Downsizing

Downsizing is one of the most frequently used business strategies for reducing costs, returning firms to profit or for restructuring businesses following take-overs, mergers, and acquisitions. Downsizing measures are also set to become much more prevalent in the public sector as governments seek to restrict levels of public spending. This book is one of the first to provide a thorough study of downsizing from a global perspective. It examines the phenomenon in its entirety, exploring how it is initiated and what the process of downsizing looks like. It also looks at the effects of downsizing at a number of different levels, from the individual (e.g., motivational effects, effects on health and stress levels) to the organizational (e.g., financial outcomes, reputational and productivity outcomes). Written by an international team of experts, the book provides a comprehensive overview of downsizing that examines both the strategic and human implications of this process.

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Downsizing

Is Less Still More?

Edited by
CARY L. COOPER
ALANKRITA PANDEY
and
JAMES CAMPBELL QUICK

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Foreword

Downsizing has become a fact of life throughout the world. The term downsizing has come to mean terminating employees when the organization is still viable and has work for employees to do. Historically, downsizing white-collar workers was a rare event, and these employees could reasonably expect that if they performed well they would keep their jobs as long as the organization existed. A couple of decades ago that all changed. Now downsizing is common, driven by mergers, acquisitions, recessions, incentive-driven decisions to show a short-term boost in quarterly profits, and ideologically driven market signaling. Downsizing is now done for so many different reasons that shareholders, analysts, employees, and local communities struggle to interpret and understand an organization's downsizing. Even in the public sector, once considered safe from downsizing, employees increasingly find themselves at risk for downsizing, and public-sector managers must make decisions they never expected to make. What is more, downsizing can be a traumatic, life-altering experience for everyone involved. For these reasons, it is probably one of the most important decisions that executives make. In the past few years, scholars have tried to understand this increasingly important phenomenon. Because downsizing has such powerful effects, it cries out for the systematic and dispassionate knowledge that scholarship can bring.

Cary Cooper, Alankrita Pandey, and James Campbell Quick have done an outstanding job of gathering together the leading scholars from a wide variety of disciplines focusing on the behavioral causes and consequences of downsizing. All of the chapters draw on or report carefully designed empirical research that seeks to dig deeper into the consequences of downsizing, and the reasons why executives decide to let employees go. Here readers will learn what drives the decisions to downsize, and the effects of differing ways to do it. A number of chapters address the effects of downsizing on the remaining employees, and its effects on those who have lost their jobs. Here readers will find the best of our current knowledge about downsizing. This book organizes and clarifies what we know about downsizing and is a pioneering contribution to the study of this vital subject. There is something here both for scholars interested in research on downsizing as well as for interested general readers who want to separate fact from ideology on the human and social causes and consequences of downsizing.

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Preface

Cameron (1994) characterized the business strategy of downsizing as the most pervasive yet most understudied phenomenon in the business world. In the ensuing two decades, downsizing has been studied across various disciplines from sociology to economics, from psychology to strategic management, from finance to human resources. Each of these diverse disciplines offers a unique perspective and point of view. Our book aims to reconcile the different points of view towards downsizing by offering a comprehensive set of chapters that capture the entirety of the process, from beginning to end and with consideration of each of the many facets of the process. We have brought together leading business strategists, business practitioners, human resource experts, and psychologists into a single volume, offering the reader 13 chapters.

Datta, Guthrie, Basuil, and Pandey (2010, p. 282) define downsizing as "a planned set of organizational policies and practices aimed at workforce reduction with the goal of improving firm performance." In the book's opening chapter, Hallock, Strain, and Webber survey the job loss literature, thus providing an introduction to the concept of downsizing. Their line of discussion suggests that the employment relationship in the United States has changed over the years. They define the downsizing process even while examining alternatives like work-sharing, to typical mass layoff policies.

Downsizing comes about through different macro-environmental or external and micro-organizational or internal causes. Cascio's chapter discusses factors such as globalization, workforce demographics, differences in regional labor costs, and industry factors at the external level, as well as firm resources, mergers and acquisitions, governance factors, CEO (chief executive officer) characteristics, and other internal factors such as HR (human resource) practices at the internal level using case studies and research from several countries. Freeman and Ehrhardt's following chapter takes the reader through the direct and indirect antecedents that may cause a firm to downsize. This chapter differentiates between reactive and proactive downsizing. Reactive downsizing has as its internal antecedents unsatisfactory firm performance, strategy, and technology, while its internal antecedents are economic cycles, globalization, and changes in regulatory environments. They describe reactive downsizing to consist of anticipations of market and other changes, streamline processes as a performance strategy, or decentralizing operations. Other factors they describe are: the desire to mimic successful firms, norms of culture or context, or downsizing becoming a practice.

