# Strategic downsizing: critical success factors

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**Abstract**
Aims to review the literature pertaining to downsizing with an emphasis on the organization level, and establish the critical success factors of downsizing, that is, guidelines to the successful implementation of downsizing activities. Addresses these objectives by examining first, how downsizing is defined in the literature reviewed, then discusses the different ways in which or measures by which organizations carry out downsizing activities and the reasons that prompt companies to downsize. Addresses the rationale utilized by firms to downsize, the expected outcomes in terms of economic and human consequences, the approaches to downsizing (reorientation and convergence) and specific strategies such as workforce reduction, work redesign and systemic strategy. Also downsizing tactics, human resources as assets vs costs, planning, participation, leadership, communications, and support to victims/survivors are examined. Both laboratory experiments and empirical research concerning survivors' reactions are explored. The role of trust as well as the human resource professional in the process are included. Conclusions and recommendations complete the article.

## Introduction

For three decades, downsizing has been a reality for many North American organizations. "More than three million jobs have been eliminated each year since 1989, for a loss of 43 million jobs since 1979" (Mishra *et al.*, 1998). Stemming from the desire to become more efficient and effective, firms in both the private and the public sectors have adopted downsizing strategies (Cameron, 1994a). Furthermore, the increasingly dynamic and competitive workplace and the trend toward globalization have prompted many firms to downsize (Appelbaum *et al.*, 1987a; de Meuse *et al.*, 1994; Mroczkowski and Hanaoka, 1997). Originally in the 1970s and 1980s, mainly blue-collar workers felt the impact of massive layoffs and drastic cutbacks, typically during cyclical downturns (Cameron, 1994a; Touby, 1993), but by the mid-1980s white-collar workers on a large scale had also become the target of downsizing activities (Freeman, 1994). While many unionized blue-collar workers are able to trade off wage freezes or concessions for job security, white-collar workers in the lower ranks do not have that security. As a result, these white-collar workers are often the hardest hit by downsizing (Cascio, 1993).

Downsizing is not only prevalent in North America. Because of competitive pressures around the world, firms are increasingly forced to cut costs, restructure, and reduce their labor force. Moreover, in countries that are moving from a state-dominated to a market system such as countries in Latin America and Eastern Europe, privatization often brings about the need to reduce firms' headcount. Downsizing has even become common in industrialized countries such as Japan and Sweden; restructuring in the 1990s led to employment reductions in industry

and hence, increases in the levels of unemployment (Mroczkowski and Hanaoka, 1997).

More and more, business publications and the media are uncovering reports of corporate downsizing (Cascio *et al.*, 1997; Freeman, 1994), as a result, fundamental structure changes in the economy have occurred, painfully impacting the labor force (Cascio *et al.*, 1997). For example, job security can easily be termed a "thing of the past" (Appelbaum *et al.*, 1987a) continuous staff reductions have become the expected norm. Unfortunately, downsizing is rarely part of the overall strategic plan for the firm, but rather a shortsighted, knee-jerk reaction to changes in competition (Bruton *et al.*, 1996). Though firms aim to become "lean and mean" (Appelbaum *et al.*, 1987a), many end up being "lean and lame" (Mroczkowski and Hanaoka, 1997).

Much of the academic literature on downsizing deals with examples from the North American automotive industry. According to Cameron (1994a) and Mishra and Mishra (1994), this industry was selected for several reasons: its deeply competitive and dynamic environment, the extent of its downsizing activities, and its importance in the North American economy (the automotive industry accounted for nearly 40 percent of US GDP).

There are three perspectives from which downsizing can be reviewed: the industry level, the organization level, and the individual level. In terms of the industry or global perspective, related topics include mergers and acquisitions, joint ventures and national employment trends (Cameron, 1994b). The second perspective lends itself to the organization or strategy level. This perspective concerns itself mainly with how to implement downsizing and the expected benefits and pitfalls of downsizing on the firm's performance, efficiency, and effectiveness. At the individual level, also termed the micro level, areas of discussion associated with downsizing are psychological coping strategies, individual stress, and the study of the

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"survivors' syndrome". This article will address the organization perspective of downsizing. Therefore, the objectives of this article are to review the literature pertaining to downsizing with an emphasis on the organization level, and to establish the critical success factors of downsizing, that is, guidelines to the successful implementation of downsizing activities.

The article will address these objectives in the following manner. First, how downsizing is defined in the literature is reviewed. Then, the different ways or measures in which organizations carry out downsizing activities are discussed, and the reasons that prompt companies to downsize are examined. For example, firms downsize to cut costs, to remain competitive, to adjust to the increasing technological advancements, and to respond to social pressures. Next, the outcomes that organizations expect when undertaking downsizing are described. Subsequently, the actual consequences of downsizing in terms of economic and human aspects are reviewed; do downsized firms really experience gains in productivity, efficiency and effectiveness, and maintain the employees' morale, commitment, loyalty and trust? When an organization decides to downsize, it must first look at its current mission, objectives and core competencies, as well as its "fit" with the environment. Based on this internal and external diagnostic, the firm can then determine which downsizing approach to take, reorientation or convergence. While the former is a redefinition of the firm's mission in reaction to past missteps or environmental change, the latter is a fine-tuning of the firm's present vision, mission, strategy and structure. Once the downsizing approach has been decided, the firm must establish which downsizing strategy or strategies to adopt. The three common downsizing strategies are workforce reduction, work redesign, and systemic strategy. These strategies are not mutually exclusive, that is, they can be implemented individually or jointly. In order to successfully downsize, there are certain downsizing tactics of which firms should be aware, such as employees should be considered as assets not costs, the importance of planning, the critical participation of all stakeholders, the presence of supportive and committed leadership, the significance of open and honest communication, the imperative need of mutual trust between management and employees, and the critical role played specifically by the human resource department. In conclusion, some recommendations on how to successfully downsize, along with some future research topics, will be presented.

