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The impact of downsizing on the performance of survived employees: A case study of Pakistan

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The author has proposed a conceptual model of the after-effects of the downsizing on the survived employees of the organization. The proposed model is the logical integration of the inevitable after-effects of the downsizing and is supported by previous researches on the consequences of the downsizing. The downsizing affected employees' loyalty, perception about the job insecurity and their commitments toward the organization and resulting in the poor performance of the employees as well as the organization. This model has potential implications for further research both empirical testing of the model as well as improvement in the model.

Key words: Downsizing, loyalty, job insecurity, performance and commitment.

INTRODUCTION

Most of the organizations, while cutting their costs, attempt to reduce the size of their workforce. Downsizing is one of the defensive strategies an organization can adopt to cut costs or to make the organization more productive and profitable. But the perceived outcomes might not be achieved in all organizations, which attempted to downsize their workforce. Organizations, sometimes, fail to achieve these objectives due to one or the other reasons.

An attempt is made in this paper to explore the negative effects of downsizing on the survived employees. These after-effects affected organizations' overall performance. This model will be useful in applying on the organizations, which carried out downsizing. The model developed in this study, will have implications of testability in the organizations, which currently adopted the strategy of downsizing. The after-effects integrated in this model are survivors' diminished loyalty, their negative perception about job insecurity and deficiency in their commitments towards the organization. These

consequences are identified from the previous studies, carried out on the issue of downsizing.

The main objectives of the downsizing are to improve organizational performance, and cut the cost of production to enhance productivity and profitability. However, there are chances that the organizations face some weaknesses and threats, which may badly affect overall performance of the organizations.

Weaknesses may be in term of the poor performance of the survived employees, however, threats, though external in nature, may arise in term of the laid-off employees.

There are several definitions of downsizing available in the literature. Cascio (1993) defined downsizing as cutting and removal of job-positions, which does not include the retirement or voluntary resignation. According to Robin (1999) organizations downsize either by 'need' or by 'preference'.

The former is the classic layoff which is due to adaptation in organizational structure, culture or technological change (for example, automation), however in the latter, organizations are not financially compelled to do so, but adopted the downsizing to enhance their productivity.

The current study aimed at defining the consequences

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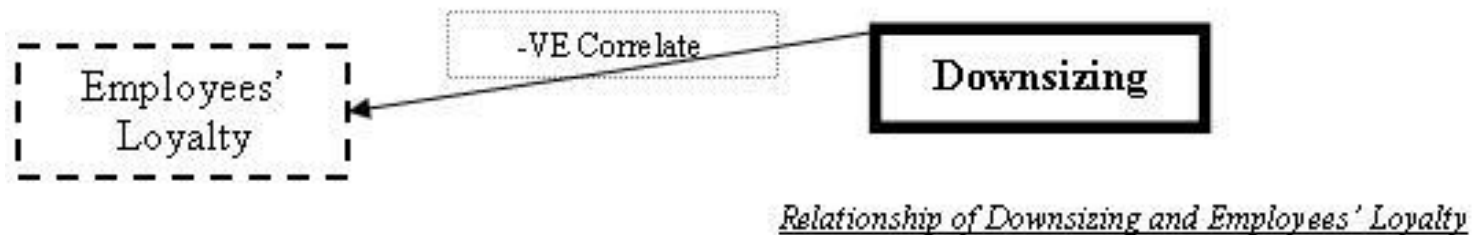


Figure 1. Relationship between Downsizing and Employee's Loyalty. Source: Solomon (1992) and Researcher's own processing.

of the downsizing and their integration in a logical manner to develop a conceptual model.

Therefore, consequences and implications of downsizing are studied thoroughly for development of the logically integrated model.

LITERATURE REVIEW

Since downsizing involves shrinking an organization's workforce; therefore, human resource management should be considered closely before adopting such strategies in organizations. According to Kravitz (1993) and Burne (1994), there are chances of arising of disruptions in the workplace, which may result in stress, frustration, anxiety and anger in survived employees'.

Cascio (1993) argued that firms that attempted to downsize are unable to achieve better results in terms of return on investment, sales gains, or other objectively measurable. According to Farrell and Mavondo (2005), lay-off strategy has adverse impacts on the firm's performance. The survived employees face unfavorable effects and as they have doubts regarding new or altered work assignments, adaptation in career paths and team changes (Brockner, 1992) and resultantly reduced their job efforts, job satisfaction and organizational commitment (Brockner et al., 1986). Laid off employees are not the only population which is affected by the downsizing, in fact downsizing also alter drastically the work environment for the retained/survived workers (Brockner et al., 1985).

