company's intangibles from a reporting perspective to structural capital injection from an external source to get a turbo effect on the Intellectual Capital, when different types of constellations are combined. In between is the second and third phase. The second one focuses on a human capital injection, but it is also described as Knowledge Management or about how competence is being added to the company. The third phase was built upon the second phase, and concerns about how to transform human capital into structural capital. This was also the era when the multiplier arises. The focus was also on how to pack knowledge into recipes that could be shared around the world rapidly (Edvinsson, 2002, p.109 fw).

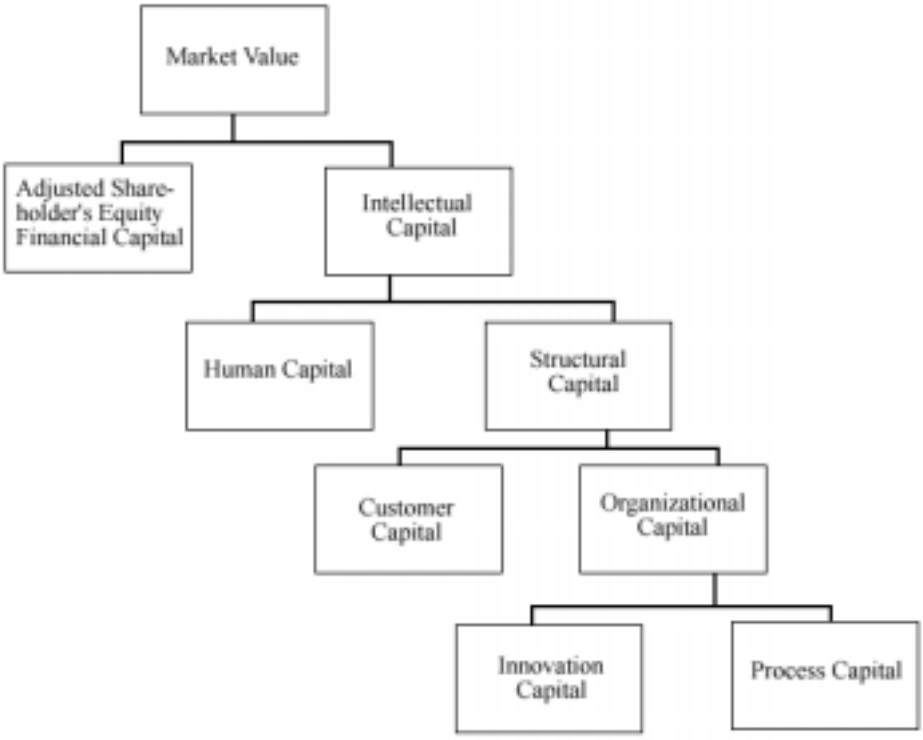

Figure 3.2: IC value scheme

Source: Edvinsson, 2002, p.99

3.2.1 Human Capital

Human capital (HC) is a frequently used concept, sometimes as a synonym for human resources and it is broadly used within many different disciplines. The human capital comprises the employees within the organization and represents the overall dexterity, knowledge, experience and the ability to innovate. It also includes the company's values, culture and philosophy (Edvinsson & Malone, 1997, p.34 fw). The opinions here are slightly different between the authors, because Stewart argues that culture and strategy belongs to the structural capital (Stewart, 1997, p.109).

The human capital of an organization can and should, according to Stewart, be developed and increased. The stimulation to incite the growth can be done in two ways. Either, the organization takes advantage of the knowledge of the employees if it is larger than the organizations, or the organization has to make sure that the employees receive knowledge, via for example training etc that can be useful for the organization (Stewart, 1997, p.86 fw). Ultimately a company can inject more human capital, on condition that the structure makes it possible (Edvinsson, 2002, p.109).

According to Edvinsson and Sullivan, organizations with a vision to accomplish value-creation tend to focus their management energies on the human capital of the firm. In other words how it is organized, how it is directed, how knowledge is created and how it provides value to the firm. (Edvinsson & Sullivan, 1996)

3.2.2 Structural Capital

At Skandia new units was created under the initiative of Edvinsson. They represented mainly human capital, while in those units which had already been in operation at the market for some time had something else developed as a complementary to human capital. These competences were left behind when the staff went home, for example, the customer database, the concessions, the IT systems, etc. So what was learned from this was that out of human capital grows some kind of structural capital and for every year, the organization adds something beyond the staff. More and more structure is emerging. Therefore a key role of leadership is the transformation of human capital into structural capital. (Edvinsson, 1997, p.108 fw)

To be able to share and transport knowledge requires structural assets, such as information systems, knowledge of market channels, management which turn individual know how into the property of the group. There is a great need, as seen above in the case of Skandia, for identifying techniques and technology that can be transplanted anywhere (Stewart, 1997, p.76 fw).

Structural capital (SC) is composed of three types of capital: Organizational, innovation and process capital. Organizational capital is the company's investment in system tools, and operating philosophy that speeds the flow of knowledge through the organization, as well as out to the supply and distribution channels. It is the systemized, packaged and codified competence of the organization as well as the systems for leveraging that capability (Edvinsson & Malone, 1997, p.35 fw).

As mentioned earlier, the structural capital belongs to the organization as a whole. It can be reproduced and shared. But also among the elements of structural capital are strategy and culture, structures and systems, organizational routines and procedures – assets that are often far more extensive and valuable than codified ones. The purpose of structural capital is first to transfer and preserve information that otherwise could be lost. Second is to connect people to data, experts and expertise in a "just in time" basis. Structural capital is, simply put, knowledge that does not go home at night. (Stewart, 1997, p.108 fw) Above all, success in managing structural Intellectual Capital depends on leadership (Stewart, 1997, p.126 fw).

According to Julio Rotemberg, an MIT economist, the first step for the companies is to realize that knowledge-based companies cannot succeed if their most important asset is under lock and key. By just hiring smart people you can't expect good things to happen. Instead investing in knowledge requires corporate systems and culture that doesn't stifle new ideas (Stewart, 1997, p.133).

Two other types of capital, that emerges from the organizational capital is, first, the innovation capital. The innovation capital refers to the renewal capability and the results of innovation in the form of protected commercial rights, intellectual property and other intangible assets and talents used to create and rapidly bring new products and services to the

market. In other words, how fast a company can change in order to protect its intellectual property and other intangible properties.

Second is the process capital which is the work processes, techniques (such as ISO 9000) and employee programmes that argument and enhance the efficiency of manufacturing or the delivery of services. It is the kind of practical knowledge used in continuous value creation (Edvinsson & Malone, 1997, p.35 fw).

3.2.3 The Multiplier Effect

According to the research presented above human capital means little if it cannot be distributed and/or incorporated within the company. There is also a need for some human capital involved to create the structures, in other words collaboration between these two capitals is needed to maximise the company's knowledge. The human capital is the source of innovation and renewal in the knowledge economy. But this doesn't necessary guarantee for that smart individuals make for smart enterprises. For example, a university is a collection of brilliant people, but not an example of collective brilliance. On the other hand, McDonald's workers have an average IQ, but the organization is quite intelligent being able to deliver the same quality cross-culturally. The first is an example of great human capital, the second of great structural capital (Stewart, 1997, p.76).

In Hubert Saint-Onge's, a leading theory developer of Intellectual Capital and also a prominent businessman, words:

> *"Human capital is what builds structural capital, but the better your structural capital, the better your human capital is likely to be"* (Edvinsson & Malone, p.35)

The conclusions to be drawn from above line of arguments are that by combining the two generates a higher degree of Intellectual Capital. It also tells us that by missing out completely in either one of them will have devastating consequences for the company's Intellectual Capital. Therefore the managers have a great responsibility in trying to create structural capital out of the human capital, to create both new private knowledge but also to make the private tacit knowledge explicit (Edvinsson & Malone, 1997, p.56 fw).

Figure 3.3: IC Multiplier
Source: Edvinsson, 2002, p111

3.3 Knowledge Management

Knowledge Management is a concept that has arisen fairly recently, and can be traced to the emergence of communication technologies such as internet, intranets and e-mail (Alvesson & Kärreman, 2001). It is a topic that is closely related to the theories of Intellectual Capital, since it highlights the importance of Intellectual Capital as more valuable than the financial capital. The link between the two topics in general is that Knowledge Management aims to find, develop and improve the Intellectual Capital of an organization. To achieve these aims, the literature of Knowledge Management mainly distinguishes two core knowledge processes: knowledge creation and knowledge transfer. The target of the processes is to enhance the potential of creating innovations that the organization can benefit from (Nonaka et al, 2001). There are a number of various understandings of what knowledge actually is and because of this, there are also many suggestions on how to manage it. A benchmark among the authors seems to be that it is much about managing people and culture, and it contains less strategic processes comparing to machine bureaucracies (Alvesson, 2004).

The practical oriented part of Knowledge Management literature focuses on the structural aspects. IT often carries a central role in the creation and transfer process, but there is much more to Knowledge Management than technology alone. IT is an instrument for making the knowledge sharing process quicker and more cost-effective, but in the whole perspective Knowledge Management is a business process (Alvesson & Kärreman, 2001). The concept can not be seen as a matter of designing large electronic libraries, but rather as a way of connecting people and think together (McDermott, 1999).

3.3.1 Knowledge

Knowledge is a complex term that is very hard to define, and there are many different understandings on how to delimit the concept. Nonaka divides knowledge into two categories, tacit and explicit. The knowledge is individually created and is transferred to the organization through dialogue. Tacit knowledge is hard to communicate, but it can be done for example by metaphors (Nonaka, 1994). Alvesson on the other hand, claim that the distinction between tacit and explicit knowledge is important, but they can not be seen as dichotomies. Hence no knowledge is entirely tacit or explicit, and it always has a subjective dimension (Alvesson, 2004, p.45 fw). Knowledge is most commonly viewed as a dynamic phenomenon in recent studies. Knowing is considered to be mediated, situated, provisional, pragmatic and contested, and is therefore an active process that is continuously changing due to various circumstances (Blackler, 1995). The fact that knowledge is dynamic calls for that it has to be seen as an ambiguous concept, thus it demands a critical way of thinking. The ambiguities are highly significant in the evaluation process of knowledge and knowledge work. Alvesson presents a clear example concerning the problem by questioning:

> *"How can anyone tell if whether a headhunting firm has found and recruited the best possible candidate or not for a certain position?"* (Alvesson, 2004, p. 67)

Alvessons standpoint is that it might have worked even better, and one can never tell if anyone else would have been more suited for the position.

Knowledge continuously has to be developed for companies to reach result and prosper. A problem that organizations are facing here is that knowledge originates and is applied in the mind of the knower. The organizations often have difficulties to profit from this, and the knowledge can easily get embedded in documents as well as in organizational routines, norms and practices (Davenport & Prusak, 1998). The various understandings and perspectives of what knowledge actually is agree on that knowledge is something we learn from different types of information, both theoretical and practical. Information is suggested to be explicit and articulated knowledge (Qureshi et al, 2006), and when knowledge is stored it becomes information (Alvesson, 2004, 45 fw).

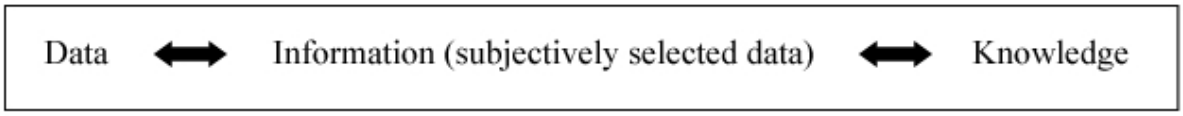

Figure 3.4: Knowledge transfer process

Source: Created by the authors of the thesis, 2006

3.3.2 The Knowledge Worker

The concept of the knowledge worker, or white-collar worker, emerged in 1959 when Drucker used the term and described it as people that work with intangible resources. Horibe defines the term knowledge worker as:

> *"People who use their heads more than their hands to produce value. They add value through their ideas, their analyses, their judgement, their syntheses and their designs"*. (Horibe, 1999, p. XI)

The title of being a knowledge worker traditionally applied to few individuals in a workforce, while it today often concerns a major part of many organizations. The knowledge worker is regarded to be a key factor for long-term success of a company (Stewart, 1997).

The ambiguity of knowledge work calls for the knowledge worker to have certain skills to be able to deal with this. Alvesson (2004, p.70 fw) discusses three ways of dealing with the ambiguities.