## Downsizing

Contemporary terms such as reengineering, rightsizing, layoffs, reductions in force, organization decline, and reorganizing are regularly used as substitutes for downsizing. While they do denote to some extent a common meaning, each has its own connotation (Cameron, 1994a; de Meuse *et al.*, 1994; Freeman, 1994).

Downsizing is the systematic reduction of a workforce through an intentionally instituted set of activities by which organizations aim to improve efficiency and performance (Appelbaum *et al.*, 1987b; Cameron, 1994a; Cascio, 1993). As a result, the firms' costs, processes and workforce are affected. It is understood that downsizing efforts are undertaken for the improvement of the organization. However, that does not imply that only firms that are experiencing problems downsize; quite to the contrary, firms that are growing are just as likely to downsize. Equally important to point out is that downsizing can be proactive and anticipatory or reactive and defensive (Cameron, 1994a). Finally, downsizing can refer to large permanent, reactive layoffs, a streamlining of functions, a redesign of systems, a redefinition of policies aimed at cutting costs, and a proactive strategy (de Meuse *et al.*, 1994).

Layoffs are still the most common way to downsize, although many alternatives exist (McCune *et al.*, 1988; Mishra and Mishra, 1994). Appelbaum *et al.* (1987b), Cameron *et al.* (1991), McKinley *et al.* (1995), Mishra and Mishra (1994), and Mone (1994) cite intended staff reductions as a downsizing strategy, through attrition, early retirements or outplacements. Reducing the work, not only the number of employees is another downsizing measure (Cameron *et al.*, 1991; Cascio, 1993). In a survey by the Right Associate consulting firm, 70 percent of firms that had downsized used a hiring freeze. Other courses of action included divesting unrelated businesses (Bruton *et al.*, 1996; Mone, 1994), selling off capital assets (Mone, 1994), eliminating functions, hierarchical levels and units (Cascio, 1993), restricting overtime (Mishra and Mishra, 1994) and retraining or redeploying employees (Cameron *et al.*, 1991; Mishra and Mishra, 1994). Finally, downsizing sometimes invokes cost containment strategies through which activities, for example, transaction processing, information systems, and sign-off policies are streamlined (Cameron *et al.*, 1991; Cascio, 1993). The strategies and rationale to engage in this process are often divergent and need to be examined.

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## The rationale to downsize

Strapped by hard times, struggling with more debt than ever, firms downsize in an attempt to cut costs (Cascio, 1993; Freeman, 1994; Mishra and Mishra, 1994). Moreover, in attempting to remain competitive in an ever-increasing global marketplace, firms see few alternatives to downsizing (Appelbaum *et al.*, 1987a; Cameron, 1994a; Mishra and Mishra, 1994).

According to Mishra and Mishra (1994), the downsizing, which took place in the early 1980s, was mainly an effort to reduce the number of employees in order to stay competitive. That trend continued into the 1990s with firms attempting to cut costs to remain competitive in the global marketplace (Appelbaum *et al.*, 1987a; Cameron *et al.*, 1991). Projections until the end of this century do not see a lapse in downsizing activities; in fact, firms are expected to continue to downsize extensively. One possible reason for this is that firms poorly planned or carried out earlier downsizing projects and hence must remedy past failures (Mishra and Mishra, 1994).

Downsizing begets downsizing (Cascio, 1993). To illustrate, Kodak downsized four times between 1982 and 1992, Honeywell twice in four years, and Xerox, IBM and Digital Equipment have experienced several cutbacks throughout the 1990s. In a like manner, firms that have experienced market share loss coupled with losses in profitability tend to perpetually downsize. These trends are troublesome since they appear to be "knee jerk" reactions to other firms in the field in a "follow the leader" zero-sum game. This is referred to as cloning which will be presented shortly.

Other factors that may contribute to downsizing are technological advancement and innovations that result in heightened productivity and fewer workers required (Appelbaum *et al.*, 1987a; Wagar, 1997). Nonetheless, Dunford *et al.* (1998) state that a change in technology is not a primary reason for firms to engage in downsizing activities. In the past, technological improvements often resulted in hiring additional workers rather than replacing the existing employees; the numbers that were added are now being cut (Cameron, 1994a). De Vries and Balazs (1997) also incorporate the influence of technology on downsizing, although in a slightly different vein. They state that rather than simply the introduction of technology, it is the "administrative impact of the revolutionary transformation in information and communication technology" that has impacted downsizing. The outcome of technological advances has been an increasing redundancy of middle management; these employees, who previously were responsible for collecting, analyzing, and transmitting information within the firm, are no longer needed.

