Unravelling Downsizing – What do we know about the Phenomenon?

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Abstract

This downsizing article represents a succinct review of the scholarly work of researchers studying the multifaceted downsizing phenomenon over the past 30 years. Since Cascio's (1993) article "Downsizing: What do we know? What have we learned?", the research has burgeoned across several countries. This paper examines what we have learned during the many years of scholarly enquiry. As such, the article is based upon an analysis of the downsizing literature and represents a summation of secondary sources. The research also provides an update on the latest downsizing developments

Keywords: *downsizing, strategy, workforce, literature review*

JEL classification: L19, A19

Introduction

In 1993, Cascio published an article entitled "*Downsizing: What do we know? What have we learned*" in the Academy of Management Executive. Since then, many research studies on downsizing have been conducted in various countries. Academic enquiry into downsizing accelerated throughout the 1990s and has remained popular ever since. The primary objective of this article is to update Cascio's work and to provide a succinct scholarly review of the work of researchers over the past 30 years. This paper begins by examining the history, definition, and scope of downsizing. Subsequently, the focus shifts to the causal factors and the financial, organizational, and human consequences following the conduct of downsizing. In the final sections, the paper presents the paradox of downsizing, contemporary downsizing practices, and concluding remarks.

History, definition, and scope

Where did the term *downsizing* come from? A considerable number of management terms have originated with the automobile industry and, surprisingly perhaps, downsizing finds its origin there as well. By 1970, the average American

family car weighed 2 tons, was over 17 feet long, and often sported a massive V-8 engine. Big was beautiful, and bigger was better. The oil crisis of 1973 generated the need for smaller family cars with reasonable performance and economy. Producing these vehicles became known as *downsizing* in the U.S. auto industry (Littler & Gandolfi, 2008). Thus, the term downsizing was coined to define the scaling down of car sizes by automobile manufacturers (Appelbaum, Simpson, & Shapiro, 1987). In an organizational setting, the term was first applied to a process of cutting back employees when business and government in the U.S. began making major reductions to their employee bases in response to recessionary pressures in the 1980s. Thus, the term downsizing became associated with workforce reduction (Littler & Gandolfi, 2008). Accordingly, downsizing became a strategy to streamline, tighten, and shrink the organizational structure with respect to the number of personnel employed by the firm. As downsizing became more prevalent, the term was applied to a broader range of managerial efforts to improve a firm's performance (Gandolfi, 2008).

In the early 1980s, downsizing came into prominence as a topic of both scholarly and practical concern. It became the management catch-cry of the 1990s which subsequently became known as the downsizing decade (Dolan, Belout, & Balkin, 2000). As a strategic managerial tool, it has changed tens of thousands of companies and governmental agencies and the lives of millions of workers around the world (Amundson, Borgen, Jordan, & Erlebach, 2004). The body of literature on downsizing is substantial, reflecting its prevalence in countries like the U.S., the UK, Canada, Europe, Australia, New Zealand, and Japan in the 1980s, 1990s, and the early days of the new millennium (Cameron, Freeman, & Mishra, 1991, 1993; Cameron, 1994; Littler, 1998; Dolan et al., 2000; Farrell & Mavondo, 2004). This literature has emerged from a number of disciplines and draws upon a wide range of management and organizational theories. While downsizing has developed into a popularist term that has arisen out of managerial press usage (Littler, Dunford, Bramble, & Hede, 1997), it lacks precise theoretical formulation (Macky, 2004).

How can downsizing be defined? According to Cameron (1994), downsizing is:

"… a set of activities, undertaken on the part of the management of an organization and designed to improve organizational efficiency, productivity, and/or competitiveness" (p 192).

Cameron's definition embraces a holistic approach in an attempt to increase a firm's overall performance. On the other end of the continuum, Cascio (1993) asserts that downsizing is "the planned eliminations of positions or jobs" (p 95). In other words, the primary purpose of downsizing is not increased organizational performance *per se*, but the reduction of the workforce. In its widest sense, downsizing may be seen as a complete strategic transformation intended to change an organization's design, its work processes, corporate culture, values and attitudes, and mission (Kets De Vries & Balazs, 1997). In its most narrow sense, downsizing can be viewed as a set of activities introduced to make a firm more

cost-effective (Gandolfi, 2006). Downsizing in its most extreme form may turn into an across-the-board cut in personnel (Kets De Vries & Balazs, 1997) or a re-focus on core businesses and a disposal of peripheral ones (Crainer & Obleng, 1995).