- Image intensity is needed to attract clients in an early stage.
- Interaction intensity is a way to achieve image intensity, and a knowledge worker can get that through good connections. If you have worked with major well known client's that can work as a trustworthiness receipt to attract other clients.
- Rhetoric intensity is needed to convince the employer that you are an efficient knowledge worker and also to convince client's that they need your services.

Good knowledge workers are usually not easy to recruit, and they can be difficult to replace, especially if they are specialised. Special skilled knowledge workers on the other hand tend to stay longer in a position than a knowledge worker with more general skills. The reason

behind this is that specific knowledge can be tightly connected to the company that provides it, whereas general knowledge has wider conditions for implementation in other firms (Becker, 1996). An important aspect about knowledge workers that organizations must contemplate is that they are to be treated as resources, not as costs. Knowledge workers are to be invested in, since Intellectual Capital is a key resource in the value creation of a firm. The aim must be to reach a mutual exchange where the knowledge worker profitably invests their Intellectual Capital in the organization, and where they in return can benefit and continue to develop (Horibe, 1999, p.22).

3.4 Developing the Knowledge Domain

Knowledge Management has, as noted before, two core knowledge processes: knowledge creation and knowledge transfer. Knowledge can be developed from existing knowledge domains to increase the knowledge depth and scope. Another option is to create new knowledge domains, both with tacit and explicit knowledge. If a company succeeds with creating new domains, they can in turn develop these in depth and scope (Von Krogh et al, 2000). As it is more and more common that organizations base their business on various forms of uniqueness, the knowledge base continuously need to be developed. There are four different strategies for working with the development of knowledge domains according to Nonaka et al (2001):

		Knowledge process	
		Transfer	Creation
Knowledge Domain	Existing	Leveraging strategy	Expanding strategy
	New	Appropriating strategy	Probing strategy

Figure 3.5: Four knowledge strategies

Source: Nonaka et al, 2001

A company that works in a rapidly changing environment needs to choose a strategy that create new knowledge, the probing strategy, rather than relying on existing competences, the leveraging strategy. This is especially highlighted in industries that can be subject to major transformation, like the telecommunication industry. Nonaka et al (2001) argues, partially after conducting a case study at Unilever, that knowledge creation, according to Nonaka, typically take place in five steps and in groups of limited size. Initially, knowledge domain members create collective tacit knowledge. This is a time consuming and difficult process, which is intended to jointly experience how other group members handle new work processes, solve tasks, interact with technologies etc. The second step is for the team to make the collective experiences explicit, through agreeing on accurate descriptions of the experiences. These descriptions are used for brainstorming purposes, to develop new products and processes. In the third phase, the new concepts becomes subject to scrutiny, thus it is matched against market data, consumer trends, economic costs, technological requirement etc. In this phase, customers and suppliers might be invited to get an objective perspective on the concept. If the concept successfully passes through, the forth step is to transform it into a prototype through the use of design tools as activity-based costing, process descriptions, historical data etc. Finally the newly created knowledge needs to be integrated in existing manufacturing, marketing and sales.

An important issue in the knowledge domain creation is to enhance the pace of innovation and minimize time slack. Key factors in this are for example leadership experiences, easily accessible databases and highly motivated individuals that take initiatives. If the process stagnate it might be efficient that these individuals are newcomers from other knowledge domains, which bring new experiences to the party. Another key to be remembered is that knowledge transfer is a mechanism to be used selectively. It is not necessary for everybody in an organization to know everything all the time (Nonaka et al, 2001). This type of intellectual asset sharing and collaboration capabilities is claimed to determine the potential value creation in an organization (Qureshi et al, 2006).

3.5 The Knowledge-Profile

The Knowledge-Profile (K-Profile), presented by Mick Cope (2000), is a framework that offers a simple but powerful system to map out, define and structure knowledge tasks.

The K-Profile is divided into three primary elements, also illustrated below in figure 3.6. (Cope, 2000, p.30 fw):

- **Knowledge stock** - Thinking of knowledge as something that can be stored at two levels; tacit and explicit.
- **Knowledge currency** - Deals with how knowledge can be acquired and offered to the market.
- **Knowledge flow** - Core dimensions as a knowledge flow framework.

***Knowledge stock*:** Knowledge stock handles knowledge as something that can be stored, either as explicit or as tacit knowledge. Explicit knowledge can be codified and readily expressed, like for example manuals, databases, books etc. Tacit knowledge is of a more informal character and is difficult to express. It exists in people's minds, experiences and predispositions. We are often not aware of our tacit knowledge fauna.

***Knowledge currency*:** Knowledge currency is divided into three different parts, which is illustrated with symbolic icons (Cope, 2000, p.34 fw).

- **Head** - Represents the thought model and the cognitive part of how we think.
- **Hand** - Indicates the acts, behaviors and physical interactions.
- **Heart** - Deals with emotions that manage us and our relationships.

The cognitive ability of the head concerns intelligence and capabilities to process information. The two head issues are the contemplations of how new ideas are acquired and how they are delivered. The hand icon represents knowledge that is often visible, describable and that can be delivered; as a manager's ability to lead a team or the organizational skills in negotiation with customers and suppliers. The heart aspect manages that knowledge can be acquired through emotional interactions and that they need to be expressed appropriately and efficiently. It can contribute to resolve situations by dealing with others in an open and honest way using skills of trustworthiness, self-confidence and political astuteness. It is important to

note that the three elements can interact with each other. The distinctions between the areas can be interpreted differently and are not offered with hard delineations.

***Knowledge flow*:** The last component in the model is divided into five stages, and when knowledge processes occur it will have to pass through any of these (Cope, 2000, p.41-42).

- Discover – The acquisition of new knowledge
- Delay – The storage of knowledge that is not being delivered to market
- Dispose – The process of letting go or unlearning
- Diffuse – Ability to enhance the value of the knowledge through sharing
- Deliver – Creating market value by selling knowledge

An important note is that these alternatives are not a de-facto standard. They should be viewed as symbols that can help to conceptualize complex matters and used as a tool to make unconscious processes conscious.

The three components, knowledge stock, knowledge currency and knowledge flow, together creates the K-Profile map. This is the total picture of the knowledge task it is intended for. The map below consists of ten knowledge areas, where particular actions is put in different areas during the process analyzed.

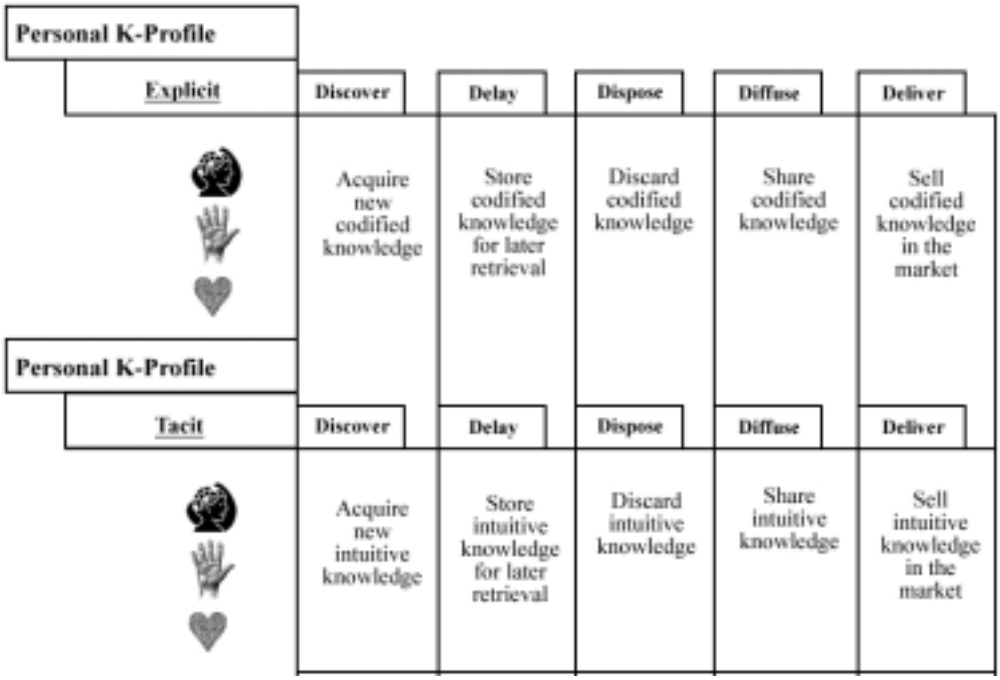

Figure 3.6: K-Profile

Source: Cope, 2000, p.130

3.6 Theoretical Summary

The theoretical framework chapter starts with the overriding Intellectual Capital theory as a part of the knowledge assets. Intellectual Capital consists of two equal parts, human- and structural capital. Human capital cannot be owned and leaves the company every night when the employees go home for the day. It consists of employee's knowledge, innovation ability, experiences etc. The Structural capital is composed out of many different types of sub-capital. In contrast to human capital it is owned by the company and consists of strategies, culture and values, databases etc. It is systemized and packaged knowledge that can be transplanted anywhere. The challenge is to build structural capital (which requires human capital) in order to keep the individual knowledge of the employees, and make it corporate knowledge that is available within the company, and also to create an environment that retain the human capital and makes it return every day. The interdependence was illustrated by the use of the IC multiplier.

Thereafter Knowledge Management theories were presented, which is closely related to Intellectual Capital theories, since it highlights the importance of non financial measures. The focus is how to enhance the knowledge creation- and transfer process. It also discusses how to store knowledge and make it accessible data. Further the chapter brings forward the consistent of knowledge, having both a tacit and explicit aspect. Both Nonaka and Alvessons views on knowledge are being presented, where Nonaka tries to make a definition and Alvesson acknowledges the need for a definition, but put forward that knowledge never is entirely tacit or explicit. After that the definition of a knowledge worker and the characteristics of such individuals are presented; image, rhetoric skills and the ability to interact are being discussed and outlined. From the discussion of knowledge creation and knowledge transfer, the creation of knowledge domains is presented. It illustrates how knowledge can be created and distributed from existing knowledge and different experiences, both explicit and tacit. Finally the knowledge-profile is presented as a tool for mapping how the organizational knowledge can be acquired, stored, selected, shared and finally offered to the market. The knowledge profile also presents an advantageous way to illustrate the explicit and tacit aspects of the knowledge process.

The keywords of the theories above are the importance of knowledge development, knowledge transfer, knowledge storing and being able to profit by knowledge. As seen, and

illustrated by the authors of the thesis below, the theories is integrated where Knowledge Management and knowledge domains are parts of the overriding Intellectual Capital theory, including equal parts of structural and human capital according to the IC multiplier. The knowledge-profile will be an important tool for illustrating and structuring the empirical material from the case study and to more easily outline and present the thoughts of the analysis.

