Review of downsizing and its impact on employees

This chapter provides a review of downsizing and its impacts on employees. The main objective of this chapter is to provide readers with a picture of the theories applied in such studies. Furthermore, empirical studies specifically associated with the downsizing context and theories applied in this study will be examined too. Finally, the aim of this literature review is to find the research gaps in previous studies and how this study will close these gaps.

There are eight main sections depicted in this chapter. First, a general review pertaining to downsizing will be discussed. This section mainly deals with the issues of organizational downsizing strategies, the expected and actual economic impacts of downsizing and the empirical studies which have explored the impacts of organizational downsizing on surviving employees (managers and non-managers). The second section deals with one of the main theories applied in this research which is the stress and coping model by Lazarus and Folkman (1984).

Third, six models of turnover and retention will be explored in this chapter. Two models of employee turnover and retention which are Lee and Mitchell's (1994) the unfolding model of turnover and Mitchell et al.'s (2001) job embeddedness model are two of the main theories applied in this research. Subsequently, empirical studies which employed these two models will be discussed. Then, few empirical studies associated with turnover intention and voluntary turnover specifically in downsizing context will be discussed. The seventh section of this chapter deals with two work-related stressors, namely job insecurity and role overload experienced by survivors following an organizational downsizing and their influences on turnover intention.

Finally, the conclusion of this chapter deals with the research gaps identified from the literature review and how this research will close these gaps.

2. 1 DOWNSIZINg

A large amount of the research on organizational downsizing that has emerged over the past 25 years has entered on two main research questions as identified by Datta et al. (2010). They were (1) What precipitates employee downsizing? and (2) What are the effects of downsizing from the standpoint of individual attitudes/behavior and organizational performance? (Datta et al., 2010). The main focus of this section is the effects of downsizing on individual employees' attitudes and behaviors. First of all, the downsizing strategies employed by organizations will be examined. The second section will briefly summarize the anticipated and actual economic impacts on downsized organizations. Finally, empirical studies pertaining to the impacts of organizational downsizing on surviving employees (managers and non-managers) will be discussed.

2. 1. 1 Downsizing Strategies

Three forms of downsizing implementation strategies have been identified: workforce reduction, organization redesign, and systemic strategy (Gandolfi, 2008). The workforce reduction strategy focused on headcount reduction and employed tactics such as layoffs, retrenchments, early retirements, natural attrition, hiring freeze, buy-out packages, transfers, and out-placement. Second, work redesign strategy concentrated on reducing work itself instead of cutting the number of employees. It included tactics such as phasing out functions, hierarchical levels, departments or divisions, redesigning tasks and consolidating units. Third, the systemic strategy emphasized on the organizational culture and the attitudes and values of its employees. Previous studies have shown that most organizations practiced workforce reduction strategies to downsized company (Gandolfi, 2005), while layoffs were the most common way to downsize (Mishra & Mishra, 1994).

2. 1. 2 The Expected and Actual Economic Consequences of Downsizing

Organizations adopted downsizing for a number of reasons, the most common reason was to improve efficiency, effectiveness and the productivity in the organizations (Cascio, 1993; Kets de Vries & Balazs, 1997; Mone, 1994; Savery & Luks, 2000). While efficiency concerned an organization’s ability to do things better, effectiveness entailed an organization’s ability to do the right things in order to survive (Budros, 1999). Beneficial consequences in terms of cost savings considerations were among the expected outcomes of organizations downsized (Cascio, Young, & Morris, 1997). De Meuse, Venderheiden and Bergmann (1994) mentioned that organizations reduced employment costs by cutting employees who were not performing well.

According to Cascio (1993) and Kets de Vries and Balazs (1997), expected economic benefits included lower expense ratios, increased return of investment, higher profits and stock prices. Another economic benefit resulted from organizations was being able to increase value for their shareholders (Cascio, 1993; Cascio et al., 1997; De Meuse et al., 1994). Additionally, other benefits as a result from downsizing included lower overhead, smoother communication, increased entrepreneurship, and heightened productivity (Cascio, 1993; Kets de Vries & Balazs, 1997). In addition, Mone (1994) suggested that benefits may also be realized in the forms of lower average salaries for the less senior surviving work force, fewer management layer and flatter organizational structures.

