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Organizational Downsizing: Conceptual Review

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ABSTRACT

Downsizing is a deceptively complex construct that is conflated with a variety of synonymous terms, including rightsizing, resizing, restructuring, de-layering, and redundancies. Downsizing, rightsizing, restructuring the human resource or organisation are the common term used to reduce the employee size in an organisation. For this different schemes were introduced like Voluntary retirement scheme, Golden handshake, Compulsory retirement scheme, Early exit option scheme. In this paper researchers made an attempt to study the conceptual review on the organisation downsizing.

Keywords: Voluntary retirement scheme (VRS), Golden handshake, Compulsory retirement scheme (CRS), Downsizing, Rightsizing.

INTRODUCTION:

Corporate downsizing, organizational downsizing, or simply downsizing has become part of the managerial lexicon since the late 1980s. While the term lacks a precise theoretical determination, many see downsizing as a deliberate reduction of an organization's number of employees. Downsizing is not confined to a particular geographical area but has become a ubiquitous feature of numerous organizations around the industrialized world.
There are a number of ways in which downsizing can occur. For instance, organizations may resort to workforce reduction, organizational redesign, or systemic strategies. The main catalyst for most downsizing endeavour is the desire for reduced costs, the expected increase in an organization's efficiency, productivity, and competitiveness, and thus enhanced overall performance. The most commonly utilized form of downsizing is the adoption of workforce lay-offs and redundancies. The primary purpose of downsizing, either proactively or reactively, is to improve an organization's overall performance. Proactive downsizing can be viewed as a strategic maneuver aimed at achieving long-term organizational ends, while reactive downsizing is a managerial response to a short-term crisis or a specific business need. Some academicians point out that organizations have always employed downsizing primarily as a means to reduce labour costs in response to financial needs. Prior to the late 1980s, downsizing was seen as an aberration from normal organizational functioning and a last-ditch effort to thwart organizational demise or to temporarily adjust to cyclical downturn in sales. Interestingly, in the 1990s and in the early days of the new millennium, downsizing has come to be recognized as a strategy of choice and a way of life.

RESEARCH OBJECTIVE :

- ✓ To know the Downsizing implementation strategies
- ✓ To highlight the organizational effectiveness through downsizing
- ✓ To list out the feelings and concerns of downsized survivors
- ✓ To identify the Dimensions of Innovation and empirical findings explaining downsizing

RESEARCH METHODOLOGY:

The study is descriptive in nature based on secondary data and pertinent literature. The main sources of secondary data and pertinent literature are published and documented sources. Secondary data and pertinent literature has been compiled, analyzed and reviewed accordingly and the data has been presented in tabular form.

LITERATURE REVIEW:

The review of the downsizing literature portrays "an overwhelmingly negative picture of downsizing" (Ryan & Macky, 1998). Stephen S. Roach, chief Economist of the American investment bank Morgan Stanley and one of the early advocates and main architects of the theory of downsizing, has publicly declared that tactics of downsizing are recipes for organizational extinction (Abrahams, 1996).

In the early 1980s, organizational downsizing came into prominence as a topic of both scholarly and practical concern. Organizational downsizing, or simply downsizing, became a management 'catch-cry' of the 1990s which subsequently came to be known as the "downsizing decade" (Dolan *et al.,* 2000). As a strategic managerial tool, it has changed tens of thousand of companies and governmental bodies and the lives of millions of blue-collar and white-collar workers (Amundson, Borgen, Jordan, & Erlebach, 2004). A significant body of literature has been developed on organizational downsizing, reflecting its prevalence in countries like the United States of America, the United Kingdom, Europe, Australia, New Zealand, and Japan in the 1980s, 1990s, and the early days of the new millennium (Cascio, 1993, Cameron *et al.,* 1993; Cameron, 1994; Freeman, 1994; Littler *et al.*, 1997; Littler, 1998; Batros, 1999; Dolan *et al.*, 2000; Gandolfi & Neck, 2003; Farrell & Mavondo, 2004). This literature has emerged from a number of disciplines and draws upon a wide range of management and organizational theories.