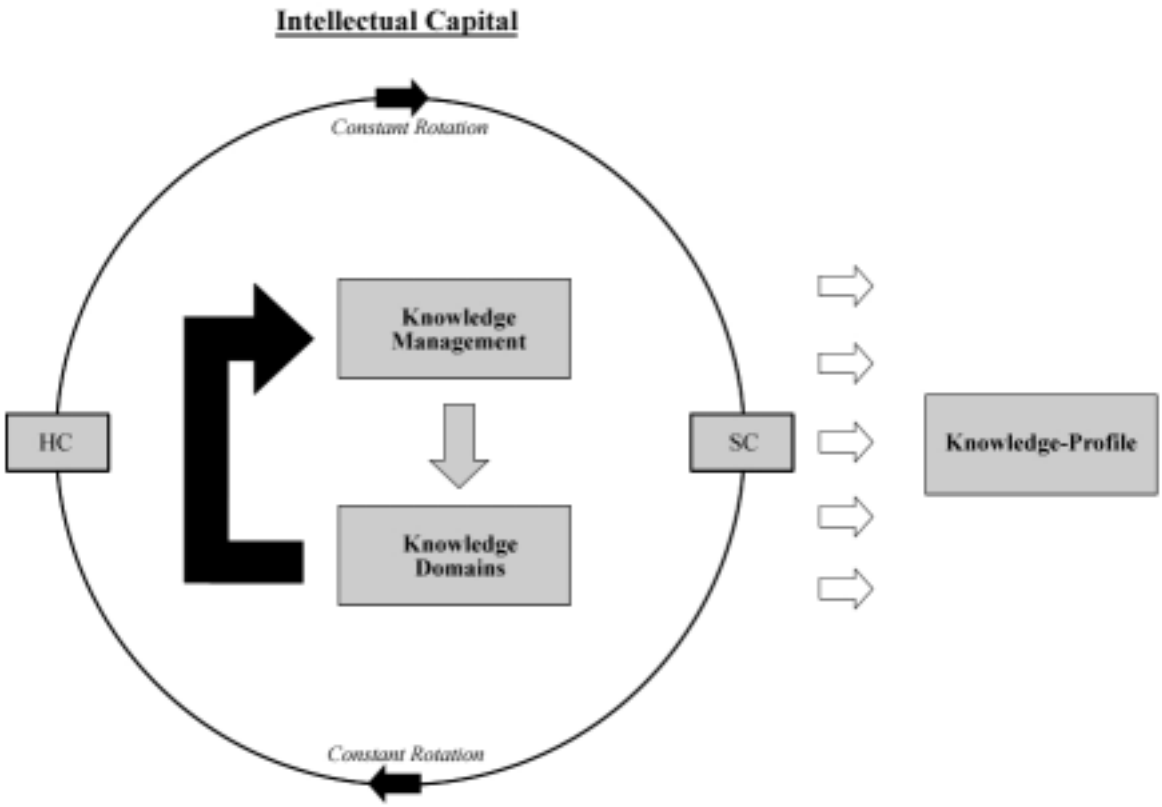

Figure 3.7: The thesis theoretical interaction

Source: Created by the authors of the thesis, 2007

4 Case Study – Ericsson

This part of the thesis aims to describe and illustrate how a larger Ltd. company can use voluntary redundancy as a restructuring tool, through conducting a case study at Ericsson in Sweden. Background to the problem, the actual process and the effects will be presented and discussed.

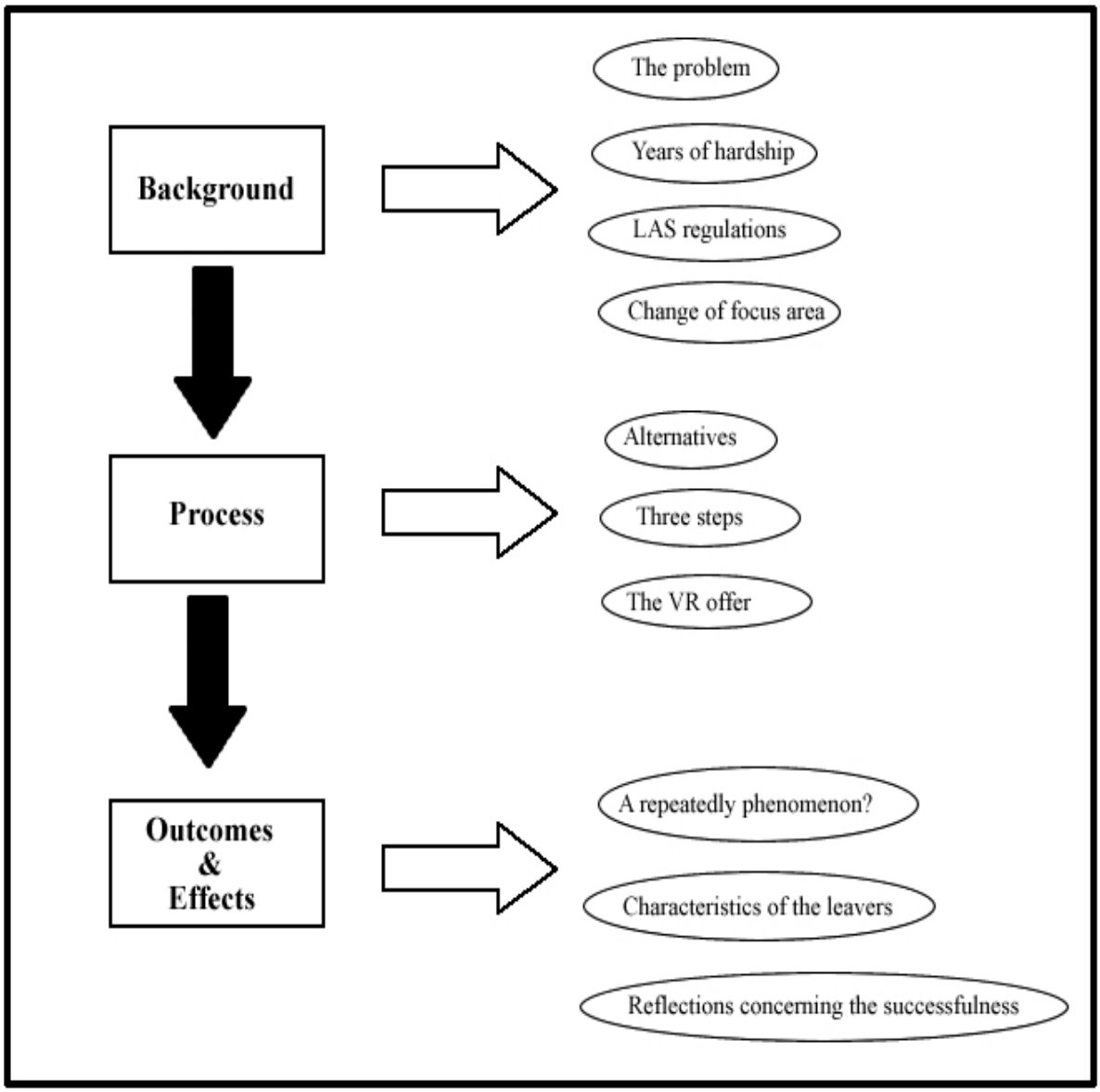

Figure 4.1: The structure of the case story

4.1 Background

*Ericsson is a world-leading provider of telecommunications equipment and related services to mobile and fixed network operators globally. Over 1,000 networks in 140 countries utilize Ericsson's network equipment and 40 percent of all mobile calls are made through Ericsson's systems. Currently Ericsson has 56 000 employees globally, out of 21 000 are stationed in Sweden. The turnover is approximately SEK 151 billions. (*Ericssons Official Site, *www.ericsson.com/ericsson/investors/, 2007-01-06)*

In the prosperous 1990's, the number of employees at Ericsson annually grew with about 20-30 percent. Between the years 2001-2003, after the IT crash occurred, the company faced some hard years with drastic downsizing and a complete stop in the recruiting process. Early retirement compensation was offered to people over 55 years old, as a way to move around LAS and to retain the newly recruited individuals with specialist competences. These actions were considered necessary for being able to survive the hardship. The outcome of the downsizing actions and the recruitment stop policy was that the middle age category got widely overrepresented, since they were the last ones that came into the organization, and no new talented young individuals were recruited. After 2001 the natural staff turnover rates dropped from five percent during the crisis, to about one percent; which is considered to be very low. When brighter times were approaching in 2003 the staff turnover remained low. The middle age category held on to their respective positions and there was no space given for recruiting newly graduated young individuals.

> *"But we are also aware of that Ericsson is a company with a strong culture where people often choose to work within for a long time, and this is something that we have taken into account. But still, we need to increase staff turnover rate."* (Mats C Andersson, interview, 2006-11-15)

The two diagrams below respectively shows the age structure of Ericsson in Sweden, and the total age structure of Ericsson world wide; before the implementation of the voluntary redundancy programme. One can clearly see that the middle age category is wider in Sweden and that the category of people younger than 30 years is underrepresented comparing to the age structure of the company in total. Ericsson aims to have the same age structure diagram in Sweden, as the one they have world wide. The reason behind this is partly that they wish to

reach continuity between countries, and partly because the age structure outside Sweden simply tends to work better. Nota bene that the diagram which illustrates the total workforce of Ericsson also includes the workforce of Sweden, thus the deviation would be larger if that diagram instead would illustrate the workforce of Ericsson outside Sweden.