Finally, downsizing helped organizations to remain competitive in the increasingly global marketplace (Ugboro, 2006). As per Cascio et al. (1997) downsized organizations should be able to lower their labor cost, and as a result in increased earnings or to control product prices to improve competitiveness. As such, organizations have been urged to become “ lean and mean” through downsizing activities, by took into account costs and other competitive consideration on national and international level (Appelbaum, Simpson, & Shapiro, 1987, p. 68).

Irrespective of the intended benefits as mentioned above, the general consequences of the economic impact of downsizing were negative (Budros, 1999; De Meuse et al., 1994; Gandolfi, 2008). Although a few organizations have reported increased financial performance; however, majority of the downsized organizations have reported decreased levels of efficiency, effectiveness, productivity and profitability (Gandolfi, 2008). Even though downsizing is used as a cost reduction strategy by organizations, there was evidence that downsizing does not decreased costs as desired. On the contrary, costs may actually increase in some cases (McKinley, Sanchez, & Schick, 1995). A number of hard-to-quantify costs were listed, including costs of quality as a result of increased rework, scrap, inspection and overtime costs for surviving employees whose workload increased and forgone new business opportunities as they did not have the resources to take on the new work (Mabert & Schemenner, 1997). Mirvis (1997) cited that over one third of the downsizing organizations that were surveyed reported that unexpected increased in number of temporary workers and consultants and the need for surviving employees to work overtime and to be retrained. Moreover, Bruton, Keels, and Shook (1996) reported that the stock price for downsized organizations decreased after two years of downsizing.

In a recent study by Yu and Park (2006) which analyzed financial data of 258 listed Korean firms between 1997 and 2002, downsizing organizations suffered more financial difficulties than organizations that did not downsized. Downsizing resulted in an increase in the organizations' profits and efficiency but no effects on employee productivity. Furthermore, there was some evidence to suggest that those organizations which had downsized reported lower measures of profitability than those did not (Carswell, 2005; Mentzer, 1996). Empirical studies also found that downsizing had a negative impact on corporate reputation (Love & Kraatz, 2009; Zyglidopoulos, 2005). Gandolfi (2008) contend the following statements in review of available studies:

Most firms adopted downsizing strategies did not reap economic and organizational benefits;

Non-downsized firms financially outperformed downsized forms in the short-, medium- and long-run (Macky, 2004; Morris, Cascio, & Young., 1999);

While some firms had shown positive financial outcomes, there was no empirical evidence to suggest a correlation between downsizing and improved financial performance (Macky, 2004; Morris et al., 1999);

Some firms have reported positive financial indicators in the short term, yet the long-term financial consequences of downsizing have been shown to be consistently negative.

2. 1. 3 Impacts of Downsizing on Surviving Employees

This section will examine the impacts of organizational downsizing on two categories of employees, namely managers and non-managers.

2. 1. 3. 1 Impacts on Surviving managers

A number of studies were conducted to identify the impacts of downsizing on managers (e. g. Dopson, Risk, & Stewart, 1992; Thomas & Dunkerley, 1999; Thomas & Linstead, 2002). The literature below will review empirical studies concerning impacts on surviving managers as consequences of organizational downsizing. Foremost, three main aspects were identified which are longer working hour and intensified work regimes, wider roles and responsibilities, and managerial career. Subsequently, surviving managers' attitudes toward organizational downsizing will be explored too.

Longer Working Hours and Intensified Work Regimes

Thomas and Dunkerley (1999) conducted a study to examine the UK middle managers' experiences of downsizing and to discover how these experiences influenced their roles and nature of middle management. Data collection was divided into two phases. Phase one comprised of a 50 case-study organizations, involving interviews with key managers (senior line and HR) and middle managers. While phase two involved in-depth analysis of up to ten interviews with middle managers in ten organizations drawn from the original cohort. A wide range of organizations were involved in the study, included oil, brewing, insurance, local authorities, health service, military, civil service agencies, manufacturing, engineering, music industry, retail and distribution from both private and public sectors. Managers interviewed reported longer working hours and intensified work regimes. They experienced a significant increased in the number of hours worked, including at work and at home during evenings and on the weekends. However, majority of the managers pointed that this long hour worked was through their choice and necessity to ‘ get the job done’ rather than through presenteeism or fear of job loss (Thomas & Dunkerly, 1999, p. 162).