However, despite the relatively large body of literature, and the extensive range of academic research that has been conducted in recent years, organizational downsizing is still regarded by many academic scholars *as* the most pervasive, yet understudied phenomenon in the business world (Cameron, 1994; Freeman, 1994; Thornhill & Saunders, 1998; Luthans & Sommer, 1999; Williams, 2004). Downsizing is a popularity term (Littler, 1998) that has arisen out of managerial press usage (Littler *et al.,* 1997), but lacks precise theoretical formulation (Thornhill & Saunders, 1998; Macky, 2004). Consequently, given the absence of a unifying definition of organizational downsizing in the literature, a multitude of views on the meaning of downsizing has appeared. Some of the more recently found concepts of organizational downsizing are a way of life (Filipowski, 1993; Weakland, 2001), elimination of jobs (Cascio, 1993), organizational euthanasia (De Meuse, Vanderheiden, & Bergmann, 1994) strategy of choice (Cameron, 1994), flavor of the month (Edwards, 1994), miracle cure (Downs, 1995), management theory (Flamholtz, 1995), changing workplace phenomenon (Allen, 1997), panacea (Nelson, 1997), watchword (Beylerian & Kleiner, 2003), phenomenon (Littler *et al.,* 1997), strategy (Appelbaum, Delage, Labibb, & Gault, 1997; Sahdev, 2003), corporate killer of the American dream (Miller 1998), HR strategy (Ryan & Macky, 1998), improvement methodologies (Harrington, 1998), management initiative (Gettler, 1998), mantra (Lecky, 1998), myth (Miller, 1998), religion (Miller, 1998), practice of the month (Luthans & Sommer, 1999), re-organization strategy (Fisher & White, 2000), cycle of failure (Makawatsakul & Kleiner, 2003) and plague (Beylerian & Kleiner, 2003).

For scholarly purposes, a precise conceptual meaning for organizational downsizing is required in order to adopt a cumulative approach to academic research. Hence, four major attributes of organizational downsizing have been identified. First and foremost, downsizing is an intentional set of activities that strongly implies organizational action. Second, downsizing frequently involves a reduction in the number of employees. Third, downsizing concentrates upon improving the efficiency of a company in order to contain or decrease costs, to enhance revenues, or to increase competitiveness. Fourth, downsizing inevitably influences work processes and leads to some kind of work redesign (Cameron, 1994).

According to Mirabal & DeYoung (2005), downsizing constitutes a reactive and defensive or proactive and anticipatory strategy implemented by management that inevitably makes a significant impact upon a company's size, costs, and work processes (Cameron, 1994), and the organization's shape and culture (Zemke, 1990). Finally, the conceptual meaning of downsizing and the definition of downsizing employed by this book distinguishes and separates downsizing from other current restructuring concepts (Thornhill & Saunders, 1998); including delayring, just-in-time (JIT), total quality management (TQM), lean production, re-engineering, and concepts, such as decline, growth-in-reverse, non-adaptation, and lay-offs) Cameron *et al.*, 1993; Littler *et al.*, 1997).

Morris, Cascio, and Young's (1999) longitudinal research further unveiled that manufacturing companies accounted for the highest incidence of downsizing (25%), followed by retail (17%), and service (15%) (Downs, 1995). However, downsizing does not appear to be confined to the corporate sector. Indeed, the public sector has also seen a dramatic change. Statistics show that 121,000 jobs across Canada were lost in the public sector between 1992 and 1996 (Dolan *et al.*, 2000). In term of profitability, empirical data have shown that low-profitability companies were more inclined to adopt downsizing strategies than their high-profitable counterparts (Downs, 1995; Dolan *et al., 2000)*. This corresponds with Kirby's finding that high-performing companies are not prone to adopt downsizing (1999), and James' assertion that successful firms rarely lay off large numbers of staff (1999). Moreover, empirical evidence has further disclosed that one-third had downsized more than 15% of their workforce at least once during that period (Morris *et al.*,1999). Finally, in an attempt to ascertain the structural scope of downsizing, literature suggests that no industries, sectors, and geographical regions have been spared (De Meuse et al. 1994).