According to McKinley *et al.* (1995), there are three main social forces that lead to downsizing, constraining, cloning and learning. First, constraining is essentially the exertion of pressure on firms to conform to institutional rules with regard to legitimate structures and management activities. Increasingly, firms aim to conform to an ideal model of "lean"; often they achieve this result through downsizing (McKinley *et al.*, 1995; Tomasko, 1991).

Second, McKinley *et al.* (1995) define cloning as the pressure exerted on firms to mimic those companies that provide a benchmark for the industry in terms of excellence and prestige. Similarly to constraining, whether actual benefits can be drawn from the downsizing activities is not of importance to those firms involved in cloning, but rather whether downsizing has taken place (McKinley *et al.* 1995; Mentzer, 1996). In a like manner, Palmer *et al.* (1997) examine the rationale of firms that downsize. While initially firms justified their downsizing initiatives by using the business environment as a rationale, by the 1990s firms began to use the trend toward globalization as a rationale. In both instances, the "explanations" make use of external deterministic rationales. Rather than targeting weak business and management decisions absorbing the responsibility for any downsizing that is deemed required, the "blame" is put on the external conditions that are not under management's control (Palmer *et al.*, 1997).

Finally, learning experiences involving what is being discussed in educational institutions, such as universities and professional associations, exacerbate this activity. By teaching different approaches to and theories of downsizing, the role of downsizing activities becomes legitimized, and more easily considered to be acceptable.

While Appelbaum *et al.* (1987a) and Cascio *et al.* (1997) state that companies that are not performing well, are experiencing financial losses and cash flow difficulties are more likely to engage in downsizing, Mentzer (1996) interestingly found that in large Canadian firms there was no consistent relationship between a financially distressed firm and its intention to downsize.

Another area of disagreement within the downsizing literature involves the role of the recession of the late 1970s and the early 1980s. Recessions are often associated with good

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opportunities to improve a firm's productivity through the introduction of automated equipment and the reduction of workforce numbers (Cascio, 1993). Although Appelbaum *et al.* (1987a) contend that the recession has been the main cause of downsizing activities, a survey conducted by the American Management Association reported that nearly half of the respondents felt the recession had no influence whatsoever on downsizing. Rather, mergers and acquisitions, technological advances, and transfers of operations are to be held accountable for the ongoing downsizing projects (Cascio, 1993). Now that the rationale why firms downsize has been described, what they expect to achieve from their downsizing efforts in terms of outcomes will be presented.

## Expected outcomes: economic and human consequences

A common response aimed at "reducing fat and waste" for firms that are experiencing difficulties due to decreasing sales, rising costs, and increasing competition is to cut the size of the organization, most often in the form of cutting employees (de Meuse *et al.*, 1994).

Firms undertake downsizing with the expectation that they will experience financial and organizational benefits (Bruton *et al.*, 1996; Cascio, 1993; Freeman, 1994) and that organizational health will be restored to the firm (Freeman, 1994). Often, the goal of downsizing is to enhance efficiency and productivity within a firm (de Vries and Balazs, 1997; Cascio, 1993; Mishra *et al.*, 1998; Mone, 1994), that is, to do more with less. Another economic benefit results from firms being able to increase value for their shareholders (Cascio, 1993; Cascio *et al.*, 1997). Moreover, Mone (1994, 1997) suggests that benefits may equally be present in the form of lower average salaries for the less senior surviving labor force, fewer management layers, and more decentralized organizational structures.

Beneficial consequences in terms of cost cutting considerations are also among the expected outcomes of firms that downsized (Appelbaum *et al.*, 1987b; Cameron *et al.*, 1991; Cascio *et al.*, 1997). According to Cascio (1993), executives are able to better predict future costs than future revenues; hence, lowering costs by decreasing the number of employees is a good way to heighten earnings and, by implication, the price of the firm's stock (Mishra *et al.*, 1998). By essentially removing middle management, overhead is reduced and the number of hierarchical levels is lessened (de Vries and Balazs, 1997; Cascio, 1993).

According to Cascio (1993) and de Vries and Balazs (1997), expected economic benefits of downsizing include lower expense ratios, increased return on investment, higher profits and stock prices. In a like manner, organizational benefits that firms seek as a result of downsizing are lower overhead, smoother communications, increased entrepreneurship, and heightened productivity (de Vriesa and Balazs, 1997; Cascio, 1993).

Finally, downsizing also helps firms to remain competitive, especially in an ever-increasingly global environment (Appelbaum *et al.*, 1987b; Cascio *et al.* 1997; de Vries and Balazs, 1997). Firms that downsize should be able to lower their labor costs and, as a result, to control product prices to improve competitiveness (Cascio *et al.*, 1997). As per Appelbaum *et al.* (1987b) firms have been prompted to become "lean and mean" through downsizing activities, competitive consideration on national and international levels have to be taken into account. While this section examined the expected outcomes of downsizing, the actual economic effects will now be addressed.

## Actual economic consequences

Although downsizing is undertaken by many firms to reduce costs, there is evidence that it does not decrease costs as much as desired and that in some cases expenses actually increase (McKinley *et al.*, 1995).