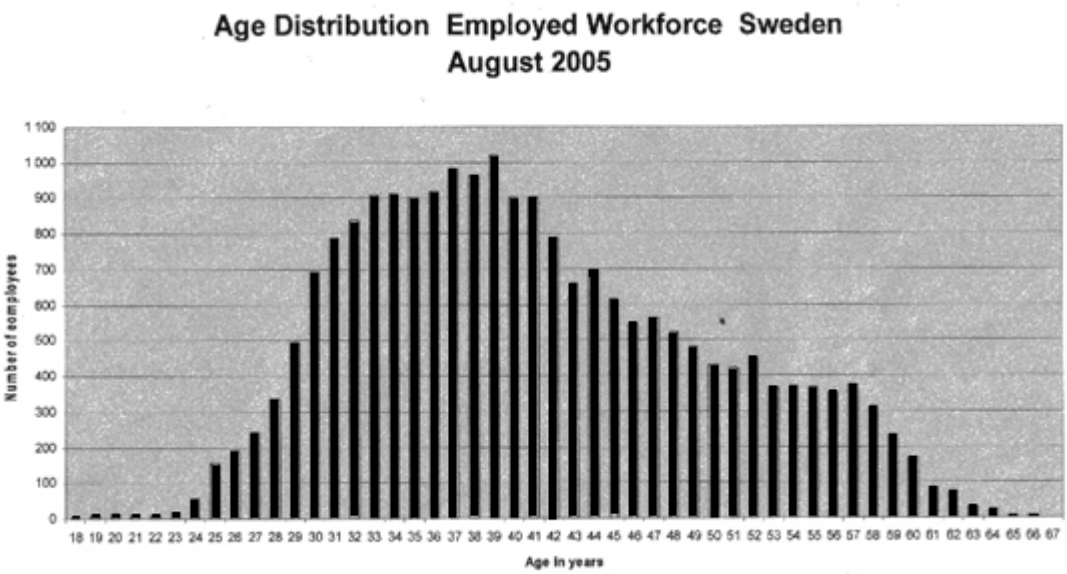

Figure 4.2: Age distribution, Ericsson Sweden

Source: Ericsson. 2006

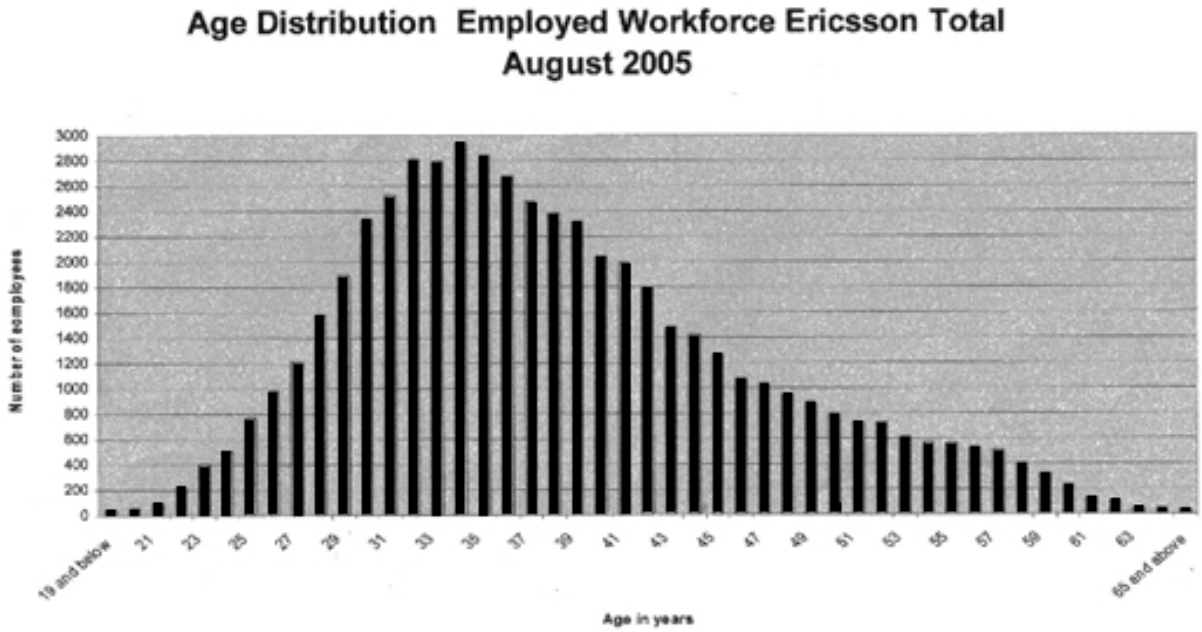

Figure 4.3: Age distribution, Ericsson total

Source: Ericsson. 2006

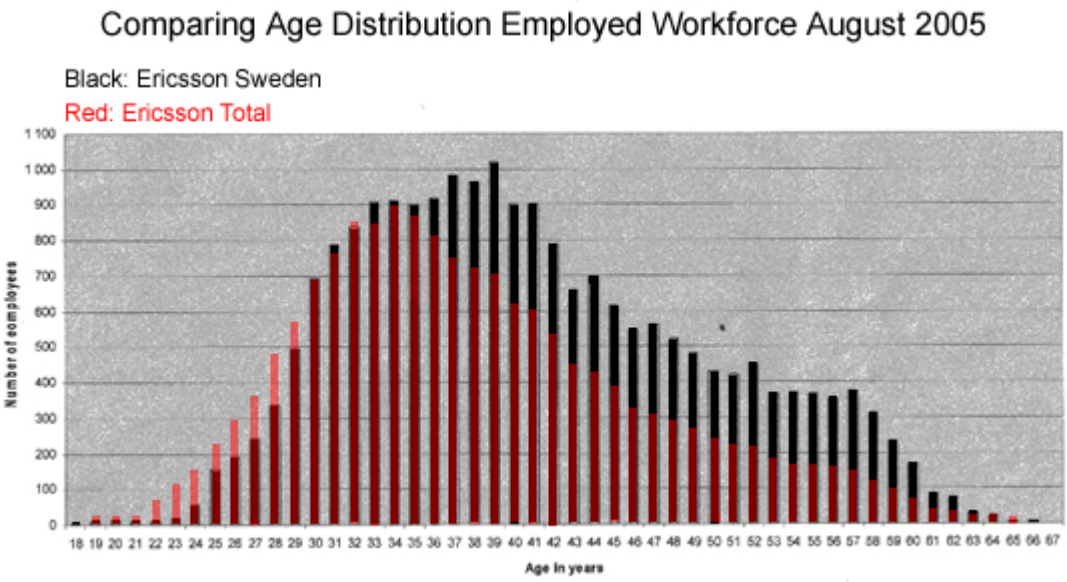

Figure 4.4: Comparing age distribution in Ericsson
Source: Ericsson. 2006, modified by Bengtsson & M Jivmark

The low rate of staff turnover that caused this deviation of age structure was also the reason that an exchange of competencies in the organization was not taking place naturally. Anna Guldstrand reflected over that the need for actions, like the voluntary redundancy programme, might be business cycle related since the implementation highly depends on the lack of natural staff turnover.

According to Mats C Andersson, the pace of technical development demanded that Ericsson needed a higher ratio of competency exchange, primarily within the research and development department. This exchange had to be achieved without increasing the headcount, hence Ericsson started contemplating their options. Anders Weihe at the Association of Swedish Engineering Industries agrees with this argument, by saying:

> *"Situations where exchange of competencies is needed arise more often these days, particularly in industries where the pace of technical development is fast."*
> (Anders Weihe, interview, 2006-11-15)

These situations where the company needs to lay off staff, and instantly recruit new ones, may be harder for the personnel to understand and accept. This perspective, together with LAS and union discussions, calls for voluntary solutions.

> *"The natural staff turnover rate is low in Sweden, because of employment regulations and cultural norms. A job hopper is considered a bit doubtful."* (Anders Weihe, interview, 2006-11-15)

4.2 The Process

4.2.1 Initial Discussions

When Ericsson first faced the task of cutting in the organization they started with a creation process within a smaller group of people addressing and problemizing the issue. The first discussion touched that the layoff would be based on the length of service in accordance with LAS. But since Ericsson had problems with the age structure, the issue was turned around 180 degrees, and they instead chose to take the age structure perspective as the primary starting point. The problem was explicitly defined through these group discussions. Age structure was not a problem in all parts of Ericsson, according to Andersson. Lund for example rather had a growth rate problem and therefore some departments of the Ericsson group where excluded. The solution to the addressed issue was to take in new people without increasing headcount. Ericsson therefore considered a few different options, suitable for favouring the current economic situation. One option was early retirement, but the downside was that this does not change the broad middle part of the age pyramid. Another option was to stimulate employees to reduce their working hours and thereby be able to release resources in order to take in new persons. This alternative was not considered to stimulate new recruitments and therefore Ericsson chose to take a different direction. The idea of a voluntary redundancy programme evolved. This would make it possible for Ericsson to change the age structure and also make new recruitments possible without increasing headcount. One of the reasons that Ericsson wanted to recruit was that this vitalize the organization. Or as Andersson metaphorically express it:

> *"Each employee that is not challenged by a younger one, ages 1,1 year in innovation capacity for each year. There is a dynamic between younger and older people. An older employee stays considerably longer if he or she is constantly being challenged by younger individuals who question working methods and generates new ideas. We felt that we were missing out on this*

> *vital part, and this was a good reason to execute the voluntary redundancy programme."* (Mats C Andersson, interview, 2006-11-15)

Andersson continue by saying that if an employee is not constantly intellectually challenged, the intellectual capacity will eventually erode.

> *"Within Ericsson this was a problem, especially when the organization until five years ago continuously recruited young talented individuals with new academic knowledge. Our current employees were not, due to the circumstances, stimulated to their full extent and this was something that we had to act upon."* (Mats C Andersson, email, 2007-01-08)

A challenge for Ericsson was to show the white collar workers that there is a world outside Ericsson. There were constant discussions with the union (CF) before the programme became officially known. Ericsson had experiences in handling dismissals, as a consequence due to the years of hardship, and there has always been some kind of package available to the redundant employees. The packages have included career change help, coaching and/or further education. The reason why CF was positive to the programme is summarized by Guldstrand:

> *"The general view is that it's so much better with voluntary redundancy programmes as a restructuring tool, than involuntary redundancy notices."* (Anna Guldstrand, interview, 2006-11-14)

Weihe did not want to give an explicit answer considering if Teknikföretagen was involved in the process of creating the programme. He says:

> *"It is the individual member of the association of Swedish engineering industries that decide if they would like to have our help in these kinds of situations. If they want an adviser they usually come to us in the initial face of the process. My understanding is that Ericsson has great confidence in us."* (Anders Weihe, interview, 2006-11-15)

The outcome was that a programme, which was both rather expensive for the company and quite surprising to everyone, was presented.

> *We could see that we had a decent economic situation, therefore we chose to launch this programme"* (Mats C Andersson, interview, 2006-11-15)

The programme was called "a voluntary career-change offer", and was offered for 17 000 employees, aiming for 1000 to leave. To be entitled to apply you had to be employed in Sweden, be between 35-50 years of age and to have been employed for at least six years at Ericsson. If the application was approved the employee received a severance payment of 12 to 18 month's salary, based on the individual employee's monthly payment. The person also received an immediate cash payment of SEK 50 000 and had the opportunity to take part in a career-shift program.

Ericsson has calculated the actual costs of the programme, but there is no calculations of income, break even, or the cost of recruiting and training new employees. Instead Ericsson chose this solution as a result of the age structure problem and due to the available financial resources.

> *"Our aim was just to put the age structure right and therefore the voluntary redundancy programme was the best solution. It's a purely strategic decision."* (Mats C Andersson, interview, 2006-11-15)

4.2.2 The Procedure

After the decision of the programme design, information was distributed via email to all the concerned employees the 24th of April. The procedure was divided into different phases. First each employee was asked to talk to their nearest manager and evaluate the offer. This was done during the spring 2006.

> *"We at CF had a great responsibility, and a mission, to prevent that nobody should feel forced to accept the programme due to any personal dissatisfaction with the employee. We made demands on the managers that this offer had to be distributed widely."* (Anna Guldstrand, interview, 2006-11-14)

Initially there were some surprise feelings within the organisation about the offer, due to lack of preparedness, hence the second phase was taken in action during the end of May and beginning of July. Ericsson arranged labour days, where many external companies were present, to show the employees "the world outside Ericsson" (Mats C Andersson). According to Andersson a few companies contacted Ericsson directly and wanted to offer the employees new positions. The third phase was to offer coaching for the employee with a manager and also promoting an offer to take part in entrepreneurship courses. The offer resulted in that many employees used the summer vacation to reflect and think about the decision. A positive consequence was that people had to make an active choice, do I want to stay at Ericsson or not? Ericsson had an increasing flow of applications in the beginning of august and therefore decided to extend the period for applying to the end of august. The initial date was planned for the 15th of august. For CF it was primarily a matter of ensuring that the programme was issued according to the agreements.

Andersson tells about another positive effect of the voluntary redundancy programme. He calls it the chanterelle theorem and is explained best in Anderssons own words;

> *"During autumn you pick the finest yellow chanterelles in one place. Next year it grows new chanterelles, not on the same spot and with a different shape, but they are still nice and fine."* (Mats C Andersson, interview, 2006-11-15)

This is a metaphor which illustrates that new conditions might help people to grow and increase the potential of taking new important roles. According to Andersson, you have to remember that almost everyone is replaceable. Even individuals that is seemingly indispensable. Ericsson however had a clause in the offer saying that key employees could be denied to accept the programme. The definition of a key person was that he/she was crucial for the development of activities both in the short- and long run.

When it comes to the recruitment process, the redundant employees will not be replaced by new ones 1 to 1, they will be recruited continuously depending on the organizational demands. The newcomers will primarily be recruited into the research & development

department to follow and lead the technical development. Anderssons reflections concerning how the training process of the new employees should take part to make them come into the organizational atmosphere, without loosing the creative and innovative thinking they bring from outside walls of the organization, is:

> *One part of the process is not to recruit single individuals into the research and development department, but instead bring them in as groups. The reason is that it's difficult to challenge the current standards and come with innovative opinions and ideas if you are new, but if you are in a group it's easier to grow and make a contribution. Even if we need a few experts, our main purpose is to recruit people below 30 years who can grow within Ericsson over the time. Therefore it's a strategic decision we have made to recruit young people to the research and development department.* (Mats C Andersson, interview, 2006-11-15)

Andersson also pinpoints that newly recruited individuals helps raising the standard of the older employees, since they both challenge and supplement each other. This is regarded as an important aspect of Ericssons further development. CF highlights a problematic aspect of this;

> *"It is not easy for newly graduates to come into the organization where certain values, believes and standards exists. This could obstruct the innovative ability and take away some of the enthusiastic creativity."* (Anna Guldstrand, interview, 2006-11-14)

4.3 Outcomes and Effects

The voluntary redundancy offer lasted until August of 2006, and because of this Ericsson can so far only see the short-term outcomes. The long-term effects that are discussed are mainly assumptions that reflect around different possibilities.

The voluntary redundancy was, in Ericsson's point of view, successful. They targeted that they needed 1000 people to leave the company, and the outcome was that 940 persons left which is 94 percent of the initial target. The characteristic tendencies of the people that left were varying and no clear pattern could be distinguished, except that women were slightly

overrepresented. The reason behind has not been elucidated. The company denied somewhere between 10 to 15 percent to leave the company which is equivalent to approximately 100-150 persons, since these were regarded as key individual workers. Ericsson never experienced any dissatisfaction among the individuals that got their application rejected, and they made sure to explain the reason behind the evaluation decision. CF reviewed every rejection case carefully and assessed if the treatment was fair and correct, and no individual case concluded with that it was not. There was however some employee reactions when the question was turned around, thus when people expected that they would not be allowed to leave, but applied to try out just how important they were. Andersson put it like this:

> *"If the response from the application is that you are not indispensable, I might come as a shock to many that believe they are irreplaceable."* (Mats C Andersson, interview, 2006-11-15)

Some of these people that got their application accepted and found out that they where not indispensable, eventually hade a change of mind and decided to stay in the company. Ericsson has at this point not taken any actions of how to manage these individuals.

4.3.1 A One-Time Occurrence or a Repeatedly Phenomenon

The voluntary redundancy programme was implemented due to the special circumstances that occurred after the years of hardship. Andersson explained that the company must adapt their actions to different situations when difficulties arise, and this is what governed their solutions. It was therefore hard to tell whether this was a one-time occurrence, or if it would be used again. According to Andersson this depends a lot on the labour market. The company will achieve their long term target if there is a natural rotation on the market. Ericsson must act on the basis of their situation; the rotation was restrained by the reason that people held on to their jobs after the hard years, afraid of leaving without finding a new job.