ORGANIZATIONAL DOWNSIZING: IMPLEMENTATION STRATEGIES:

A review of the downsizing literature reveals that a number of distinct implementation strategies have been identified. Cameron, Freeman, and Mishra (1991, 1993) have conducted one of the most extensive and systematic empirical studies on corporate workforce downsizing to date, in which they identified three distinct "forms" of downsizing (Farrell & Mavondo, 2004: 385). These forms are frequently referred to as the three major downsizing implementation strategies (Cameron *et al.*, 1991, 1993; Farrell & Mavondo, 2004; Gandolfi, 2005; Mirabal & DeYoung, 2005). Cameron and his colleagues identified a workforce reduction strategy, an organization redesign strategy, and a systemic strategy (1991; 1993). Table – 1 presents an overview of the three downsizing implementation strategies.

Table 1: Downsizing Implementation Strategies

	Workforce Reduction Strategy	**Organization Redesign Strategy**	**Systemic Strategy**
Focus	Workers	Jobs and Units	Culture
Target	People	Work	Status quo processes
Implementation time	Quick	Moderate	Extended
Temporal Target	Short-term payoff	Moderate-term payoff	Long-term payoff
Inhibits	Long-term adaptability	Quick payback savings	Short-term cost
Examples	• Natural attrition • Hiring freeze • Early retirement • Buyout packagers • Lay-offs • Retrenchments	• Abolition of functions • Merging of units • Job redesign • Delayering • Reduction of overall work hours	• Staff involvement • Simplification of processes • Bottom-up-change • Continuous improvement

Source: Cameron et al., (1991, 1993); Farrell & Mavondo (2004); Gandolfi (2005).

DOWNSIZING AND ORGANISATIONAL EFFECTIVENESS:

The downsizing literature suggests that a considerable number of firms throughout the world have jumped onto "the downsizing bandwagon" (Ryan & Macky, 1998:43) in anticipation of positive economic and organizational benefits, and thus considered downsizing to be a "panacea" (Nelson, 1997:40) and a 'miracle cure' (Downs:1995). The downsizing literature corroborates Ryan and Macky's (1998) conclusion that the picture of downsizing portrayed in the literature is overwhelmingly negative. Cameron and his associates (1993) have even concluded that there does not seem to be a theoretical basis to explain the correlation between organizational downsizing and positive organizational performance. This conclusion is remarkable, considering the fact that downsizing is not deemed to be a restructuring fad of the past, but a trend that seems to be continuing (Cascio, 2002; De Meuse & Marks, 2003; Macky, 2004).

There is some empirical evidence that suggests that there are positive financial consequences following downsizing. However, these positive outcomes tend to be scarce, short-lived, and difficult to sustain in the long run. Further, the aftermath of downsizing presents a constellation of symptoms and behaviors exhibited by the remaining workforce (Cascio, 1993; Gettler, 1998; Dolan, Belout,& Balkin, 2000). Managing the letter aspect, the symptoms exhibited by the 'survivors' of downsizing, is increasingly seen as the key to the success of downsizing.

SURVIVOR'S SYNDROME:

Noer (1993) conducted a longitudinal study based upon structured and individual interviews in a large multinational firm headquartered in North America. Based upon interview transcripts, Noer was able to recognize and subsequently separate survivors' negative feelings and concerns into twelve categories. This is presented in Table – 2 Noer (1993) drew five conclusions: First, the vast majority of downsizing survivors experience downsizing survivor sickness to some degree. Second, intense fear, anger, insecurity, depression, and guilt seem to be the core survivor feelings following a downsizing activity. Third, a survivor-blaming phenomenon emerged. In other words, all affected groups blamed other groups, and this may serve as a defence mechanism. Fourth, the vast majority of survivors indicated that the downsizing had triggered changes in their perception of and relationship with the organization. Finally, Noer (1993) proposed his theoretical 'basic bind model' which points out that the greater the perception of 'violence' in the relationship with the organization, the greater the susceptibility to survivor sickness (Noer, 1993).