The survived employees, being more in number as compared to laid-off employees, have significant implications for future research in terms of exploring psychological effects of downsizing on survived employees (Greenberg et al., 1997). Many articles, written on the consequences of downsizing in term of its impact on survived employees, have been consulted to propose the model for the after-effects of downsizing. Each variable has been supported by relevant researches. Following is the explanation of the variables and how they are resulted by downsizing and its effects on performance of survivors:

CONCEPTUAL MODEL

Downsizing and the survivors' loyalty

According to Holloman 1991 firms build their corporate culture to foster innovation and increase loyalty of employees towards the firm. However, downsizing may harm their feelings and it was observed in different firms that employees once committed, more satisfied, productive, adaptable and effective, may feel other way round and resign from the firms (Solomon, 1992) as shown in the Figure 1.

According to a study conducted by Vecchio (1991), the survivors remain loyal as long as the working environment is suitable, wages are enough to satisfy their needs, and chances are available for career advancement. The survivors, once very loyal towards organization, will remain loyal to that organization, if they are satisfied with both internal culture and the external environments of the firm. If after the downsizing, they encounter such an environment which is not in conformity with their perceptions and in the absence of job security, the employees may tend to lessen the loyalty level and resultantly leave the organization. According to a survey conducted by McKenna (1991), loyalty is a vital and critical contributor in success or failure of any organization. Research also depicted that survivors of downsizing perceive reduction in their bond with the organization, and even some extra efforts from the management to maintain the desired level of loyalty of survived employees may not work. In such situations, the survived employees feel that there is no real solution to stop diminishing loyalty (Willie, 1994).

Downsizing and the survivors' job insecurity

One of the major job-related concerns of the survivors of the downsizing is insecurity regarding their jobs (Brockner et al., 1986). The thematic diagram, as shown in the Figure 2, shows that the downsizing leads to job insecurity among the survived employees. Most of the organizations do not follow hard and fast rules, that which

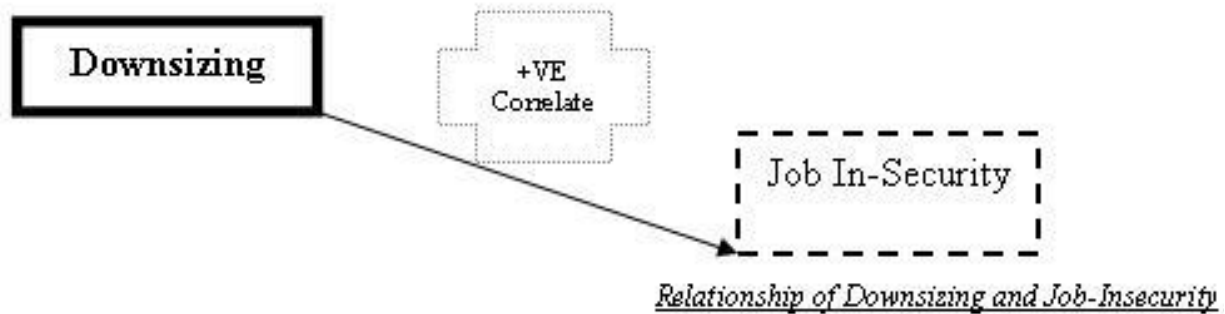


Figure 2. Relationship between Downsizing and Job Insecurity. Source: Brockner et al. (1986) and Researcher's own processing.

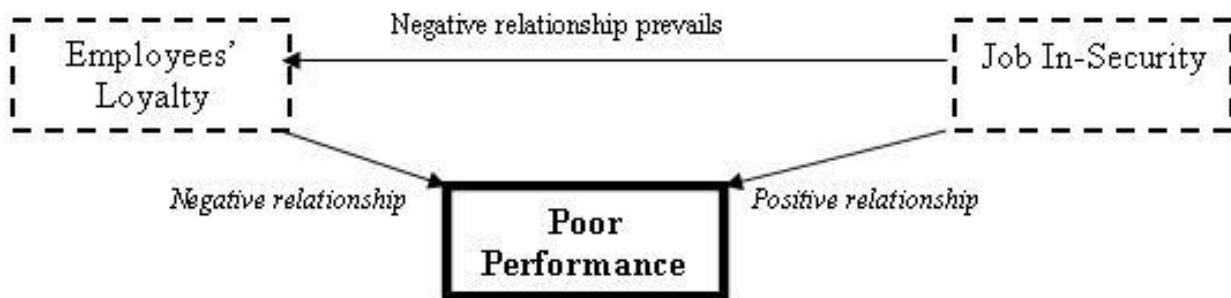


Figure 3. Inter-Relationship between Employee's Loyalty, Performance and Job Insecurity Source: Brockner et al. (1992) and Researcher's Own Processing.

employees have to be laid-off and which to be retained. Such a behavior of the organization leaves the employees in uncertainty of their jobs. This uncertainty leads to the job-insecurity, because they may have such perception that they will be the next, if organization intends to adopt the strategy in future. An increase in the perception of the employees about the job-insecurity leads to diminishing loyalty of the employees towards their organization.