> *"When a problem is identified you must seek a solution to the specific situation. Prepared solution – seeking a problem, is not a good model."* (Mats C Andersson, interview, 2006-11-15)

Even though it is hard to tell whether or not the voluntary redundancy programme is a repeatedly phenomenon, there were reflections among some of the former employees concerning that, if used repeatedly, it can create expectations that voluntary redundancy is an organizational standard. The risk may be that individuals who consider changing employer sit around waiting for an offer to take, instead of instantly handing in their termination application. This in turn risks causing organizational slack, when they "who sit around waiting", lack internal motivation factors.

From the Association of Swedish Engineering Industries point of view, voluntary redundancy may perhaps be used more often in the future. One reason behind this is that the union previously had a pessimistic view, since they regarded it as a way to get around regulations. This view has partially changed, but every single case is evaluated individually. Ericson's programme was considered to be rather generous, from the CF:s perspective. Weihe meant that the use of voluntary redundancy also depends a lot on employment laws and regulations, where different countries apply different laws. Countries with more rigid employment regulations must take special designed actions, in downsizing and restructuring situations. Another aspect by Guldstrand, concerning the international relations, was that employment regulation laws differ between countries, and in some south European countries this programme would be considered as age-discriminating.

4.3.2 Characteristics of the Leavers

Ericsson evaluated which persons that could be considered as key individuals, and these were not allowed to leave with the redundancy package, but a problematic aspect for Ericsson was also to know what characterized the leavers. Was it many enterprising individuals that already found new jobs? Was it many low performing persons that were dissatisfied with their situation? Or is it restless persons that sooner or later would seek new jobs anyway? Guldstrand reflected over this by saying:

> *"In my experience it was a lot of enterprising individuals who already found new jobs that left. It might not always benefit the company, but that is a risk we must be willing to take. Another aspect that seems to characterize the leavers is that they tend to be restless people who have moved around a lot in the organization,*

> *without finding their perfect fit, and now get an opportunity to work for another company instead."* (Anna Guldstrand, interview, 2006-12-14)

Andersson agreed with this, and meant that a lot of people that left were high-performance individuals, even though not evaluated as key persons. His standpoint in this matter was the chanterelle metaphor, and that new people get the chance to grow under different conditions and in new roles. Even good workers are most often replaceable.

The former employees that have taken the offer, seems to respect the programme and felt no pressure on taking it. They did not however think that it was "the right people" that accepted the offer and left Ericsson. Some of the considerations among the former employees were that;

> *"It was enterprising individuals who already had new jobs that left. When the labour market is rather tough, it is not the mediocre ones that get new good and challenging job alternatives*." (former empl. 1, interview, 2006-11-30)

> *"Ericsson need many of the ones that left, it is possibly so that some people that remain in the company, is the ones that they need getting rid of."* (former empl. 2, interview, 2006-12-06)

Another reasoning from a former employee is that Ericsson paint themselves into a corner, since using high-performing 55 year old people in obsolete technology areas, instead of educating them in new technologies. It also seems strange that Ericsson, with 55 000 employees, cannot retain the 910 people that left and recruit 400-500 new engineers. That is hard to believe in a macroeconomic perspective, they definitely have the margins for it according to a former employee.

4.3.3 Reflections Concerning the Successfulness

Ericsson seemed satisfied with the outcome of the programme, where 940 employees left. They had confidence that they would succeed, hence they had not formulated a plan B as a backup if there would not be enough applicants. The target was to get 1000 employees to take

the redundancy option, and they received about 1050 applications. But would the programme be considered better if there were 3000 applicants, so that they could handpick 1000 to leave?

> *"In one way the programme could have been more successful with 3000 applicants, but from another point of view, what does that say about the company if they target 1000 but 3000 wants to leave? It would probably indicate that the atmosphere in the company is not what it should be."* (Anders Weihe, interview, 2006-11-15)

If there were 3000 applicants, a selection process would have been possible in a greater extent. The downside could be that there would have been 2000 employees' that would be dissatisfied, and the company would have to put a lot of effort into motivating these individuals again.

> *I am not so sure that it would have been something positive with more applications, because we almost reached our target. They who chose to leave had a higher average age than Ericsson in Sweden, which result in that we lowered the average age. I have honestly not reflected or wondered about if it would have been better with more applications. We are very pleased with the result and we are working with the employees who got their applications rejected."* (Mats C Andersson, interview, 2006-11-15)

As noted before, Ericsson was happy with the result. Beyond the satisfaction of the outcome, there were reflections that time is the most important aspect in the evaluation process. It takes time to see what the newcomers contribute with, what the leavers take with them, if the natural staff turnover remains low etc.

One employee pinpoints that a negative aspect of reducing the workforce so drastically is the loss of tacit knowledge:

> *"Ericsson may well need some of the old and more experienced employee's knowledge who could contribute with the corporate culture, ways of conducts and norms."* (former empl. 1, interview, 2006-11-30)

Altogether the actual results will first be seen within a few years, but everything has so far worked like Ericsson wished for.

4.3.4 Discussed Alternatives Within Ericsson

Discussions about alternatives were held before the implementation. An alternative from CF:s perspective would be to actively work with competency development of the current personnel through education and training. The Association of Swedish Engineering Industries, on the other hand believe that it is essentially challenging and difficult work tasks, that bring about competency development.

> *"When the union discusses competency development, they often talk about courses. I don't believe in this a bit. It is meaningless!"* (Mikael Weihe, interview, 2006-11-15)

The alternative to courses is to work with projects and competency exchange through different kinds of group discussions. The situation for Ericsson, according to Weihe, is that they have already reached very far in this matter. They have an extreme tradition in projects that crosses international borders, that is intended to result in new experiences. Due to the fact that Ericsson has reached so far here, it is hard to imagine that intense competency development work would eliminate the need for the voluntary redundancy programme.

5 Analysis

In this chapter the case study will be analyzed and discussed. Theoretical approaches to challenge the concept of voluntary redundancy will be given and connected to the empirical results. Reflections and suggestions about further research areas will be presented in the end of the chapter.

5.1 Analysis Structure

The figure below intends to provide a clear picture of this chapter. In the first phase, the voluntary redundancy case at Ericsson will be mapped out through the organizational K-Profile model, as a way to structure the process. The second phase consists of a matrix that will look at alternative ways of reaching the intended achievements of the voluntary redundancy programme, through the theoretic approaches of Intellectual Capital and Knowledge Management. These two analysis phases will be connected through a discussion in the third phase.

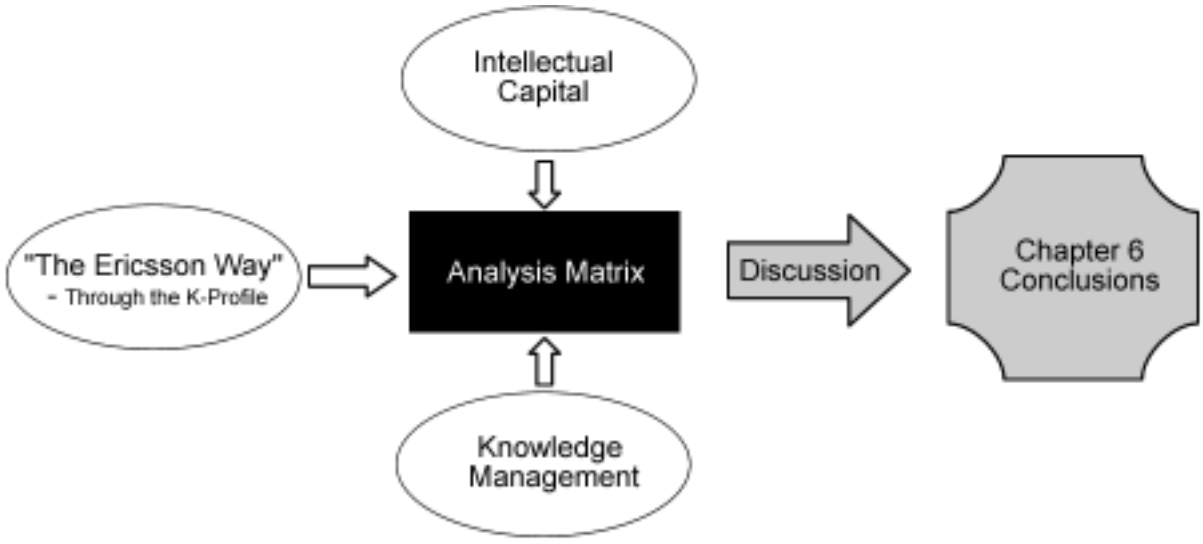

Figure 5.1: Analysis structure

5.2 The Organizational K-Profile of the VR Programme

The organizational K-Profile of the voluntary redundancy programme at Ericsson is intended to map out the knowledge aspects from the background, process and outcomes, to provide a more structured picture of the findings in the case study. The model highlights the importance of viewing both tacit and explicit thoughts, intentions and purposes. The delineations between tacit and explicit are not to be seen as strict dichotomies, as it is a

matter of interpreting the empirical findings. The model also distinguishes the intentions, actions and moral aspects of Ericsson, through the head - hand - heart classification. This together provides possibilities for analysing what actions that were taken, and considers why they were taken, both outspoken and underlying. The classifications of the model will be more thoroughly explained and motivated below according to figure 5.2.

Explicit Head: The explicit head square (figure 5.2) is the outspoken thought process, which explains the intentions and purposes with the programme. The intentions were to change the age structure, increase staff turnover and to be innovative and competitive in new technology. Ericsson also said that they wanted to retain knowledge from the redundant employees and that knowledge exchange between older and younger employees would incite the organizational performance.

Explicit Hand: This is the actions and behaviours taken by the organization, intended to fulfil the purposes and thought processes from the head square as shown in figure 5.2. To change the age structure and increase staff turnover, they implemented a voluntary redundancy programme that also bypassed LAS regulation. Every application was individually evaluated, so that employees with key competencies could be retained. Ericsson started to recruit individuals below the age of 30 to replace redundant employees. Some of the redundant employees delivered their competencies through mentorship days, for newly recruits to quickly come into the organizational thinking. Another action taken by the company was to form knowledge domain groups of new employees to inspire creative thinking and knowledge sharing.

Explicit Heart: This represents the expressed emotions and relationships that influenced Ericsson's decision making and acting during the voluntary redundancy process. Ericsson held labour days, where other organizations came and informed about how it was to work in their companies, to get people interested in applying for the programme. These labour days were intended to "show the world outside Ericsson", and encourage employees to take a step towards seeking other jobs. I can also be seen as a way for Ericsson to enhance the relationship capital with the selected companies, for future networking. The company also implemented action programmes for the key-employees that applied, but were denied to take the offer. The purpose of this was to motivate these individuals and make them understand

that they were kept because they are highly important for the company's future success. Another explicit heart feeling that made the company take actions, was to form groups of the newly recruits because they felt that it was a way to more quickly come into the organizational thinking and provide a chance to learn from internal networks. This creates an internal relationship capital effect, where the community offers a sense of belonging and a feeling of security to the new employees.

Tacit Head: The tacit head square represents the more informal and subconscious thought process that is often difficult to express. Thus the tacit squares demands a more interpreting character of the empirical findings in the case study. Ericsson hoped to vitalize the organization and that newly recruits with formal university degrees would bring new knowledge to boost the technical change of focus area. If the company succeeds with maintaining relations with the redundant employees, it could hopefully enlarge the Ericsson network, while at the same time create space for new knowledge to grow and prosper. The voluntary redundancy programme also indirectly communicates what knowledge and competencies that Ericsson appreciate for the future.

Tacit Hand: Tacit hand explains the informal acts and behaviours of the company. Ericsson wanted to maintain the good relationships towards their employees, and hoped that the voluntary redundancy offer would be considered as generous, which would lead to goodwill that would preserve the positive perception of the company. The actions that were taken towards the redundant employees, were contact details were kept and mentorship days were held, aimed to create structural capital for transferring knowledge to the new employees. Ericsson indicated that their belief was that a successful combination of new human capital and an improved structural capital would nourish the organizational innovation capability.

Tacit Heart: This represents the emotions and relationships that were difficult to express. Ericsson wanted to give their employees a chance and financial incentive to leave the "secure Ericsson" and try something that they always wanted to do, for example start their own company or to just spend more time with their families. The company knew that many well performing employees would leave, but they expressed the chantarelle metaphor; that new skilled individuals would arise, replacing the former ones. The group formation strategy of these new individuals was considered as a way to create a feeling of security and failure

acceptance – that hopefully would improve innovation possibilities. There were also hopes that a feeling of creating something unique within the group would be provided and that an "everything is possible" atmosphere would occur, where other group members would work as incentives and sounding boards.