Table 2: Feelings and Concerns of Downsized Survivors

1.	**Job Insecurity**
	Survivors are concerned about whether they will be able to retain their jobs in the future and are worried about the possibility of not being able to obtain comparable jobs outside the company.
2.	**Unfairness**
	Survivors are doubtful about the wisdom of the lay-off choices and skeptical about the necessity, process and fairness of the downsizing strategy.
3.	**Depression, stress and fatigue**
	The process of downsizing is stressful and tiring for all parties involved – executioners, survivors and victims. An extensive survey revealed that approximately 50 percent of firms that downsized were ill-prepared for the dismantling and had not anticipated the kinds of problems that arose.
4.	**Reduced risk-taking and motivation**
	Survivors are prone to avoid raising issues, to discuss job-related problems, or to accept new work assignments in an attempt to avoid being exposed to criticism and poor performance appraisals.
5.	**Distrust and betrayal**
	Survivors do not perceive themselves to be an integral and intrinsic part of the organization anymore.
6.	**Lack of reciprocal commitment**
	Perceived betrayal seems to have breached the reciprocal covenant between employer and employees. Survivors also feel that they have not been treated with the dignity and respect to which they believe they are entitled.
7.	**Dissatisfaction with planning and communication**
	Lack of communication and inadequate preparation of staff or lay-offs may lead to suspicion.
8	**Dissatisfaction with lay-off process**
	Retrenchments that are perceived to have been carried out in an insensitive and humiliating manner may potentially create permanent resentment among the workforce.
9.	**Lack of strategic direction**
	A short-term, quick-fix approach may cause the employees to question the validity and reliability of medium-term and long-term strategies of the organization.
10.	**Lack of management credibility**
	Some employees do not consider the top management to be credible and capable of competently managing the company anymore.
11	**Short-term profit orientation**
	Survivors expect further lay-offs if anticipated outcomes do not materialize.
12	**Sense of permanent change**
	Survivors perceive that the 'good old days' have gone.

Source: Noer (1993)

Table 3: Survivor Responses

Sl. No.	Survivor Type	Survivor Response	Emotional Responses	Behavioral responses
1.	Destructive, passive	Fearful	Fright, depression, worry, reduced concentration	Withdrawal from work, procrastination about decision - making, increased absenteeism.
2.	Constructive, passive	Obliging	Loyalty, obedience, commitment	Following orders obediently, loyalty
3.	Destructive, active	Cynical	Anger, disgust, resentment, cynicism	'Badmouth' management, vandalism, sabotage, retaliation
4.	Constructive, active	Hopeful	Excitement, optimism, hope	Taking risks, developing ways to improve things, discussion of problems and taking actions

Source: Mishra & Spreitzer (1998)

The fundamental question arises as to what constitutes good practice that fosters survivors to become more hopeful and, therefore, more constructive and active in their attitudes, perceptions, emotions, and behaviours? As previously stated, empirical evidence suggests that most downsizing survivors experience survivor sickness to some extent (Noer, 1993). Furthermore, numerous studies have shown that surviving employees become narrow-minded, self-absorbed, and risk-averse following the implementation of downsizing (Cascio, 1993). It is of notable interest, that these emotional and cognitive symptoms experienced by the surviving workforce appear to manifest themselves in a number of behaviour exhibited by surviving workforce. Table – 4 shows an overview of behaviours frequently exhibited by downsizing survivors.

Table 4: Exhibited Behaviours by Downsizing Survivors

S.N.	Behaviour	Researcher
1.	Reduced risk taking, decreased commitment to the job, decreased productivity.	Allen, 1997
2.	Reduced job performance, increased intention to resign, decreased commitment to the job	Appelbaum, *et al.*, 1997
3.	Reduced risk taking, decreased innovation, reduced flexibility	Bagshaw, 1998
4.	Reduced work performance and lowered commitment to the organization	Beylerian & Kleiner, 2003
5.	Increased employee turnover	Brockner, 1988
6.	Decreased employee effort	Cameron *et al.*,1991
7.	Increased absenteeism, decreased productivity	Campbell-Jamison, Worrall & Cooper, 2001
8.	More frequent career transitions, decreased efforts to enhance the quality of goods and services.	Cascio, 1993
9.	Skyrocketing levels of absenteeism, cynicism, and employee turnover	Clark & Koonce, 1995A
10.	Decreased employee productivity, decreased employee morale, increased employee turnover	Estok, 1996
11.	Decreased levels of quality and productivity.	Fisher & White, 2001
12.	Decreased employee effort, decreased risk-taking, increased absenteeism, increased turnover	Gandolfi & Neck, 2005
13.	Increased turnover, decreased skill base, decreased level of risk taking, decreased level of innovation	Gettler, 1998
14.	Decreased productivity, decreased quality of work, increased absenteeism, increased turnover	Greenglass &Burke, 2001
15.	Increased absenteeism, decreased quality of work, increased initiative for job searches, increased number of people who work long hours to be seen at work (i.e. presentees).	Kinnie *et al.*, 1998