In a survey carried out by Wyatt Associates in which 1,005 firms that had downsized between 1986 and 1991 were examined, the results indicated 46 percent of the firms had reduced expenses, 32 percent had increased profits, 22 percent had experienced gains in productivity, and 17 percent had reduced bureaucracy (Cameron, 1994a; Cascio, 1993). In other survey results from the Society for Human Resource Management, over 50 percent of the 1,468 firms that had downsized reported that productivity had declined as a result of downsizing (Cameron, 1994a; Cascio, 1993). Drops in productivity were also acknowledged by Mabert and Schmenner (1997); their study enumerates a number of other costs, most of which are hard-to-quantify, including costs of quality which are a result of increased rework, scrap, and inspection, overtime costs as fewer employees try to handle the same amount of work as before, and forgone new business opportunities since the company does not have the resources to take on any more work.

Mirvis (1997) cites that over one third of the downsizing companies that were surveyed reported an unexpected increase in temporary workers and consultants, and the need for employees to put in overtime and to be retrained. Similarly, de Vries and Balazs (1997) claim that when long-term employees were cut, organizations experienced loss of "institutional memory" and that when head office employees who had had a more long-term strategic mindset were dismissed, often "new" executives adopted a short-term approach to decision making. This resulted in an overall sense of alienation for the firm and gave rise to serious and negative consequences for the research and development department, capital investments, training and development, and over-all performance of these organizations.

de Meuse *et al.* (1994) reported the findings of their study which contrasted the financial performance of the 17 Fortune 100 firms that made public layoff announcements in 1989 with the 35 Fortune 100 companies that made no layoff announcements from 1989 to 1991. They found that the financial performance of firms that downsize continues to lag after downsizing efforts as they expect more layoffs in the future. In a like manner, Bruton *et al.* (1996) report that, in general, for two years following downsizing the stock value of firms decreases.

Within the downsizing literature dealing with the non-realization of the expected benefits of cutting the number of employees, several reasons for unsuccessful downsizing are cited:

1  the downsizing projects were poorly executed or not managed properly (Cameron, 1994a; Freeman, 1994);
2  the inability of firms to look beyond the traditional 3-C approach to organization design and management (principles of command, control, and compartmentalization) (Cascio, 1993);
3  the extent of resentment and resistance to change within the firm resulting in the loss of productivity, efficiency, and competitiveness (Cameron, 1994a);
4  firms not well prepared for the types of problems that arise due to downsizing (employee resentment and concern, loss of morale, lack of innovation and creation, etc.) (Cascio, 1993; Dougherty and Bowman, 1995; Freeman, 1994); and
5  downsizing is driven by social forces instead of finding motivation in predictable financial benefits (McKinley *et al.*, 1995)

According to Freeman (1994), many downsizing projects fail because rather than

take the opportunity to reorient themselves and engage in a major turnaround, firms focus on internal efficiency. Firms aim to become smaller versions of their previous selves; instead they should be questioning their very existence in their present state. In a study conducted by Mirvis (1997), it was found that firms that engaged in downsizing in order to cut costs were more likely to encounter post-downsizing problems than firms that downsized to increase productivity. Similarly, firms that downsize as a defensive reaction to decline are less likely to be successful than those who undertake downsizing activities to increase performance (Bedeian and Armenakis, 1998).

Furthermore, Cascio *et al.* (1997) performed an empirical study on 5,479 employment change occurrences using data from Standard & Poor's 500 companies, between 1980 and 1994. The two dependent variables that were examined were return on asset and return on common stock. The authors found that firms that undertook pure employment downsizing did not report significantly higher returns than the industry average. However, they found that firms that not only downsized but also engaged in asset restructuring were more likely to show higher returns on assets and stocks than other companies in their industry. Finally, they warn that strictly downsizing may not generate the benefits that management expects. Examining the economic consequences of downsizing is a modest index; the evaluation of human resource consequences sheds a different light on this perplexing topic.

## Actual human consequences

While those who lose their jobs may seem the most affected by downsizing, it is more likely that the employees who remain suffer the more negative effects. In a survey conducted by Right Associates, 70 percent of senior managers who remained in downsized firms reported that morale, trust, and productivity declined after downsizing. Mirvis (1997) states that over 60 percent of the employees interviewed found as the main downside of downsizing the lower morale of the survivors. In addition to these negative effects, employees suffer from heightened levels of stress, conflict, role ambiguity, and job dissatisfaction, the inability to monitor, control and support business units effectively, an overall sense of dissatisfaction with supervisors and colleagues, and burnout (Appelbaum *et al.*, 1987b; Cascio, 1993; de Vries and Balazs, 1997; Mone, 1994). As a result, firms lose their stability and experience declines in

terms of their levels of coordination and motivation; in due time, it is the company's performance levels that suffer to the greatest extent (Appelbaum *et al.*, 1987b; de Vries and Balazs, 1997).

According to Cascio (1993), the effects of downsizing are longer-term than most would like to admit. While immediate negative consequences include loss of morale, distrust, and drops in productivity as well as employees becoming self-centered, narrow-minded and risk averse, the literature stresses long-term impacts such as a lack of commitment to one's employer, ultimately resulting in recurring career transactions and greater turnover for firms (Cascio, 1993; de Vries and Balazs, 1997; Mone, 1994).