The majority of downsizing research has been conducted in the U.S. (Chadwick, Hunter, & Walston, 2004). Still, the contraction of workforces has not been confined to U.S. firms, but has occurred throughout the world (Ryan & Macky, 1998). Empirical evidence shows that downsizing and its many related concepts has been particularly pervasive in North America (Freeman, 1994), Britain (Thornhill & Saunders, 1998), Canada (Dolan et al., 2000), Europe (Lamsa & Takala, 2000; Gandolfi, 2007), Japan (Griggs & Hyland, 2003), Australia, (Gandolfi, 2007), New Zealand (Macky, 2004), South Africa (Littler, 1998), and Eastern Europe (Redman & Keithley, 1998). Downsizing is also prevalent in countries that have been moving from a state-dominated to a market system, such as countries in Latin America, Russia, and Eastern Europe, where privatization activities often bring about the need to reduce firms' headcounts (Appelbaum, Everard, & Hung, 1999). Downsizing has even become common in industrialized countries, such as Japan and Sweden, which have historically shown to have very stable employment practices (Mroczkowski & Hanaoka, 1997). Downsizing has also affected China, which has become one of the world's foremost manufacturing hubs. In 2003, over 25 million Chinese lost their jobs from the transformation and privatization of state-owned-enterprises (Cascio, 2003).

Downsizing causes

Conceptualizing the causes of downsizing is problematic and exhibits its inherent complexity. While scholars have asserted various downsizing driving forces, no single cause can explain and account for the pervasiveness of the phenomenon. The following is a summary of studies of some of the frequently cited downsizing causes:

- In his original paper, Cascio (1993) used anecdotal evidence and claimed that downsizing begets downsizing. He illustrated his point by referring to Kodak which downsized four times between 1982 and 1992. Similar findings were observed at Digital Equipment, Honeywell, IBM, Kodak; TRW, and Xerox which all experienced multiple and significant employee cutbacks in the 1990s (Burke & Greenglass, 2000).
- Drew (1994) examined the nature, management practice, and strategic planning of large downsized Canadian firms concluding that the forces driving downsizing were remarkably diverse. Drew (1994) compartmentalized the factors into three main categories; macroeconomic, industry specific, and company specific. Empirical evidence revealed that declines in sales (industry specific), declines in profits (industry specific), poor financial results (company specific), greater responsiveness to customer needs (industry specific), and increased international competition (macroeconomic) were the main downsizing driving forces for the surveyed firms.

- Mishra and Mishra (1994) assert that firms have downsized in order to cut costs, seeing few alternatives for coping with the increasingly competitive global market-place. They contend that the kind of downsizing that took place in the 1980s was mainly an effort to reduce the number of employees in order to remain competitive, a trend that continued well into the 1990s.
- Ryan and Macky (1998) distinguished between downsizing as a reactive and downsizing as a proactive strategy. The former is regarded as a strategy implemented predominantly prior to the late 1980s in order to temporarily adjust to a cyclical downturn or to avoid organizational demise and bankruptcy. The more versatile proactive strategy seeks to address a multitude of organizational situations, including but not limited to rectifying historical tendencies towards overstaffing, managing cyclical business declines, introducing new information technology and the use of automation, as well as shifting business strategies, mergers and acquisitions (M&A), globalization, and cost-reduction strategies aimed at achieving competitive advantages. Ryan and Macky (1998) concluded that downsizing was employed not only to cut labor costs by shedding labor in the short run, but to apply downward pressure on wage demands from the remaining workforce in the longer term.
- Harrington (1998) attributes downsizing to surpluses of both employees and facilities. This in itself is seen as a direct result of increased competition, increased efficiency, reduced need for middle managers resulting from de-layering and employee empowerment, and improved quality and reliability of products which require fewer resources for maintenance. In a similar vein, Appelbaum et al. (1999) view downsizing as one of many cost-containment strategies – like Total Quality Management (TQM), reengineering, transaction processing, and information systems - implemented in order to streamline activities and to reduce waste and inefficiency. Possible drivers of downsizing were the aftermaths of the M&A mania of the 1990s, a 'quick-fix' approach hoping to delay organizational closure, a preparation for a planned privatization, and a need to reduce costs to remain competitive in an increasingly global market.
- Appelbaum et al. (1999) assert that technological advancement and innovations resulted in increased productivity and a decrease in required workers. In contrast, Littler (1998) contends that a change in technology was not the primary reason for firms to engage in downsizing. Rather, technological improvements often resulted in hiring additional workers. Similarly, Kets De Vries and Balazs (1997) conclude that it was not the introduction of technology per se, but the administrative impact of the revolutionary transformation in information and communication technology that resulted in downsizing. Still, a chief outcome of the technological advances in the 1990s was an increased redundancy of middle management (Kets De Vries & Balazs, 1997) which resulted in 'delayering' (Littler, 1998).
- Luthans and Sommer (1999) concluded that global competition, technological innovation, increased customer influence, macroeconomic forces,

and pressures from rival firms represented the main downsizing driving forces of the 1990s.