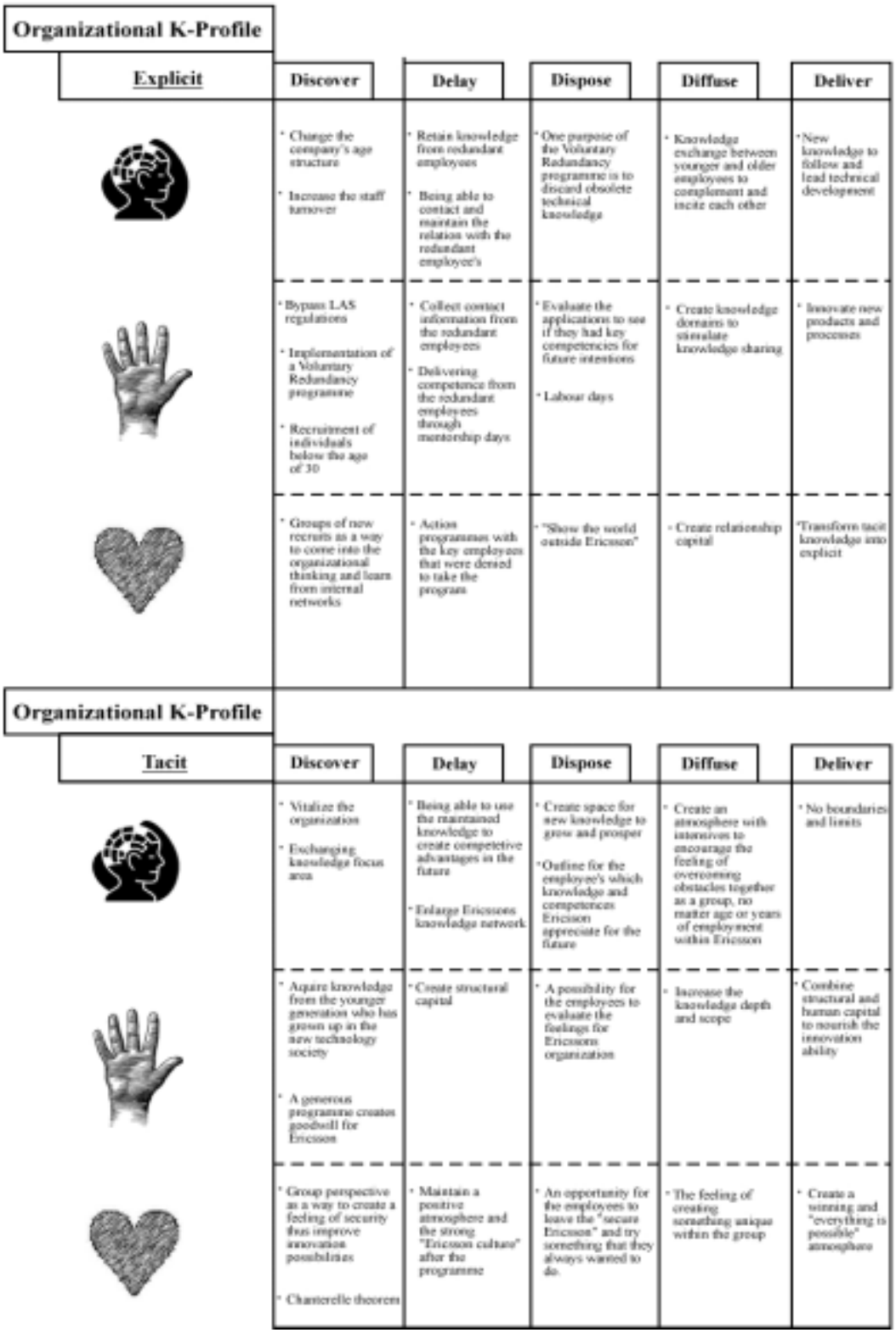

Figure 5.2: Organizational K-Profile - Ericsson

5.3 The Analysis Matrix

The analysis matrix is intended to provide an analytical overview concerning the purposes and consequences of implementing a voluntary redundancy programme as a tool for restructuring. The three perspectives that are analysed are the collected empirical material from the case study at Ericsson, and the theoretic approaches of Intellectual Capital and Knowledge Management. The matrix is a way to structure the part of the analysis that aims to fulfil the additional purpose; to challenge the concept of voluntary redundancy trough outlining alternative ways of reaching the intended achievements of the voluntary redundancy programme.

5.3.1 The Purposes

Intellectual Capital: One way to change the age structure of a large Ltd. Company, without implementing a voluntary redundancy programme could be to create internal and external loan deals, like football players are lent out to get more time on the pitch so that they can continue their individual development and gain experience. An example of a company that has created loan deals, where people were lent out to acquire new knowledge and bring this back to the company, is Honda. They lent out their technicians to formula 1 teams on a rotation basis, with the intention that the technicians would retrieve new knowledge and bring this back to the organization of Honda (Automotive News, 1999-07-05). There is no "loan deals strategy" available that is ready to implement, and therefore Ericsson would have to create and design loan deals from their own conditions and capabilities as a way of building structural capital and at the same time acquire and stimulate the human capital.

If a change of age structure is desired, like in the case of Ericsson, individuals between the ages of 35-55, could be lent out both internally and externally, and be replaced by newly graduated younger employees. When the loan periods expire, new loan deals are made, so that the company can retain the new recruits without increasing headcount. The persons that return hopefully do this with new retrieved knowledge and experiences. If using internal loan deals, younger employees could be transferred to parts of the organization where a need for rejuvenation and/or vitalization is considered necessary. The sustainability in continuously running loan deals would be greater compared to the sustainability in retrieving new knowledge by recruiting younger employees. The reason for this is that it generates a

constant flow of new knowledge and experiences that can be shared and contribute to a increased co creation within the company.

A loan deal strategy requires a well developed structural capital that can profit from the new knowledge brought in, from both new recruits and people that return from loan deals. The structural capital also becomes highly important, since this type of strategy must be able to make new employees come into the organizational thinking quickly and efficiently, so that they can perform without long introduction periods. Human capital means little if it cannot be distributed and incorporated within the company. This stresses the importance of the IC-multiplier; the structural capital must provide possibilities to profit from the boost of human capital, if not – the human capital will erode.

Knowledge Management: The theoretical approach of Knowledge Management does not provide any direct examples of how a change of age structure in a workforce can be achieved. It does however present opportunities to discuss the purpose of retrieving new knowledge, since this is connected to the two core processes of Knowledge Management: knowledge creation and knowledge transfer. The knowledge domain model by Nonaka provides practical oriented examples of how the retrieving of new knowledge can be conducted in a larger Ltd. Company. When assembling brain storming groups, a careful selection process of individuals must take part. These can be selected from different parts of the organization, and perhaps from outside the organization as well. What can be considered as a problem with these kinds of activities is the difficulty in measuring the concrete output of it. The second phase in the creation of knowledge domains, that is intended to make tacit knowledge explicit, provides better possibilities for measuring the output. Possible measurements can be how many of these descriptions that are used for new brainstorming purposes, and how they contribute to the development of new products and processes.

Voluntary redundancy; "The Ericsson Way": The voluntary redundancy programme that was implemented by Ericsson provided possibilities to isolate the task of changing the age structure, without affecting other organizational elements and standards, like structures, procedures and design. This makes it a specific and time-efficient tool, which does not interfere with the company's dominant logic. The recruitment of newly graduates that has grown up with and have been educated in the technological society, contributes with

knowledge from their generation. “The Ericsson way” was also considered to reduce the risk for old values and beliefs to restrain new thoughts and ideas, due to the newly recruits ambition to perform.

5.3.2 The Consequences

Intellectual Capital: Internal and external knowledge exchange in the form of loan deals does not interfere with LAS regulations. This type of strategy must be clearly communicated within the company to avoid misunderstandings and to signal the dynamics of the organizational structure to the employees. If the company succeeds in this strategy matter, it might bring positive comprehensions regarding opportunities for developing new knowledge. The intention of a loan deal when it is offered to an employee is that it should be experienced as an opportunity for personal development, not as a feeling of punishment or worries about low individual performance. The economic aspect of creating loan deal strategies and implementing efficient structural capital, which manages the human capital that is both lent out and brought in, is difficult to estimate due to the focus of this study. A supposition can be that implementing an Intellectual Capital approach throughout the organization is a long term strategy that costs more to implement than to maintain, since the implementation might demand major changes in organizational structures. In reality it demands fundamental organizational studies and calculations that will vary from case to case.

In the discussion about the long term sustainable advantage of a voluntary redundancy programme, a metaphor is presented that it risks working as a pain-reliever; it cures the symptoms for the moment, but does not necessarily deal with the core issues permanently. An Intellectual Capital approach in this matter is that the structural capital can profit from new knowledge and retain current organizational knowledge in the long run. A loan deal strategy is to be seen as an ongoing process that continuously inspires the human capital knowledge flow. The acquired human capital can, in accordance to the IC-multiplier, contribute to construct and develop the company’s structural capital. Another aspect that argues Intellectual Capital to be a sustainable advantage is that it is hard to replicate complex organizational structures and processes, while a voluntary redundancy programme is easily replicated. A downside here might be that when human capital is transformed into structural capital, it becomes easier to replicate than if it would stay in people’s minds. It can on the other hand in some extension still be protected by i.e. patents and copyrights.

It can be hard for a company to lead every aspect of technical innovation in broad businesses like for example telecommunication. It is possible that they must focus on leading specific parts, and closely follow the competitors in other parts, so that they can lead were they intend to lead and not slip behind were they intend to follow. For a company to conquer a lead position in technical innovation, it needs high quality human capital and well developed structural capital to stimulate the innovation processes. Personal experience is recognized as important, however collective corporate experience is sometimes overlooked. The ability to recall and remember what is needed when it is needed is crucial for supporting the company's business without preventing innovation. It is a challenge to systemize these experiences to create structural capital and thereafter transform the codified learning's and organizational structures into explicit knowledge. An advantage can be reached if the structural capital can combine the profiting of new knowledge with past experiences, so that the organization can learn from old successes and mistakes.

Knowledge Management:

Knowledge strategies might create positive expectations for the employees in matter of knowledge exchange and being a part of the knowledge creating process. For this to occur, the knowledge strategies must be widely communicated throughout the organization and clear guidelines of what processes that takes part must be given. The aim that is intended to be achieved for a sustainable advantage is to create a new attitude towards knowledge that permeates the organization and that every employee wants to be a part of. A difficulty with knowledge strategies that is discussed in the theories is that the organization and its employees must be aware of that knowledge always has a subjective side. This argument calls for a continuous critical thinking when tacit knowledge is made explicit and when knowledge is stored. When knowledge is stored it becomes data and there is always a risk that important details are missed out during the storage process. Knowledge Management theories also discuss the problematic with specific versus general knowledge. Special skilled knowledge workers tend to stay longer in a position than a knowledge worker with more general skills, since specific knowledge is often more tightly bound and adapted to organizational standards, whereas general knowledge is easier to find. This argument highlights the difficulties during recruitment processes, like for example the recruitment in Ericsson after the voluntary redundancy programme. They are looking to employ people mainly in research and

development departments where specific knowledge often is needed. The Knowledge Management aspect of stored knowledge is that data does not itself have an intrinsic value and therefore puts high demand on the capabilities of the users, hence Ericsson has to recruit individuals that are considered to have potential for developing key capabilities for intended tasks. This can be a difficult and time consuming process that the company might have to put a lot of effort into.

A company that aims to lead and/or follow technical innovation must develop and adopt efficient knowledge creating strategies. If the company acts in a rapidly changing business environment, like the telecommunication industry, they need to apply strategies that create new knowledge rather than rely on existing knowledge and competences. In Nonakas knowledge domain model it is suggested that an actor in industries that can be subject to major transformations, should aim to develop a probing strategy for being able to increase innovation capabilities and conquer a lead position in technical innovation. The probing strategy occurs in new knowledge domains and creates new knowledge processes. The opposite is the leveraging strategy that occurs in existing knowledge domains and transfer knowledge processes. This strategy can be sufficient in parts where a company intends to closely follow the innovation rate of their competitors. In the creation of new knowledge domains, a careful selection process of its members must occur, and clear guidelines combined with little boundaries for the knowledge to flow must be given. The economic costs of implementing these kinds of work processes and knowledge thinking throughout an organization are difficult to estimate due to the focus of this thesis. Similar to the Intellectual Capital consequence approach, it demands fundamental organizational studies and calculations that will vary from case to case.