A case study conducted by Mone (1994) on a major *Fortune 100* organization that operates internationally reports that employees who have greater self-efficacy and self-esteem are more likely to contribute to increased employee turnover in downsizing firms than in non-downsizing firms. These results were found after a hierarchical regression analysis was performed on the data of 145 returned usable surveys. Often, these high self-efficacy employees are dissatisfied with the fewer benefits, rewards, and opportunities available due to the downsizing that has occurred, feel less committed to the firm, and are thus more likely to seek employment elsewhere (Cascio, 1993; Evans *et al.*, 1996; Mone, 1994). Conversely, Mone (1994) found that employees with low self-efficacy tend to perform at lower levels and have less confidence to look for other employment opportunities. Furthermore, these results suggested that low self-efficacy employees become more committed to the downsizing firm and are less inclined to leave the company. Paradoxically, to restore organizational health, to be able to compete and to survive, downsizing firms most need the competent, successful and confident employees who are more inclined to leave (Mone, 1994).

Some of the reasons why firms downsize, their expected outcomes, and the actual economic and human consequences, have now been discussed. The following sections will explore downsizing approaches, strategies, and tactics, which will provide some guidance for firms to downsize successfully.

# Downsizing approaches

When a firm initially decides to downsize, it must first evaluate whether its internal operations and environment are compatible with the external environment. This will determine which downsizing approach –

reorientation or convergence – the firm should undertake. Neither of the approaches is invariably the one to adopt in all downsizing efforts as each of them addresses distinct strategic and redesign issues. The following data are intended to modestly summarize the concepts of reorientation and convergence, and are largely based on the works of Freeman and Cameron (1993) and Freeman (1994). However, other researchers have also contributed to strategies.

## Downsizing as reorientation

Firms which engage in major downsizing efforts and aim to realign the internal organization with the external environment (most likely to improve its competitive positioning within the industry) should adopt a reorientation approach (Bailey and Szerdy, 1988; Bruton *et al.*, 1996). Reorientation forces the organization to question the very essence of its existence; it prompts the firm to address not only issues concerning how things are done but also if things need to be done in the first place. The objective of reorientation is to redefine the firm's mission, according to its "fit" with the environment.

The basic objective of reorientation is for the firm to adopt a new, more efficient and effective overall structure following an in-depth analysis of its present mission and strategic direction. This track follows naturally that reorientation results in downsizing. Through reorientation, the manner in which the firm will downsize is made clear, for example, through combining units, eliminating redundancies, etc. Reorientation rarely results in across-the-board cuts. However, needs and skills analyses are conducted and selective layoffs are strongly encouraged; not massive indiscriminate firings.

There are four critical issues to successful reorientation:
1  The entire organization must be involved in systematic analysis; this analysis will review the firm's structure, skills, jobs, and tasks.
2  Participation from all levels of the organization is necessary. Suggestions as to identifying ways to downsize and to reorient the organization should come from all levels and areas of the firm; all employees should feel some responsibility for any changes that may occur.
3  Communication is vital to successful reorientation activities. It must be made clear to all employees that the firm will be experiencing critical change and that a completely restructured firm will soon be reality; the use of communication and symbolic management activities (reward ceremonies, slogans, inspirational

speeches, etc.) is very important at this stage.

4 Emphasis must be placed on the firm's relationship with other organizations with respect to their potential help or hindrance to the downsizing efforts. For example, tasks formerly performed by the organization may, following reorientation, be transferred outside the organization. Essentially, reorientation involves direction coming from management yet with a high degree of participation from all employees.

While reorientation aims to redesign the entire organization, the goal of convergence, the other approach, is to reinforce the firm's present structure and strategy by continuously attempting to make the firm more efficient.

### Downsizing as convergence

Generally, convergence does not imply any type of major change but rather solicits continuous improvement. All members of the organization are urged to think in terms of how the firm can continue doing what it does better, in a more efficient manner; ways to improve productivity, streamline operations, and increases in efficiency are continually being sought.

In convergence, all employees of the organization participate in downsizing; it is not solely the responsibility of upper management. Throughout the entire organization, there is a sense that operations are not being ideally performed and that there is always room for improvement as a driving force; innovation is encouraged, as are suggestions for improvement from individual employees, task forces, and improvement teams. While in reorientation changes occur across-the-board in all areas of the organization. However, when downsizing via convergence, changes occur in a piecemeal manner in selected areas of the firm. Convergence entails incremental change.

Convergence is best implemented not at the organization level (as is reorientation) but rather at the micro level, for example, at localized tasks, jobs, and processes. More extensive participation is required from those directly being affected by the downsizing nonetheless, the entire organization is urged to adopt a mindset of continuous improvement. While management may set the general direction and goals of the downsizing effort, the process of downsizing as convergence is mainly a bottom-up approach. In reorientation, communication and symbolic management are of the greatest importance during the process of redesign;

however, during convergence, the critical time frame for communication and symbolic management is before the downsizing effort is ever initiated. As a result, the mindset of continuous improvement is instilled before the process begins, and communication and symbolic management are then used to reinforce the notion of continuous improvement.