A survey of the survived employees, conducted by Lazarus and Folkman (1984), showed that anticipation about downsizing has the same effects on the employees, as if it really occurred.

Mere decision of the organization to downsize its workforce may also work as a source of uncertainty among the employees and resultantly affect their performance and perceptions about job security. Employees working in such stressful environment are vulnerable to have diminished their loyalty towards the organization.

The loyal employees tend to stay longer in the organization therefore loyal employees are the main concerns of the organizations (Solomon, 1992). In the downsized organization and during the course of the process the employees intend to seek new jobs. It is due to that many firms, which are not financially sound to

introduce compensatory programs to satisfy their workforce, could not formulate and implement programs to increase the loyalty; hence failed to retain loyal employees (Hendricks, 1992).

Insecurity and loyalty of employees towards organizations

According to Solomon (1992), job insecurity and loyalty towards organizations are negatively related to each other. Organizations are very much concerned about the loyalty of their employees and cannot maximize their loyalty without protection of their (employees) jobs. However, employees' loyalty is positively related to their performance (Brockner et al. 1992).

The relationship between the three variables is shown in Figure 3. The downsizing consequently lowers loyalty, which increases job in-security and severely affects performance of employees working under such tense environment.

Downsizing strategies affect survivors because they have fear of loss of their jobs, which generates stress, dissatisfaction, increased absenteeism, higher turnover and lastly result in their increased intentions to leave the

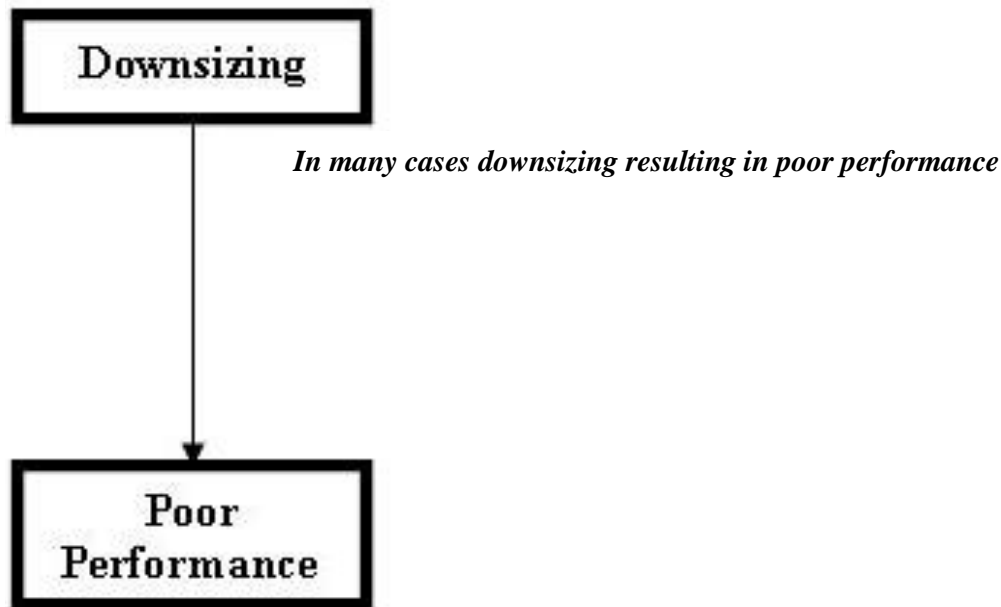


Figure 4. Relationship between Downsizing and Job Performance Source: Cascio (1993); Harari (1992) and Labich (1996) and Researcher's own processing.

organization (Borson and Burgess, 1992; Tombaugh and White, 1990).

Organizational commitments

According to Blau and Boal (1987), organizational commitment is employees' orientation of the organization in terms of their loyalty to, identification with, and involvement in the organization. Commitment is also defined as the extent of employees' awareness with the organizational objectives and goals and their willingness to work hard to achieve the prescribed objectives. Organizational commitment can also be assessed in term of employee's capabilities to identify and achieve the goals and objectives of the organization (Porter et al. 1974). A committed employee yields maximum performance and maintains a good psychological and physical health, which reduces his/her absenteeism and turnover (Meyer and Allen, 1997). Genasci (1994) explored a negative relationship between downsizing and overall work situations and employees' commitment towards the firm.