While there must be an acknowledgment that downsizing is sometimes the hefty price paid for mismanagement and serious strategic errors at the executive level (Kets de Vries & Balazs, 1997), there are three social forces that precipitate downsizing efforts; constraining, cloning, and learning forces (McKinley, Sanchez, & Schick, 1995). Constraining elements force top management to resort to legitimate managerial actions. Executives are frequently expected to reduce workforce levels and employee cuts are seen as good business practice (Gandolfi, 2006). In contrast, cloning forces are the result of benchmarking and competitive imitation. Reacting to uncertainty, managers display that they are in control and that they are engaging in a practice that addresses the organizational decline. Finally, learning, as the third force, takes place through educational institutions and professional associations. Cost accounting methods encourage downsizing as a legitimate business activity. Therefore, firms engage in downsizing for a number of reasons; some of them have economic reasons while others are of social origin (Burke & Greenglass, 2000).

Downsizing consequences

Downsizing activities produce profound consequences. This has been covered extensively in the management literature and the business press, which commonly distinguish between the financial, organizational, and human consequences (Gandolfi, 2008).

Financial consequences

The overall picture of the reported financial effects of downsizing is bleak (Gandolfi & Neck, 2008). A multitude of studies, cross-sectional and longitudinal, have shown that while some firms have reported financial improvements (Sahdev, 2003), the majority of downsized firms have not been able to reap improved levels of efficiency, effectiveness, productivity, and profitability (Gandolfi, 2009). The downsizing literature portrays an overwhelmingly negative picture of the financial benefits of downsizing. There is strong evidence suggesting that a pure downsizing strategy is unlikely to be effective (Macky, 2004). Many downsizing efforts have shown to produce financial results that are dismal and economic consequences that are devastating (Burke & Greenglass, 2000).

Organizational consequences

Downsizing is expected to generate financial and organizational benefits (Palmer, Kabanoff, & Dunford, 1997). The major economic benefit that is expected is a direct increase in shareholder value. The rationale is that future costs are more predictable than future revenues and cutting costs should translate into higher

profits. Since people represent a considerable component of operating costs, the cutting of employees seems a rational, natural response. Anticipated organizational benefits include lower overheads, less bureaucracy, faster decision making, smoother communications, greater entrepreneurship, and increased productivity (Burke & Cooper, 2000). While some studies have shown positive organizational outcomes following downsizing (Cameron, 1994; Axmith, 1995; Littler, 2000; Macky, 2004), most empirical findings suggest that the majority of restructurings and downsizings fall short of objectives (Cameron, Whetten, & Kim, 1987; Cascio, 1998; Gandolfi & Neck, 2008).

Human consequences

Downsizing-related human costs are extensive (Gandolfi, 2009) and far-reaching (Burke & Greenglass, 2000). Literature distinguishes between three categories of people directly impacted by downsizing; executioners, victims, and survivors. By definition, a downsizing executioner (Downs, 1995) or downsizer (Burke, 1998) is an individual entrusted with the conduct of downsizing. In contrast, a victim (Kettley, 1995) is a person who is downsized out of a job involuntarily (Allen, 1997), while a survivor (Littler, 1998) is a person that remains with the firm after involuntary employee reductions have taken place.

Downsizing scholars have identified and empirically studied the symptoms associated with the emotions, behaviors, and attitudes of survivors. These symptoms have come to be known as 'sicknesses'. The most prominent sickness, the survivor syndrome, is a set of emotions, behaviors, and attitudes exhibited by surviving employees (Littler, 1998). Brockner (1988) asserts that downsizing engenders a variety of psychological states in survivors, namely, guilt, positive inequity, anger, relief, and job insecurity. These mental states have the potential to influence the survivors' work behaviors and attitudes, such as motivation, commitment, satisfaction, and job performance. The survivor syndrome is characterized by decreased levels of morale, employee involvement, work productivity, and trust towards management (Cascio, 1993).

The paradox of downsizing

Why do organizations continue to engage in downsizing practices? Prior to the mid-1980s, downsizing was adopted in situations where employee reductions were undertaken in response to external events and short-term needs (Kozlowski, Chao, Smith & Hedlung, 1993). This strategy, which was considered reactive downsizing, is intrinsically correlated with the business cycle and purposefully chosen as a reactive measure to economic crises. Since the mid-1980s, however, downsizing has manifested itself as a proactive human resource strategy (Chadwick et al., 2004) and a strategy of choice (Burke & Greenglass, 2000). This has come to be known as rightsizing (Hitt, Keats, Harback, & Nixon, 1994) referring to a process that is well-articulated and designed to support a firm's long-term business

strategy. Thus, downsizing has become decoupled from the business cycle (Littler & Gandolfi, 2008) and the decision to embrace downsizing is no longer determined by financial success and failure. This fundamental change connotes that downsizing has attained the status of a restructuring strategy (Cameron, 1994) with the intent of achieving a new organizational structure and a new level of competitiveness (Littler et al., 1997). Consequently, the 1990s saw the elevation of the downsizing strategy as a way of life (Filipowski, 1993) and a corporate panacea (Nelson, 1997). Paradoxically, this took place despite the absence of downsizing successes.