One of the main advantages of downsizing as convergence is that the firm is involved in perpetual improvement, and that managers and employees of the firm strive to make the firm as efficient as possible by reducing headcount and streamlining operations, while at the same time ensuring that the skills and knowledge required by the organization are conserved (Hardy, 1987). Ironically, though, a major downside of convergence is that employees who suggest improvements to operations and other efficiency-seeking activities may find themselves without employment or increased workload, as their suggestions for improvement and refinement entail headcount reduction.

Ideally, firms that engage in downsizing as reorientation should subsequently follow practices pertaining to convergence. Once the firms have undergone a major upheaval in terms of their structure and processes, they should adopt a continuous improvement mindset, never ceasing to seek improvement in efficiency. Once a firm has decided which downsizing approach to adopt, it must then establish which downsizing strategy or strategies to use.

## Downsizing strategies

Within the downsizing literature, there are three common strategies that firms adopt to downsize: workforce reduction, work redesign, and systemic strategy. Each will be examined:

1 *Workforce reduction strategy.* Workforce reduction, often the first choice of strategies for firms that downsize, is generally thought of as a quick fix, short-term "grenade" type solution and includes transfers, outplacements, retirement incentives, buyout packages, layoffs, and attrition (Cameron, 1994a; Cascio, 1993; Feldman and Leana, 1994; de Meuse *et al.*, 1994). Attrition, induced redeployment, involuntary redeployment, layoffs with outplacement assistance, and layoffs without redeployment assistance are the five ways in which to implement workforce reduction (Greenhalgh *et al.*, 1988; Wagar, 1997). Each method provides the

employee with a lesser degree of protection. According to Cameron (1994a), this type of strategy is carried out at all levels of the organization, without consideration given to insuring that crucial skills and critical human resources are maintained; this leads to a form of "competency anemia". Mentzer (1996) suggests that instead of indiscriminately laying off employees, the most effective way to downsize may be to consciously and carefully choose the employees to be cut.

2  *Work redesign strategy.* Work redesign aims to reduce work instead of cutting the number of employees. This is a mid-term strategy implemented by phasing out functions, hierarchical levels, departments or divisions, redesigning tasks, combining units and adopting a shorter work week. Cameron (1994a) claims that it is important that the changes carried out are clearly focussed on redesigning work and organizational processes. The research findings indicate that 50 percent of the firms studied had adopted a redesign strategy at least once.

3  *Systemic strategy.* The main objective of a systemic strategy is to try to ensure that continuous, repetitive, seemingly never-ending workforce reduction will not have to be carried out in the future. This is a long-term strategy. A systemic strategy relates downsizing with simplifying all areas of the company, including suppliers, design processes, marketing, sales support, and production methods; in essence, the whole organization is simplified. A systemic strategy focuses on eliminating the status quo, emphasizing culture, allowing the appropriate amount of time for implementation, looking at long-term payoff (Cameron, 1994a).

The three downsizing strategies are not necessarily independent of each other; however, per Cameron (1994a), it is more common for firms that are downsizing to rely on alternative methods of one type of strategy than to adopt several alternatives across the different strategies. In doing so, firms therefore have more depth than breadth when undertaking downsizing efforts (Cameron, 1994a).

There are several benefits associated with workforce reduction: it provides an immediate shrinkage, its across-the-board nature draws the attention of all employees to take account of the unhealthy situation of the firm, it prompts cost savings of day-to-day operations, and finally it gets the intense attention of the employees of the firm who anticipate further change (Cameron, 1994a).

There are, however, many more negative consequences associated with this downsizing strategy. When a workforce reduction strategy is undertaken, it is often difficult to know in advance of time who will be eliminated, what skills may be voided from the firm, and what the exact result in terms of human resources will be once the employees leave (Bruton *et al.*, 1996; Cameron, 1994a; Feldman and Leana, 1994). Moreover, this type of downsizing strategy is associated with firm dysfunction, organizational ineffectiveness, and loss of loyalty and commitment. Employees become self-absorbed and a me-first attitude prevails (Cameron, 1994a; Cascio, 1993). Although firms may feel the necessity to use workforce reduction for their short-term benefits, in the long-term these benefits are negated by long term costs. For example, as discussed by Bruton *et al.* (1996) and de Meuse *et al.* (1994), engaging in workforce reduction may have merit when looked at only in the short term. However, the research found that firms continue to accrue financial problems as they continue to announce layoffs; therefore, the rationale behind using such a strategy is not easily supported.

Instead of engaging in workforce reduction, firms can implement other human resource alternatives which entail cutting labor costs, streamlining operations, putting hiring on hold, decreasing or eliminating employee benefits or perks, or shortening the work week (de Meuse *et al.*, 1994; Feldman and Leana, 1994).

When firms undertake a work redesign strategy, they are usually able to increase their level of efficiency because of the simplified structure. However, this mid-term strategy involves only localized improvement within the organization, and hence it does not produce the widespread effects that systemic strategies produce.

Within the downsizing literature, of the three strategies, the systemic strategy was deemed the most likely to produce positive results. According to Cascio (1993), in order to sustain long-term improvements in efficiency, organizations must engage in continuous improvement processes which include not only organization redesign but also systemic changes which help eliminate redundancies, waste and inefficiency. By engaging in continuous improvement strategies, the need for periodic radical and drastic reduction in headcount is alleviated.