Downsizing and performance

Studies conducted by various researchers, depicted that though downsizing is one of the effective strategies an organization can adopt to improve the productivity, but on the other hand it is as likely to be suffered as is to be improved (Cascio, 1993; Harari, 1992; Labich, 1996).

Figure 4 shows the relationship between the downsizing and poor performance.

Another survey suggested that about 30% of the downsized organizations reported deteriorated productivity and profitability after downsizing (Madrick, 1995). Studies also showed that employees' loyalty is positively related to their performance (Brockner et al., 1992). This is not the direct effect, because there are, however, some other factors which affect performance of employees. These factors are explored by the researchers in their studies of downsizing and an attempt, with justifications, is made to bring these factors together in a logical manner to propose a conceptual model, as produced are shown in the Figure 5.

CONCLUSION AND RECOMMENDATIONS

The conceptual model proposed and explained in this study is not considering all the possible after-effects of downsizing, but a few of them, which were available in the researches. These after-effects are explored by different researchers in their extensive studies and their effects on the performance of the employees and of the firms have been demonstrated with empirical evidences by them. The model is a logical integration of after-effects of downsizing that is, diminishing loyalty, decreasing commitments of the employees and the perceptions of the employees about their jobs (Job insecurity).

Downsizing, through these after-effects, has a great impact on performance of employees as well as

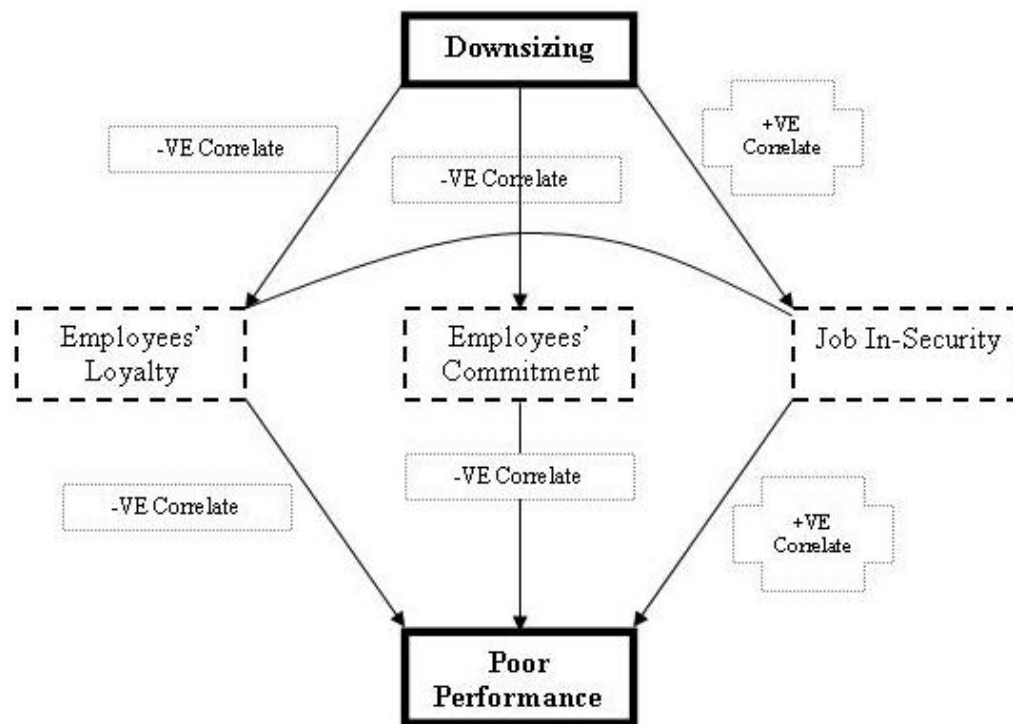


Figure 5. The integrated Conceptual Model: Downsizing: After-effects of downsizing. Source: Brockner et Al. (1986), Brockner et al. (1992), Solomon (1992), Harari (1992), Cascio (1993), Labich (1996) and Researcher's own processing.

organizations as a whole. This model has a potential for researchers and managers (of the firms intending to implement the downsizing strategy) to be considered while opting the strategy of the downsizing. In fact these after-effects are inevitable after the occurrence of the downsizing, but this model will help the researchers to apply this in different organizations for the sake of empirical testing and hence needs further modification with the help of further studies. The current study (the proposed model has a great potential to be proved, that is, statistically tested by other researchers in the field of the human resource management). This model will also help the companies (intending to downsize their workforce) in considering these after-effects of the downsizing.

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