S.N.	Behaviour	Researcher
16.	Decreased risk taking, decreased innovation	Lecky, 1998
17.	Declined efficiency	Lee, 1992
18.	Increased employee turnover, increased resistance to change, reduced risk-taking	Macky, 2004
19.	Increased alcohol use, loss of emotional control at the workplace.	Maki, Moore, Grunberg & Greenberg, 2005
20.	Decreased loyalty, declined productivity, decreased commitment	Redman & Keithley, 1998.
21.	Increased employee turnover, increased resistance to change, reduced risk taking.	Ryan & Macky, 1998
22.	Decreased levels of innovation, risk-taking, and learning	Sahdev, 2003
23.	Computer sabotage, fraud, embezzlement, theft of secrets	Smeltzer & Zener, 1994
24.	Decreased productivity	Zeffane & Mayo, 1994

Sources: Various Sources

To sum up, there is strong empirical evidence that suggests that the implementation of downsizing strategies generous a number of sicknesses among the remaining or surviving workforce. These syndromes are reflected in survivors' attitudes, emotions, beliefs, ideas, and, most importantly, in their behaviour at their workplace. Numerous studies have disclosed that a decrease in job performance, innovation, employee effort, quality of work, efficiency, and productivity, coupled with an increase in absenteeism, turnover, sabotage, fraud, embezzlement, and theft, are a new reality found in most downsized corporations and governmental bodies.

Table 5: Conceptual Framework for the Study of Organizational Innovation

	Basis of organizational action: Rational	Basis of Organizational Action: Arational
Social Context: Organizational	Size Structure	Culture Leader traits
Social context: Extra-organizational	Business cycles Deregulation	Institutionalization Networks

Source: Budros (1999; 2004)

To sum up, the framework views organizational innovation as a function of factors associated with two dimensions, the basis of organizational action and social context (Budros, 1999; 2004). Combining these dimensions creates four processes that bear on the phenomenon: (i) rational organizational, (ii) rational extra-organizational, (iii) arational organizational and (iv) arational extra-organizational. This framework can be utilized as a basis for developing propositions on the possible causes of organizational downsizing.

What has downsizing to do with organizational innovation? Damanpour (1991) defines organizational innovation as the "adoption of an internally generated or purchased device, system, policy, program, process, product, or service that is new to the adopting organization". From that standpoint, the adoption of corporate downsizing involves organizational innovation and, more specifically, the utilization of an innovation that is "radical" and "non-technical" in nature (Damanpour, 1991) In many ways, downsizing is radical since it produces fundamental changes in an organization's activities and represents an obvious departure from past practices (Budros, 2004). The phenomenon is non-technical since it is not directly related to changes in an organization's technological or production processes. Interestingly, research on downsizing has mostly focused upon incremental (i.e., minor departures from existing practices) and technical (i.e., the adoption of product, service, and production processes technologies) innovations, yet the focus needs to be on radical, non-technical innovations (Budros, 1999).

In discussing the causes of downsizing, Budros (1997; 1999; 2002; 2004) presents fifteen empirical findings. This has been achieved by identifying factors that are commonly linked to downsizing in the literature or that are relevant theoretically to the practice of downsizing. These findings have been lined to a conceptual framework with its two underlying dichotomies. This is depicted in Table – 6.