The chapter by McKinley and Lin examines executive cognitions of the process of downsizing to understand how it comes about and diffuses through the organization. Executive power and experience act as moderators to perceptions about the financial effects and inevitability of downsizing. Higher levels of downsizing activity make the phenomenon institutionalized in the organization, which acts as a further influence on the kind of downsizing the organization undertakes.

Since downsizing has a profound impact on the people of the organization – who may be the victims of the downsizing, those who are left after the downsizing, or the managers who undertake the downsizing – it becomes important to consider the human element while discussing the process. McMahan, Pandey, and Martinson develop a strategic human resource management model of the process of downsizing in their chapter. According to them, the organizational-level outcomes happen through individual-level processes. Strategies such as downsizing influence human capital and then performance through the mechanism of employee in-role and targeted extra-role behaviors. Downsizing at the individual level changes perceptions of justice, trust, and commitment, and therefore changes extra-role behaviors. HR practices also play a role in these relationships. Thus, downsizing is a complex process which influences different parts of the organization and has varied impacts.

Still within the human side of the downsizing process, Tziner, Fien, and Oren discuss human motivation outcomes in their chapter related to the process of downsizing. Human needs and values, organizational culture and values, leader member exchange, and job design and fit are all factors influencing human motivation, which is also influenced by the perceptions of justice. Human motivations of individuals lead to self-regulation and outcomes, such as job engagement, citizenship behaviors, and job performance.

At the individual level, downsizing can have extremely negative impacts on health. In their chapter, Siegrist and Dragano state that downsizing acts as a health threat which disrupts habitual living and working conditions for individuals. Drawing on studies in Sweden and the United States, they explain how this threat leads to the development of survivor disease with its adverse health impacts. Burnout and physiological impacts are felt by survivors and victims alike.

In a companion chapter, Hargrove, Cooper, and Quick further explain the stress effects of downsizing on the victims, the survivors, and the manager. Downsizing is stressful to all these groups of people and has lingering impacts on their health and well-being. Perceptions of justice, of support, and how the process of downsizing is managed, all influence these perceptions of stress as do individual attitudes. Stress affects health and also work behaviors.

Downsizing is undertaken to improve financial performance and therefore its financial outcomes are an important consideration, which is the concern of Datta, Basuil, and Radeva in their chapter. They review research on downsizing and divide it into three streams dealing with the immediate market response of stock returns, the longer-term profitability measures of ROA (return on assets), ROE (return on equity), and ROS (return on sales) and the longest term productivity measures of efficiency and employee productivity. They find that these outcomes are moderated by environmental and organizational factors.

De Meuse and Dai's chapter draws on the results of a long-term study to discuss the successes of downsizing with regard to financial outcomes, thus extending the considerations offered by Datta, Basuil, and Radeva in their preceding chapter. They find that downsized firms tend to have lower profit margins and return on assets than similar non-downsized firms. They suggest better management of employees and expectations in order to ameliorate the negative effects.

Downsizing as a phenomenon is here to stay in organizations. Therefore, it becomes important to address the proper management of the process in order to maximize its financial and firm-level outcomes and to reduce the negative people outcomes. DeWitt's chapter discusses considerations such as the firm positioning itself to best leverage its resources and capabilities, retaining its appropriate relationships, managing control mechanisms, and working with key partners as key strategies.

A lot of scholarly work in the area of downsizing has focused on firms in the United States. However, it is a global phenomenon and therefore should be examined as such. The concluding two chapters in the book consider downsizing in this global context. In their chapter, Gandolfi, Renz, Hansson, and Davenport discuss the global proliferation of downsizing through Australia, Eastern, Central, and Western Europe, Japan, Korea, and the United Kingdom, highlighting similarities and differences between the various phases of the process and its outcomes. In the final chapter, Tzafrir, Ben-Gal, and Dolan develop a multinational multi-factor cross-cultural model to explain how downsizing impacts positive stakeholder behavior. They find that values driving local firms or multinationals at the local or global level influence perceptions of trust in these firms, impacting the way the downsizing is perceived. Culture is a very essential factor in this process.

This overview of the book's 13 chapters provides a glimpse of the depth of content offered by the international team of interdisciplinary scholars and business leaders. By examining the antecedents, causes, and outcomes, the book considers the downsizing process in its entirety and viewed from myriad perspectives. In addition, we look at the business side of the enterprise, focusing on the reasons why firms downsize and the financial and reputational outcomes. We also examine the human side of organizations, emphasizing impacts on individuals and communities after the downsizing has been carried out.

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