Voluntary redundancy; "The Ericsson Way": In earlier academic research about voluntary redundancy, it has been found that expectations of voluntary redundancy as an organizational standard has arisen among the employees. Expectations like these may risk leading to organizational "slack", when employees sit around waiting for an offer to take, instead of giving notice to quit when they originally intended to. This is not yet evident in the case of Ericsson, since only a short time has passed since the programme was implemented. It is however an aspect that can be of interest in future research and evaluation processes.

In the situation which Ericsson faced, where one purpose was to change the age structure, the voluntary redundancy programme provided a way to work around LAS regulations, since the union evaluated the offer as both voluntary and general. A risk with the programme that needs to be considered is that it might work as a pain reliever; it cures the symptoms temporarily, but does not necessarily deal with the core issues permanently. An example of this can be the natural staff turnover cycle at the market. Ericsson wanted to increase staff turnover, for being able to recruit new young individuals and by this change the age structure. The staff turnover at Ericsson highly depends on the natural staff turnover at the market. If new jobs are created at the market, a job movement will occur and this will increase the natural turnover. If the natural staff turnover on the market increases - the programme can be considered as successful from Ericsson's view of intended purposes, if it on the other hand remains low - it might create a need for new voluntary redundancy programme. An issue that can affect the long term sustainable advantage in relation to the competitors is that a voluntary redundancy programme can easily be replicated. Another actor on the market with the financial assets required can implement a similar programme if they would aim to achieve the same effect.

The programme was considered as a positive boost for the organization, when new young employees that have been brought up and educated in the new technology society, could contribute with new knowledge. Ericssons hope for the future is that this new knowledge will contribute to strengthen the position in technical development and take a lead position in new technology areas. It will on the other hand also put high demands on the structural capital to store the redundant employees' knowledge, so that the organization can learn from past experiences and avoid old mistakes being repeated. If the company would fail to transform the redundant employees' knowledge into structural capital before they leave it may create a human capital vacuum, and evidentially it might evolve a need for rehiring the leavers. This is a phenomenon that has been seen in earlier conducted academic research, and the case study show little evident that preventing actions have been taken, and can therefore be an issue to contemplate.

The economic consequences of the severance pay offered with the voluntary redundancy programme which Ericsson took in consideration, were a one time implementation cost that was easy to estimate. They calculated the cost as the average number of monthly salaries for the redundant employees + 50 000 SEK (the initial cash payment) x number of employees

that took the offer. An approximation in numerical terms where the assumption is that the average salary for the redundant employees are SEK 40 000, excluding the employers- and social fees which adds 40%, and an average severance payment of 15 months, the estimated total sum would be: (((40 000 * 1,40) * 940) * 15) + (50 000 * 940) = SEK 836 600 000. The cost of the voluntary redundancy programme constitutes, in relation to the total revenue of 2005 which was 24.46 billions, to (836 600 000/24 500 000 000) = 3,41%.

Above this Ericsson took consideration to the cost of the career-change programmes, start-your-own courses and the labour days that were offered to the employees. Ericsson had the financial resources for this voluntary redundancy offer, and it was mentioned as a purely strategic decision. The top-managers involved in the decision making might have preferred a solution like this, since cost-estimations with numerical "hard facts" were provided. A warning signal that is worth noticing here is the difficulties to calculate and estimate the long term costs and effects of the programme. Examples of essential long term-costs and effects that might occur is the cost for recruiting and training of new employees, the need for superior performance among the new employees, the cost of storing redundant employees knowledge and the possibility that new voluntary redundancy programmes will be needed if the staff turnover remains low. These costs can be labelled as the "realignment cost". An estimation would have to include the drop of contribution margin, recruiting and training costs, the drop of motivation, the lower pace of the new employees as well as delaying the experienced employees. It is quite difficult to derive which figures that has to be taken into count, and which to exclude when the programme only constitutes for a part of the organisations employees. However, the headquarter and the main functions are in Sweden, and therefore we choose to count on the total turnover.

If we assume that Ericsson would recruit an equal amount of employees as the number that left, and that the contribution margin is twice the salary of each employee (40 000 * 2 = 80 000), the recruitment cost is SEK 200 000, and it is acknowledged as a rule of thumb that the organizational pace drops during the restructuring months with 5% due to speculations in the office about who will stay or not, the slower pace of the new employees effects the experienced employees etc. (turnover 151 800 000 000/ 12 months * 4 months = 50 600 000 000 * 5% cost of the organizational pace drop = 2 530 000 000). The estimated total sum would be: (((80 000 * 940) * 4) + (200 000 * 940) + 2 530 000 000) = SEK 3 018 800 000.

The figures show that the hidden cost of the programme is almost four times higher than the direct costs. With these costs in mind the total cost of the programme, in relation to the total revenue of 2005, would be (836 600 000 + 3 018 800 000/24 500 000 000) = 15.73%

Analysis Matrix

Purpose	Intellectual Capital	Knowledge Management	VR "the Ericsson Way"
Change age structure	Create internal & external loan-deals where employees are lent out with possibilities to aquire new human capital and are being replaced by younger employees		Provide possibilities for a specific change of the age structure, isolates the task without affecting organizational design
Retrive new knowledge	Loan-deals can contribute with retrieving new knowledge Create structural capital that stimulate and make use of internal knowledge transfer	Brain storming group discussions to create collective tacit knowledge Knowledge domains can contribute to make tacit knowledge explicit	Allows newly recruits to contribute with the knowledge from a new generation Reduces the risk for old values and believes to restrain new thoughts and ideas
Consequences			
Organizational expectations	May create expectations on the organization in terms of opportunities to develop new knowledge Signal the dynamics of the organizational structure to the employees	May create expectations on the organization in matter of knowledge exchange and being apart of the knowledge creating process	May create expectations that Voluntary Redundancy is an organizational standard. Which in turn risk leading to organizational slack when employees sit around waiting for another offer to take.
Handling LAS	Loan-deals does not interfere with LAS-regulations	Does not manage LAS regulations, due to the reason that KM does not handle age structure changes	Voluntary Redundancy works around LAS-regulations, since it is a voluntary and general offer
Long-term sustainable advantage?	IC theory does not only cure the symptoms, it also deals with the core issue Difficult to replicate organizational structures and processes Can be a risk when human capital is transformed into structural capital; when knowledge is stored it is easier to replicate	Knowledge always has a subjective side when tacit knowledge is made explicit, it becomes data. A risk is that important knowledge details is missed out on during the storage process Creates a new attitude towards knowledge within the organization	If natural staff turnover on ther market increases, the programme can be regarded as successful, if not - it may create a need for new VR programs. A risk with the VR programme is that it cures the symptoms for the moment, but does not necessarily deal with the core issues permanently A VR programme is easy to replicate
Follow and lead technical innovation	Demands well developed human and structural capital to stimulate the innovation process and to avoid old knowledge being recycled A possible advantage can be the experiences within the company and the challenge is to combine them with new knowledge, to avoid making old mistakes	Data does not have an intrinsic value, therefore it puts high demands on the users capabilities If the probing strategy is developed through knowledge domains, it increases the innovation capability	A positive boost for the organization to retrieve young employees, educated and brought up in the new technology, who can make a different contribution Puts high demands on the structural capital to store the redundant employees knowledge before they leave the company
Economical consequences	Difficult to measure the costs of implementing and maintaining an intellectual capital approach throughout the organization	Difficult to measure the costs of implementing and maintaining a knowledge management approach throughout the organization	One implementation cost that is easy to estimate Ericsson has not calculated/estimated the long term costs/effects of the Voluntary Redundancy programme

Figure 5.3: Analysis Matrix

5.4 Discussion

When Ericsson decided to implement the voluntary redundancy programme, there was probably some presence of uncertainty avoidance involved in the decision making. The voluntary redundancy programme could be regarded as being of a more explicit character, where the overriding consequences were easier to present and understand, comparing the estimation of recourses and time needed to work with Knowledge Management or the creation of structural capital. Even though it can be considered as hard to measure the actual output of any of these three, it is still easier to choose a solution where the implementation cost can be measured. The empirical findings together with the analysis, on the other hand highlights that there are many more questions that calls for contemplation before a voluntary redundancy programme is implemented as a tool for organizational restructuring. What are the fundamental purposes that is intended to be achieved, and what alternative ways are there to fulfil these purposes? What would the alternatives have been if the programme would not worked out as thought? Is the voluntary redundancy programme just a single pain reliever, rather than a long lasting vaccine?

Mats C Andersson said in the interview that;

> *"When a problem is identified you must seek a solution to the specific situation. Prepared solution – seeking a problem, is not a good model."*

Ericsson had identified a problem and they had the financial resources needed to implement the voluntary redundancy programme. The problem was the age structure and that was a perfect match with the solution that they came up with. In this case Ericsson did not discuss any specific actions to undertake if the programme would not work as planned. The programme was, according to Ericsson, a purely strategic decision as a consequence of the years of hardship and the LAS regulations. Another approach that perhaps would have been more suitable, and that also would provide more than one alternative, could be to identify the underlying circumstances that caused the problem and come up with different solutions to handle the core issues. The different solutions could then be balanced and compared against each other to identify the strength and weaknesses.

The theories have a great deal in common with the voluntary redundancy programme concerning the ability to fulfil the purposes, but also great differences regarding how to achieve them. While Intellectual Capital and Knowledge Management focus on transferring, storing and retrieving new knowledge, "the Ericsson way" is more a tool for changing the age structure and retrieving new knowledge, without contemplating on storing the knowledge that left the company.

The outcomes of undertaking any of the strategies has, as illustrated in the matrix, huge differences in terms of sustainability over time as well as the organizational and economical consequences. The voluntary redundancy programme, or "the Ericsson way", does not principally interfere with the present organizational design within Ericsson. However, it is impossible to ignore the facts that that the organizational culture changes, new expectations arise and different values are being communicated within the company. Attention also has to be attracted to the different lookouts concerning the lasting effects of the programme over time.

To undertake the changes by implementing Knowledge Management or Intellectual Capital theory would have a much greater impact on the way of conducts and the organizational philosophy, as well as the organizational design. A changing process is needed that would have to include a new way of thinking, where visualising and futurizing would be key components. However, one should remember that Knowledge Management could not handle the desired purpose of changing the age structure; maybe it could not even prevent further age structure problems. No matter if the employees are sharing knowledge and are being challenged by younger employees to thereby become mentally younger, the age structure chart would not change. And in this specific situation, the diagram concerning the age structure seems to have been the basic data and the reason behind the decision making.

Ericsson labelled the voluntary redundancy programme as successful, based on the fact that they targeted 1000 persons to leave, and the outcome was that 940 left. But the answer to the question if the programme was successful probably depends on who you ask. We can bring to memory what one of the former employees said about the process, that it seems strange in a macro economic perspective that Ericsson with 55 000 employees cannot retain the 940 people that left, meanwhile recruiting 400-500 new engineers. The answer can also depend on

what perspective you put it in and what it is compared to. It could, in theory, for example be compared to the Intellectual Capital approach of this thesis and build structural capital, or as the former employee's example above; retain the people that left meanwhile recruiting new engineers. To conduct these comparisons is difficult, due to the lack of earlier research since voluntary redundancy as an intended tool for restructuring is a new phenomenon, but it is worth to highlight the ambiguity in the answer to the question - if the programme was successful or not.

Uncertainty avoidance can be a critical aspect when contemplating strategies. The voluntary redundancy programme allowed Ericsson to handle the problem without attracting too much risk, at least not in the short run. The long-term consequences and effects are more difficult to predict. One possible risk could be that informal leaders with key knowledge is redundant or that ambitious people that have already found new jobs leaves. The Intellectual Capital theory highlights this situation and indicates the importance of transforming the redundant human capital into structural capital. Another possible risk that can eventually occur is the need for new voluntary redundancy programmes if the staff turnover remains low. Repeatedly programmes can create expectations that voluntary redundancy offers is an organizational standard. An effect of this can be organizational slack, when people sit around waiting for an offer to take, instead of giving notice when initially intended. This discussion discharges into the importance of time aspect when evaluating the successfulness and the long term effects. The case study at Ericsson was undertaken two and a half month after the completion of the programme, which can be regarded as too short of time to view the actual outcomes and effects. This highlights the need for further research on the concept of voluntary redundancy as a tool for organizational restructuring.