Similar findings were presented by Thomas and Linstead (2002) based on a wider study in the UK of approximately 150 middle managers in 50 organizations that had undergone major organizational restructuring. A wide range of private and public sector organizations included oil, brewing, insurance, manufacturing, local authorities, health, armed forces, engineering, logistics, mineral extraction and privatized utilities were involved in the study. A qualitative, inductive and multi-methods approach had been adopted and specifically involved case studies that focused on an individual middle manager’s subjective experiences. Likewise, problems of worked longer hours and unpaid ‘ overtime’ were reported by McCann et al. (2004) in a comparison study between Japanese and Anglo-American management systems based on interviews with senior or HR managers and middle managers in 30 large organizations. Both private and public sectors organizations comprised the sample and included steel manufacturing, heavy mechanical engineering, brewing, automotive, electronics, financial services, retail, healthcare, local government and central government.

Zemke (1990) also reported that middle managers worked more hours than before downsizing took place.

A variety of reasons were being identified which contributed to the intensification of work faced by middle managers. They included wider roles and responsibilities, flatter structures, reduced in number of middle managers, ‘ presenteeism’ through fear and job insecurity, pressure from peer to perform, performance cultures with increased individual accountability and the necessity to keep pace with constant change. (McCann et al., 2004; Thomas & Dunkerley, 1999; Thomas & Linstead, 2002).

Wider Roles and Responsibilities

Dopson et al. (1992) conducted a small-scale study to look into the changes affected middle managers and their reactions to these changes in both public and private sectors. Two phrases of data collection were conducted. In the first phase, eight general case studies were conducted by interviewing a senior manager (training manager) and on average six middle managers in each case. The second phase of the research comprised of interviews with twenty middle managers in each of four case studies (a computer company, a car manufacturing company, a new public agency, and an autospares company), two to three senior managers, the personnel and training manager(s), and in the public-sector case the trade union representatives. The interviews’ results indicated that middle management jobs became more general, with greater responsibilities and a wider range of tasks. These findings were supported by the studies of McCann et al. (2004), Thomas and Dunkerley (1999), and Thomas and Linstead (2002).

The removal of layers of middle management had resulted in an increasing span of control was a common feature of most middle management jobs in studies conducted (e. g., Dopson et al., 1992; Thomas & Dunkerley, 1999; Zemke, 1990). Generally, middle managers were responsible for a wider mix and a greater number of subordinates than before (Dopson et al., 1992). On top of that, middle managers experienced significant increased of workload (Dopson et al., 1992; McCann et al., 2004; Thomas & Dunkerley, 1999; Thomas & Linstead, 2002). Middle managers had a greater responsibility for a wider range of duties for which they were now clearly more accountable (Dopson et al., 1992). Their roles ranged from technical and professional trends to more generic management, with tasks such managing, financing, budgeting and forecasting (Thomas & Dunkerley, 1999). They needed to be more flexible (McCann et al., 2004), and obtained more generalist skills such as financial knowledge, ability to manage staff of different backgrounds and a greater marketing and strategic orientation (Dopson et al., 1992). While McCann et al. (2004) found that middle managers were doing less managing of staff and more short-term, task focused co-operative group work. They were more likely to be managing subordinates in groups and tasks in a flattened hierarchy. Their job titles often bore little resemblance to their actual work tasks.

Besides that, middle managers faced pressure from below due to the increased spans of control, constraint of resources and increased customer accountability. Furthermore, pressures were faced from above to perform a range of targets and performance indicators (Dopson et al., 1992; McCann et al., 2004; Thomas & Dunkerley, 1999). Newell and Dopson (1996) in their attempt to investigate the impact of restructuring on middle management job and careers discovered that middle managers had to meet more stringent budgetary and quality targets as a result from interviews with 20 middle managers in telecommunication industry. The shift from physical commodities to information implied a shift from hierarchies of specialization to flexible networks of creativity and information sharing (McCann et al., 2004). Middle managers had less opportunity to fall back that their judgments was hampered by a lack of information due to the advancement of information and communication technology (Dopson et al., 1992). A number of middle managers commented on their needs to work in a variety of relationships, with manager and staff in organizations overseas, as well as spending time on oversea visits (Dopson et al., 1992). As consequences discussed above, stress-related problems and illnesses, role overload, tensions with home-life and impoverished life-styles were reported as a result from the long hours worked and increased roles and responsibilities (Thomas & Dunkerley, 1999).