Table 6: Dimensions of Innovation and Empirical Findings Explaining Downsizing

Dimensions	Empirical Findings
Rational organizational factors	1. Downsizing rates are higher among firms that execute many consolidations than among those that execute fewer ones.
	2. Firms that make large investments in labor-saving technologies have higher downsizing rates than ones that make small investments in technologies.
	3. Downsizing rates are higher among firms with higher employee compensation levels than among those with lower levels
	4. Larger firms have higher downsizing rates than smaller ones.
Rational organizational factors	5. Firms with smaller shareholder values have higher downsizing rates than those with larger values.
	6. Firms under attack from raiders have higher downsizing rates than those operating in regulated ones.
	7. Firms in deregulated industries have higher downsizing rates than those operating in regulated ones.
Rational extra-organizational factors	8. Downsizing rates increase during economic troughs and decrease during peaks.
	9. Downsizing rates are lower among employee-centered firms than among those that are less employee-centered.
Arational Organisational factors	10. Downsizing rates are higher among firms with CEOs possessing financial back grounds than among one with CEOs with other backgrounds.
	11. Downsizing rates are higher among firms with many interlocks with past downsizers than among ones with fewer interlocks with downsized firms.
	12. As the taken-for-grantedness of down-sizing in an organizational network increases, downsizing rates in the network increase.
	13. As the percentage of downsizing with elite economic standing rises, the downsizing rate rises.
	14. As the percentage of downsizers of elite social structure rises, the downsizing rate rises.
	15. Downsizing rates are higher in industries that are highly competition-oriented than in industries that are less competition-oriented.

Source: Budros (1997; 1999; 2002; 2004)

This would infer that higher downsizing rates would be found in industrial and retailing industries than in diversified banking, life insurance, and utility firms. This has also been shown in the fact that the first wave of downsizings occurred among industrial firms in the 1980s and a second wave featured financial institutions. Interestingly, it has been shown that utility firms have shunned downsizings. Lay-off rates are also significantly higher in industrial and manufacturing industries than in any other industries (Budros, 1999; 2004).

It has been revealed that organizations embrace downsizing strategies in response to (i) rational organizational, (ii) rational extra-organizational, (iii) arational organizational, and (iv) arational extra-organizational processes. It is also interesting to note that well-respected downsizing scholars, including Cascio, Freeman, and Cameron, have almost exclusively focused on the rational factors (organizational and extra-organizational), thereby neglecting the role that arational forces may play in workforce downsizings.

CONCLUSION:

The review of the downsizing literature revealed a relative dearth of literature on the establishment of causes, driving forces, and antecedents of downsizing. Nonetheless, over the past ten years, a number of committed scholars have examined the driving forces of downsizing and the compartmentalization of three distinct categories has emerged – macro-economic, industry-specific, and company-specific causes. It was evident from the review that most downsizing scholars referred to the causes of downsizing, yet failed to provide a systematic explanation and framework of the downsizing, causes. Budros' longitudinal studies offer more systematic thoughts on the causes of downsizing. As a direct consequence, a conceptual framework for exploring organizational innovation has eventuated. It must be clear, however, that downsizing, as a strategic management tool, is far too complex and multifaceted to yield a single cause for the adoption of a downsizing activity. Each situation is unique and there is almost always a combination of factors that compels managers to employ downsizing strategies.

Interestingly, the downsizing literature also discloses that most downsizing survivors are forced to take on new job responsibilities and tasks from departing employees, and are generally faced with an increased overall workload (Zemke, 1990; Allen, 1997; Mitchell, 1998; Dolan *et al.*, 2000; Makawatsakul & Kleiner, 2003). This revelation inevitably raises a myriad of issues. For instance, it poses the question of how downsizing survivors are able to cope with those new circumstances and perform those new responsibilities and tasks in the absence of adequate training. Alternatively, one might ponder about how an inexperienced and inadequately trained workforce is able to excel and outperform the firm's competitors in the long run.

Finally, a survey of the HR and downsizing literature also reveals a paradox. That is, the indifferent attitude of management towards the workforce, as reflected in the ignorance of the surviving workforce and the absence of training and development, stands in stark contrast to organizations' elaborate mission statements which frequently portray the workforce as "human capital" (Sofo, 1999), "the most important capital" (Flammholtz, 1995; Huselid, Jackson, & Schuler, 1997; Sofo, 1999), the most valuable resource (Harrington, 1998), "the most important asset" (Sunoo, 1998: 27), "the most valuable asset" (Darling & Nurmi, 1995), or even "a national resource" (McMorrow, 1999:8). Interestingly, individuals seem to have been treated as though they were a commodity, a cost, a burden, or even a necessary evil (Allen, 1997). As one downsizing survivor has quoted. "First we learned we weren't an asset. Now we learn that we are a liability" (Allen, 1997). Hence, Organizational downsizing through VRS can never be an unmixed blessing.

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