Simply laying off workers and not making any attempt to change work processes or tasks results in ineffective downsizing. Firms that try to improve productivity by cutting headcount often end up with over-worked,

over-stressed, distrustful, bitter and angry employees (de Vries and Balazs, 1997; Mentzer, 1996; Schmenner and Lackey, 1994; Touby, 1993).

Firms that effectively downsize generally plan, invest in analysis, encourage participation from all stakeholders, and thrive on information exchange between departments, among supervisors and subordinates, and throughout the entire organization (Cameron, 1994a). These are some of the downsizing tactics that will be discussed in the following paragraphs of this article.

# Downsizing tactics

This section of the article will discuss human resources as assets, the need to plan, employee participation, leadership demands, communication requirements, support to victims and survivors, mutual trust, reactions of survivors as reported in seven laboratory experimental and empirical studies, and the role of human resource professionals in the process of downsizing.

## Human resources as assets versus costs

Human resources are often referred to as human liabilities; hence many downsizing efforts, especially those adopting a top-down approach, simply focus on reducing the number of employees (Cameron, 1994a; Cascio, 1993). Because employees are under management's control and are associated with the greatest part of production costs, they are often targeted first (Appelbaum *et al.*, 1987b). However, employees need to be recognized as a firm's most valuable assets and thus deserving of the appropriate attention; long-term planning of its human resources including proper diagnosis of the employees' reactions and organizational dysfunctioning is required for a firm to survive and to succeed (de Meuse *et al.*, 1994; de Vries and Balazs, 1997). Rather than simply reduce headcount when attempting to cut costs and restructure assets, firms must strategically analyze, restructure and deploy employees on a continuous basis, taking into account all costs including those associated with future employment needs (Appelbaum *et al.*, 1987b; Cascio *et al.*, 1997; de Meuse *et al.*, 1994). To illustrate, according to Mishra *et al.*(1998), training or retraining employees boosts their confidence to work in new environments; as a result, they feel more empowered and more competent to deal with any uncertainty they face.

## Planning

Planning is an important part of the downsizing effort. Before downsizing actually takes place, firms need to have developed a long-term strategic plan which takes into account how departments, areas, and processes can be redesigned while retaining high performers who are crucial to the organization (de Meuse *et al.*, 1994; Freeman, 1994; Mone, 1994). It is important to include staff analysis and realignment into the planning phase of downsizing (Schmenner and Lackey, 1994); this will help to retain vital skills and knowledge (de Meuse *et al.*, 1994; Freeman, 1994). Also, if younger, creative employees leave the organization, its ability to compete in the future may be compromised (Mone, 1994).

Furthermore, management has to take into consideration that any form of downsizing will result in increased levels of stress, job insecurity and uncertainty; it is management's responsibility to minimize these negative consequences (Mone, 1994). According to Mishra *et al.* (1998), many firms are primarily concerned about damage control and hence react to employees' negative feedback instead of making plans to alleviate their worries and to maintain a sense of trust in the organization. Many companies that are ill-prepared for the consequences of downsizing make no retraining or redeployment plans and are soon faced with many more problems than they ever anticipated (Mabert and Schmenner, 1997). Finally, firms that downsize must realize that to "light a new fire of employee enthusiasm," programs that build positive attitudes toward downsizing and the firm must be initiated (Emshoff, 1994) during this planning phase.

## Participation

Typical top-down downsizing approaches are most likely the least effective plan of action (Cameron, 1994a). Cascio (1993) counsels against surprising employees with downsizing activities; rather, all members of the organization should be involved in the planning stage. By full participation of the firm, employees are more likely to accept and feel responsible for the changes, and this increases the probability of successful downsizing (Freeman, 1994); the planning and implementation of downsizing should be representative of all members' interests (Mishra *et al.*, 1998). Freeman (1994) suggests even consulting customers and suppliers as they may offer innovative ways to a firm to accomplish its mission. This is an avant-garde action with a great deal to offer for future downsizings.

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Strategically planning for downsizing requires contributions not only from top management but also from middle and lower levels of employees within the organization (Appelbaum *et al.*, 1987b; de Meuse *et al.*, 1994; Freeman, 1994). Employees want to feel that all levels of the organization are sharing in the effects of downsizing, no matter how negative; for example, Touby (1993) states that employees feel disillusioned when executive management does not relinquish their own bonuses and other privileges while all levels of the organization have been negatively impacted by the downsizing.

By involving all members of the firm in the downsizing effort, the level of uncertainty is reduced and the amount of control over the process is increased (Appelbaum *et al.*, 1987a; Mishra *et al.*, 1997). To illustrate, employees who were asked to rate the relative importance of job-related issues pertaining to attracting, motivating and retaining superior employees cited "opportunities to participate in decisions" was one of the most important aspects (Mirvis, 1997).

### Leadership
Within the downsizing literature, full participation of members of the organization is strongly recommended, as are top management support and commitment (Appelbaum *et al.*, 1987a; de Meuse *et al.*, 1994; Freeman, 1994). The overall vision, strategy, and direction have to come from top management that is composed of highly visible, supportive, aggressive, and confidence-building leaders who know the business and its people well (Appelbaum *et al.*, 1987b; de Meuse *et al.*, 1994; Freeman, 1994; Mishra *et al.*, 1998).