Managerial Careers after Organizational Downsizing

In terms of managerial career, both negative and positive views will be depicted as below. Individual middle manager retained responsibility for his/her own career (Newell & Dopson, 1996). The trend towards individual accountability and individual contracts was noticed. Career advancement opportunities were declined due to the ‘ wide’ gaps between levels in the hierarchy and wider spans of control (Thomas & Dunkerley, 1999). There were concerns about future career paths as the management hierarchy has been reduced (Dopson et al., 1992). Likewise, career opportunities were thought to have significantly decreased and there were no clear paths for middle managers (Newell & Dopson, 1996). Some potential career paths were identified, such as the notion of filling " dead men's shoes" or " promotion by the back door", that was being promoted because your " face fitted", or you were " good mates with the senior manager" (Newell & Dopson, 1996, p. 15).

Majority of the managers commented on a lack of information provided by the organization about their role and future in the organization and about their feelings of lack of control after changes took place (Newell & Dopson, 1996; Thomas & Linstead, 2002). Some managers felt more insecure feelings on further changes and complained that the refocusing of tasks made them to lose certain enjoyable aspects of job (Dopson et al., 1992). They faced problems adapting to changes, especially when the changes were unexpected and the employees were not fully consulted about those changes (Dopson et al., 1992). Some middle managers felt that they are ' stuck' in a situation which was continually demanding in terms; however, without the support of proper training and development (Newell and Dopson, 1996, p. 18). Likewise, middle managers felt that they were ' losing the plot' in their organization with increased feelings of insecurity and uncertainty (Thomas & Linstead, 2002, p. 88). Middle managers had a great sense of vulnerability that ' middle managers are an easy target' (Thomas & Linstead, 2002, p. 85).

In contradiction, some middle managers reported positive experiences from downsizing (Thomas & Dunkerley, 1999). A number of the middle managers felt a reduction in the frustration of their job (Dopson et al., 1992). Some reasons were identified to address such claim. First, the shorter hierarchy in the organizations meant that the middle managers were closer to top management and the strategic and policy arena (Dopson et al., 1992). They claimed to have greater control over their working lives and resources that they need, greater power of decision making, problem-solving, more innovative and strategic input (Dopson et al., 1992; Thomas & Dunkerley, 1999). Thus, middle managers had more entrepreneurial roles. Many middle managers commented on feelings of job fulfillment and enrichment. Some surviving middle managers perceived increased career opportunities as some beneficial retirement packages had freed up the senior end of middle management. As a consequence, the profile of middle management was getting younger (Thomas & Dunkerley, 1999).

Furthermore, the reduction in promotion opportunities were may be offset in part by the introduction of more performance-related pay (Dopson et al., 1992). Ebadan and Winstanley (1997) conducted a study which focused on getting the manager's views of changes occurred and their perceptions of how the new career paths could be and should be forged. As a result, 42 respondents identified worse career prospects. However, despite the overall perception of worsening career prospects, the managers generally felt that their career prospects were better in the reorganized organizations than elsewhere.

Work Attitudes of Surviving Managers

Levitt et al., (2008) carried out a study to investigate the effects of downsizing on the survivors of layoffs in a large insurance organization. In-depth interviews with four middle managers were conducted to determine surviving middle managers' attitudes pertaining to downsizing. Middle managers reported negative feelings of apathy, fear, distrust and anger toward the organization. Middle managers reported no loyalty or commitment to organization anymore. They no longer felt obligated to perform above and beyond the call of duty and no longer do so. These characteristics were consistent with the term as ' survivor syndrome' (Devine et al., 2003, p. 110). Similarly, in an attempt to know more about how middle managers responded to the demands of downsizing, O'Neill and Lenn (1995, p. 25) found that surviving middle managers were " anger, anxiety, cynicism, resentment, resignation, desire for retribution and hope".