Contemporary downsizing practices

As in the past two decades, downsizing-related synonyms and euphemisms have appeared in the contemporary business press and academic literature. Some of the presently fashionable downsizing terms include redundancies and headcount reductions (Story & Dash, 2008) as well as hyperboles, including smartsizing and canning (Weiss, 2008). Smartsizing is often characterized as a strategic move to serve clients more efficiently, while canning is seen as an engagement of associates attempting to scrutinize the work of employees with unprecedented care (Weiss, 2008). More tactically, there are two downsizing practices currently adopted by firms – stealth downsizing and non-selective (i.e., across-the-board; mass) downsizing:

Downsizing activity #1: Stealth downsizing

Stealth downsizing, seen by some as a new management fad (Weiss, 2008), is a current layoff practice. Under the stealth approach, managers are not permitted to discuss downsizing and downsizing-related layoffs openly in meetings, memos, or e-mails out of fear that negative publicity may ensue. Organizations engaging in such practices attempt to avoid negative press coverage at all costs, yet they are likely to create an atmosphere of distrust and unease among employees leading to lower levels of workforce morale and motivation as well as defections of talented people (McGregor, 2008). As a result, companies reduce employee levels in a surreptitious manner (Weiss, 2008). In other words, organizations lay off individuals quietly (McGregor, 2008). Historically speaking, IBM has been known for engaging in stealth practices cutting small number of people across a range of departments and keeping the firm out of the public eye. Back in 2002, IBM unveiled its "*resources actions*" strategy, which entailed skills rebalancing and the elimination of redundancies (Krane, 2002). As a consequence, IBM cut 5,000 jobs over the course of four months without issuing an overarching public statement on the extent of the layoffs (Krane, 2002). This practice became known as stealth layoffs. In 2005, Hewlett-Packard (HP) also engaged in stealth layoffs in that, originally, the firm was believed to be on a layoff 'rampage' which it vehemently denied, but later admitted. Thereafter, HP was said to have mastered the technique

of stealth layoffs since it kept things quiet so as not to disturb the political and economic ecosystems (Demerjian, 2005).

Downsizing activity #2: Non-selective downsizing

There is strong empirical evidence supporting the notion that large firms, in particular, have continued to downsize and embark upon extensive non-selective job cutting since 2001. This is evident in the layoff announcements and plant closures in the U.S. and elsewhere over the past few years. In 2007, for instance, large pharmaceutical firms announced plant closures and employee layoffs with industry leader Pfizer reporting that it would abandon three research centers and close down two manufacturing plants in the U.S. reducing headcount by 10,000 employees (Martino, 2007). Similar announcements were made by AstraZeneca (7,600 jobs), Bayer (6,100), Johnson & Johnson (5,000), and Amgen (2,600) each cutting significant portions of their global workforces (Martino, 2007). During the same period, high-technology companies cut their employee levels with Dell shedding 8,800 jobs (Ogg, 2007) and Motorola releasing 10,000 employees (Deffree, 2007). Since the late 2007, the global finance industry has been severely impacted by the global credit squeeze (Elstein, 2008). In the wake of the U.S. subprime mortgage crisis, many firms have been forced to make deep personnel cuts. For instance, U.S.-based banks were forced to cut 65,000 employees during the June 2007 – 2008 time period (Story & Dash, 2008). At present, significant employee cutbacks are occurring in all sectors and industries on a global scale (Rampell, 2009). In the U.S., for instance, the current economic downturn has produced staggering job losses (Bureau of Labor Statistics, 2009). While there are signs showing that the U.S. economy may be recovering later in 2009, there are clear indications that firms continue to engage in mass layoffs. As a direct result, unemployment levels in the U.S. are expected to continue to rise (Quinn, 2009).

Concluding remarks

Downsizing is dead, long live downsizing! Downsizing remains a multifaceted business phenomenon. While the body of literature is extensive and many valuable lessons have been learned over the past 30 years, the reactive and strategic practice of downsizing has continued unabated despite its dubious track record. In the 1990s, downsizing was deemed the most understudied business phenomenon (Luthans & Sommer, 1999). The author of this paper would like to add that downsizing is probably also one of the most misunderstood and misinterpreted contemporary phenomena. Thus, a greater depth of understanding is required in order to establish a meaningful dialogue between businesses and academic communities.

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