As discussed above, the long term effects can be questioned. However one can assume that a programme which only exchanges the employees within the organization, without changing the managerial or organizational philosophy risks facing a similar problem within the future. Another aspect could be that the short term performance targets dominate the standards of Ltd. companies. Implementing an Intellectual Capital approach to the problem may attract more risk for the current management, due to the short term performance targets and the stock market's demands on profitability. The output of the Intellectual Capital solution might be possible to measure first after a few years, and this might not be agreeable with these short

term performance targets. One could speculate if the solution would have been different in a private limited company

We believe that the voluntary redundancy programme is an effect of the prosperity, growth and dominant logic within Ericsson. However, if Ericsson regard the voluntary redundancy programme as a long term solution of the age structure problem, and only calculated on the cost of the severance pay offered in the programme in relation to the yearly revenue which is a rather reasonable cost of 3.41%, but if the realignment cost is taken into count the cost constitutes for 15.73% which is a rather expensive programme. For example, it would allow Ericcson to spend SEK 4.1 millions on each redundant employee in development courses and education, or creating loan deals. However, the programme allows Ericsson to postpone the fundamental and organizational problems, and to continue focusing on growth and expansion. Perhaps it will call for structural changes when the time is different.

6 Conclusions

In this chapter the conclusions of the case study and the challenge of the concept voluntary redundancy is presented. First there will be a result discussion where the empirical findings and analytical thoughts are being discussed and related to the theoretical framework. Finally we present ideas for further research areas based upon the findings of this thesis, and also areas that are excluded due to the focus of this thesis.

6.1 Result Discussion

After the case study was conducted, where we according to our main purpose described and illustrated how a larger Ltd. company can use voluntary redundancy as a tool for restructuring, we used the empirical findings to manage our additional purpose. To be able to challenge the concept of voluntary redundancy, as stated in the additional purpose, we have presented knowledge asset theories which provide opportunities to fulfil the intended organizational purposes of the voluntary redundancy programme within Ericsson.

Intellectual Capital theory and the voluntary redundancy program both handle Ericssons intended purposes. Regarding the long term effects, the empirical findings indicate that external circumstances affect the sustainability of the age structure changes. If the natural staff turnover on the market increases, the programme could have a long lasting effect on the age structure. However, the connection between the outcomes of the case study and the additional purpose to challenge the concept of voluntary redundancy indicates that Ericsson implemented a decision without actually penetrating the core issues and the alternatives. Due to the defective problem analysis, the focus for Ericsson was to change the age structure in order to retrieve new knowledge (human capital). However, Ericsson did not focus sufficiently enough on building the structural capital needed to maintain the redundant employees knowledge, but also in order to take advantage of and maintain the newly acquired knowledge. In other words the new human capital will eventually erode due to the lack of structural capital. A latent problem would arise if the natural staff turnover on the market remains low. If this would occur, the voluntary redundancy programme could be considered as a temporary pain reliever that calls for new programmes to be offered. In contrast, if the natural staff turnover increases on the market, Ericsson might to some extent be able to compensate the lack of structural capital with increasing flow of new human capital to maintain the Intellectual Capital. However, a question that arises is how much greater the Intellectual Capital would have been if structural capital was created in order to achieve the

multiplier effect. Another latent effect that is worth to highlight is the company's dependence on the human capital. Ericsson should focus on transferring the human capital into structural capital and integrate it to possessed corporate knowledge, which will decrease the dependence of the individual employee. This highlights the importance of the connection between human- and structural capital to increase the value of the employees in an organizational perspective.

The sustainability of the changes, according to the Intellectual Capital theory, could be considered as greater compared to the voluntary redundancy programme. This also implements a new way of thinking that permeates the organization where knowledge is created, transferred, converted into data and stored. However, the requirements in resources as well as time and efforts to construct loan deals and structural capital are difficult to estimate. This together with the fact that Intellectual Capital theory have consequences on the organizational design, as well as on the organizational philosophy, might have been one of the reasons why Intellectual Capital was not considered for implementation. Sometimes it is much more efficient and convenient in a short perspective to have a pain reliever, rather then to find and remedy the actual underlying problem. However, there is no question that voluntary redundancy, in the way it has been used in this case, can be a very efficient way of restructuring an organization without interfering with LAS regulations; the question at which price?

At first glance, Ericson's solution to the problem seemed to be rather rational. However, after looking deeper into the problem and contemplating the cost of the programme, which constitutes for 15.73% of 2005 years revenue, and the purposes and alternatives - several questions that were discussed above, arose. These questions were an outcome of the fact that Ericsson had not questioned themselves sufficiently. They could have gone through an analytical phase before the implementation process begun, by asking:

- Why is the age structure really a problem?
- What is the actual reason behind the problem?
- Why choose the solution to bring in new human capital to the organization?
- What suggest that the voluntary redundancy programme is the best solution?
- What indicates that the voluntary redundancy programme should be long-term sustainable?

It tends to feel like Ericsson has chosen an easy solution to a difficult problem, a solution that makes it possible for Ericsson to avoid challenging the dominant logic. However, we believe that the dominant logic within Ericsson need to be challenged, a square ball cannot roll over by itself due to the fundamental problem. You can always make it roll by taking actions, but to prevent it from stopping you have to make it round. It is the same with Ericssons phenomenon. This thesis stresses the importance of challenging and eventually changing the dominant logic within Ericsson, otherwise the programme is just a pain reliever, a rather expensive one, due to the lack of fundamental changes and preventive actions. However, time will tell whether the voluntary redundancy programme is optimal and sustainable, something that this thesis highlights the ambiguity in.

6.2 Further Research Fields

There is not much earlier research conducted about voluntary redundancy, hence there is an abundance of different fields and perspectives for undertaking studies. From the perspective of this thesis, other possible topics for further research could be to perform case studies in other organizations, since this study does not generalize the results, and also to undertake a new case study at Ericsson in a few years to study the long-term outcomes and effects. Another topic could be to concentrate on the influence of LAS. Would the phenomenon of voluntary redundancy as a tool for restructuring occur if LAS would not exist, or if it was changed? Can similarities and/or differences be found in other countries, and can this be traced back and compared to the Swedish LAS regulations?

Ericsson calculated the direct financial cost of implementing the programme in terms of financial compensations to the employees, but there are many more ways to measure the costs of using voluntary redundancy. Possible financial approaches could calculate the actual cost in a wider perspective and take count of costs for recruitment processes, training of new employees and measuring the performance compared to the redundant employees in a more accurate way then done in this thesis.

Studying voluntary redundancy for restructuring purposes from the employees' point of view would provide other approaches, like what expectations it might put on the organization, what these possible expectations might result in and if it is common that the organization needs to rehire redundant employees to regain knowledge in the longer perspective? All the

suggested research topics above could also be seen from the perspective of using voluntary redundancy in downsizing situations, which perhaps would result in different outcomes.

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7.4 Other sources

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Professor Christer Kedström, personal communication

Appendix I – Gallery of Interviewees

Mats C Andersson
Date of interview: 2006-11-15
Interview method: Live interview, Ericsson, Kista
Date of interview 2: 2007-01-08
Interview method: E-mail
Position: Responsible for the design and layout of the voluntary redundancy programme. Also responsible for global union relations and employment conditions.

Anna Guldstrand
Date of interview 1: 2006-11-16
Interview method: Live interview, Ericsson, Kista
Date of interview 2: 2006-12-14
Interview method: Telephone interview
Position: Deputy Director and knowledge manager, spends 25 % as union representative.

Anders Weihe
Date of interview: 2006-11-16
Interview method: Live interview, Teknikföretagen, Stockholm
Position: Chief legal adviser of employer issues.

Former Employee 1
Date of interview: 2006-11-30
Interview method: Telephone interview
Position: Former employee at Ericsson – Product Manager

Former Employee 2
Date of interview: 2006-12-07
Interview method: Telephone interview
Position: Former employee at Ericsson – Price Manager

Former Employee 3
Date of interview: 2006-12-18
Interview method: Telephone interview
Position: Former employee at Ericsson – Controller

Appendix II – Interview Guide

Interview Ericsson:

Name:
Position:
Professional background:

1. What was the background to the decision that lead to the voluntary redundancy offer? From where did the question arise?

2. From where did Ericsson get the idea and inspiration of using voluntary redundancy as a tool for restructuring?

3. Tell us about the process and the implementation

4. What was the purpose of using the programme?

5. How did you conduct the individual evaluation process, and what criterions were used to assess the individuals?

6. How many applications were handed in, and how many did leave Ericsson? What conclusions can be drawn out of this?

7. What would Ericsson have done if there were too few applicants?

8. What differences are there between the personal profiles of the ones that left comparing to the ones that Ericsson intends to recruit?

9. How does Ericsson intend to get the newly recruited individuals into the company in an efficient way, without harming their "out of company" creativity and innovative thinking, which they brought with them?

10. How does Ericsson measure the outcomes of the programme, and when does Ericsson calculate to reach break-even?

11. Is the programme a one-time occurrence or is it a repeatedly phenomenon, that Ericsson intends to use again?

12. What possible expectations can occur in the organization, following the voluntary redundancy programme?

13. Was alternative ways to fulfil the purpose discussed?

14. Would the programme be considered to have a better outcome if there would have been 3000 that applied for the redundancy offer instead of 1000?

Interview CF:

Name:
Position:
Professional background:

1. What does CF regard about the programme at Ericsson?
2. What was the purpose of implementing the programme concerning to CF?
3. How did CF play part in the process at Ericsson?
4. What is CF:s opinion on using voluntary redundancy as a tool for restructuring, in general?
5. From CF:s point of view: what alternative methods can be used to achieve the same purpose that Ericsson intended?
6. Could it be possible that the use of voluntary redundancy as a tool for restructuring is a trend, which will occur more often in the future?
7. What were the reactions from the members?
8. What were the reactions from the persons that applied for the programme, but got denied?
9. Were there any characteristic tendencies that could be seen among the individuals that accepted the offer?
10. What kind of future expectations and effects can a programme, similar to this, possibly create in an organization? What may the cultural effects be?
11. Would the programme be considered to have a better outcome if there would have been 3000 that applied for the redundancy offer instead of 1000?

Interview Teknikföretagen:

Name:
Position:
Professional background:

1. What does Teknikföretagen regard about the programme at Ericsson?

2. What was the purpose of implementing the programme concerning to Teknikföretagen?

3. How did Teknikföretagen play part in the process at Ericsson?

4. What is Teknikföretagens opinion on using voluntary redundancy as a tool for restructuring, in general?

5. From Teknikföretagens point of view: what alternative methods can be used to achieve the same purpose that Ericsson intended?

6. Could it be possible that the use of voluntary redundancy as a tool for restructuring is a trend, which will occur more often in the future?

7. Would the programme be considered to have a better outcome if there would have been 3000 that applied for the redundancy offer instead of 1000?

8. What juridical aspects have affected the implementation?

9. What was Teknikföretagens relation to the union during the process?

Interview with former employees

Name
Earlier position at Ericsson
Professional background

1. Tell us about your understanding concerning the background and the purpose of the programme?

2. Why did you choose to accept the programme?

3. Would it be likely that you left your position at Ericsson without being offered the voluntary redundancy offer?

4. Do you feel that the programme was entirely voluntary, or was there a pressure that ”you should” accept the offer?

5. Did you enjoy your work and workplace before the package was offered?

6. How was the atmosphere at the company when the programme was launched?

7. How were the people that accepted the programme viewed by their colleagues and department managers?

8. What have you been doing since you left the company and what are you doing now?

Follow-up questions Anna Guldstrand and Mats C Andersson

1. Could it be possible for Ericsson to transfer knowledge internationally?
2. How does Ericsson handle individuals that applied, believing that they are indispensable, but got their application accepted?
3. What affections might LAS had on the question concerning age structure etc?
4. Would the programme be implemented if LAS did not exist?
5. Is it the "right people" that leaves the company, from Ericsson point of view?
6. How does Ericsson handle the new recruitment process? What have Ericsson learned from earlier recruitment processes?