Middle managers reported high level of stress after downsizing. The type of stress was no longer isolated to the workloads; though, the increasingly feelings of job insecurity. They also indicated they felt stress relative to the constant organizational changes (Levitt et al., 2008). The study conducted by Luthans and Sommer (1999) found that managers reported lower level of organizational commitment, lower job satisfaction and workgroup trust following an organizational downsizing. Middle managers had lower morale and long-term commitment to organization due to the lack of resources and rewards and the constant pressure to reduce costs (Thomas & Dunkerley, 1999). Correspondingly, majority of the respondents in the study by Ebadan and Winstanley (1997) indicated that they would have lower morale and motivation due to a possible decreased in promotion opportunities. The lower levels of commitment and trust of middle managers were resulted from the aspect of freedom to make decision. Freedom for middle managers to make strategic decisions had not always increased along with the growing of variety and creativity of middle management tasks (McCann et al., 2004). On the other hand, in the study by Thomas and Dunkerley (1999), middle managers reported higher job satisfaction level from increased empowerment over their work roles.

Ugboro (2006) carried out a study to determine the relationship between job redesign, employee empowerment and intent to quit measured by affective organizational commitment among survivors of organizational restructuring and downsizing. The respondents of this study comprised of both middle managers and employees in supervisory positions. A total of 438 useable questionnaires have been used for data analysis purpose. The results showed significant positive relationships between job redesign, empowerment and affective commitment. The study showed that both job redesign and employee empowerment that enhanced survivors' sense of impact and job meaningfulness could facilitate survivors' affective commitment and reduced their turnover intention.

In spite of the middle managers' attitudes as mentioned above, Allen et al., (2001) revealed that the middle mangers attitudes changed over time after downsizing. The data was collected through surveyed 106 managers experienced a downsizing regarding organizational commitment, turnover intentions, job involvement, role clarity, role overload, satisfaction with top management and satisfaction with job security. The results generally indicated that downsizing had a significant impact on work attitudes, the impact varied over time and that the initial impact was generally negative. The findings indicated that the most negative impact on attitudes occurred during the immediate post-downsizing period (Allen et al., 2001). A later study by Levitt et al. (2008) opposed to the previous findings by Allen et al. (2001). Middle managers reported transitional changes in their feelings over time; however, these changes or transitions were predominantly from positive to negative. They reported positive feelings initially that changed to negative feelings and these negative feelings continued to grow overtime (Levitt et al., 2008).

2. 1. 3. 2 Impacts on Surviving Non-managers

In 1994, Mone conducted a study to examine how individual-level factors (self-efficacy, self-esteem, personal goals, job satisfaction, and organizational commitment) affected workers' decision concerning turnover intention to leave the downsizing organization. A total of 145 employees at a U. S. manufacturing firm that experienced downsizing in the 1970s, 1980s, and 1990s were the respondents of the study. The findings suggested that self-efficacy was positively related to turnover intention. Furthermore, task self-esteem, but not role and global self-esteem had a negative impact on turnover intention.

A 3-year longitudinal panel study was conducted by Armstrong-Stassen (2002) to compare the impacts on employees who had been declared redundant (N= 49) in the initial downsizing stage, but who remained in the organization, and employees who had not been designated redundant (N= 118). Data was collected in time T1 (early 1996), T2 (6 months later), T3 (1997), and T4 (1999). Employees designated redundant reported significantly higher level of job satisfaction at T4 compared with other three periods. While at T1, they reported lower job satisfaction than those declared nonredundant, but by T4 they reported higher level of job satisfaction than employees designated nonredundant. Additionally, both group of employees reported significant increase in job security between T1/T2 and T3 and also between T3 and T4.

Devine et al. (2003) conducted a study to compare the outcomes experienced by both victims and survivors involved in a major downsizing program. The final sample consisted of 608 responses (435 continuing employees, and 173 displaced, re-employed employees). The findings suggested that employees who continued to work in the downsized environment reported higher stress level than those individuals who had been displaced. Additionally, the displaced employees reported they had more job control, or autonomy than continuing employees. Furthermore, the moderating effect of perceived job control on the relationship between the environmental stressors (downsizing) and perceived employee stress was found, indicating that high perceptions of control lowered feeling of stress, and vice versa. Finally, displaced employees reported significantly higher level of job satisfaction, overall physical health and quality of life perceptions, and lower level of absenteeism and licit drug use than continuing employees.

Summary

In a nutshell from the review of downsizing research, it revealed that most of the studies pertaining to surviving managers especially middle managers have been in the form of qualitative method in which they explore the work-related stressors experienced by surviving managers and their attitudes. Furthermore, the direct relationship between work-related stressors (role overload and job insecurity) and turnover intention has been underresearched in the context of downsizing.