The presence of senior managers indicates to employees that top management is concerned about them. However, to truly increase trust and open, honest communication, it is not enough for top managers to be present, they must also be willing and prepared to help employees and to answer any questions that may arise. Employees, who feel that top management is acting solely in self-interest, are likely to backlash and to feel resentment toward top management and the organization (Mishra *et al.*, 1998). Moreover, employees do not want leaders to manage relationships only in down times, but rather on an ongoing basis (Mansour-Cole and Scott, 1998).

### Communication
In order to encourage the entire firm to participate, open and honest communication is required (de Meuse *et al.*, 1994). According to Mansour-Cole and Scott (1998) one reason that expected profits from downsizing are not

fulfilled is that firms fail to make employees feel respected and valued. There are numerous avenues through which to communicate, including memos, speeches, department meetings, videos, and bulletin boards. Employees must feel they are being informed accurately and in a timely fashion of the downsizing efforts. Management must announce the downsizing after mature consideration and in a convincing manner (Mishra *et al.*, 1998). Furthermore, by sharing confidential financial and competitive information with employees, and by showing a willingness to communicate everything all the time, management establishes a greater sense of trust and honesty. This, in turn, encourages employees to cooperate and to help the company survive the temporary unhealthy situation (de Vries and Balazs, 1997; Mishra *et al.*, 1998).

A communication plan must be established in order to announce to the firm's employees, suppliers, customers, and investors any progress in terms of downsizing activities (Appelbaum *et al.*, 1987b; de Meuse *et al.*, 1994; Mone, 1994). Likewise, management must communicate to employees the firm's commitment to retaining high performers who are likely to succeed in the downsized firms (Mone, 1994). Without such communication, employees will feel excluded, rumors are likely to spread, and employees will become demoralized (Appelbaum *et al.*, 1987b; de Meuse *et al.*, 1994; Schweiger and DeNisi, 1991; Smeltzer, 1991); it is of greatest importance that the communication lines between the Human Resources manager and the employees remain open at all times (Appelbaum *et al.*, 1987b). While currently much communication takes place via technology, Cascio (1993) states that human interaction cannot be completely replaced by computer networks and video conferences; open and honest communication requires human interaction.

### Support to victims and survivors
While much of the literature deals with the survivors, those left in the company after the downsizing effort, the employees who have been terminated are also one of the topics often included in downsizing papers. It is important to provide support not only for the survivors but also for the victims. In order to help the laid-off employees, firms can provide help in outplacement services, redeployment, training, collaboration between the private and the public sectors, and securing financial aid from governments (de Meuse *et al.*, 1994). For example, with the help of their former employers, victims of downsizing can take advantage of services provided to assess their

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skills, to develop job search abilities, and to improve their chances of finding employment elsewhere (Feldmand and Leana, 1994). Furthermore, personal and financial counseling to laid-off employees can help maintain their feelings of empowerment and combat their feelings of despair (Mishra *et al.*, 1998).

As stated in Appelbaum *et al.* (1997), it is important to pay equal attention and to provide support both to the downsized employees and to those who remain in the organization. Many firms still believe that their success depends largely on the commitment of their employees (Emshoff, 1994); it is therefore imperative that morale among the survivors is not compromised (Schmenner and Lackey, 1994). For employees who remain, it can be very painful for them to see their colleagues losing their jobs. The way in which surviving employees are handled right after downsizing is therefore crucial (Appelbaum *et al.*, 1997). Furthermore, survivors will act as they see appropriate according to how the firm treated its laid off workers (Mishra *et al.*, 1998). As stated by Brockner *et al.* (1987), when survivors perceived that layoff victims had not been properly taken care of, they reacted negatively, either by not performing as well as they had or by not feeling as loyal to the firm as before.

### Reactions: seven laboratory experiments
A series of laboratory studies on the survivors of layoffs was conducted by Brockner *et al.* (1987) and Brockner (1988). Owing to the research design, it is impossible to generalize their results. However, this research is useful in that it succeeded in isolating various factors that impact survivors, and it suggested how events could unfold in real life situations. This research provided support for the hypothesis that positive inequity theory might help in explaining the reactions of survivors to layoffs. In addition, pre-existing stress and fair treatment of victims also seem to play a role in survivors' reactions.

Brockner *et al.* (1987) identified four psychological states that survivors might experience as a consequence of witnessed layoffs: job insecurity, positive inequity, anger, and relief. Further, if these psychological states materialize, both survivors' work behaviors and their attitudes could be affected. Particular attention is given to positive inequity, also called survivor guilt, which can be defined as follows, "to the extent that survivors perceive that their inputs were no greater than those of dismissed workers ... they may work harder in order to redress the inequity".

In the first laboratory experiment discussed by Brockner *et al.* (1987), it is shown that survivors who saw a co-worker being dismissed felt more positive inequity and guilt than workers from a controlled group in which there was no layoff. In this experiment, the individual degree of self-esteem is a moderator variable that influences the efforts put into work after the layoff. This finding shows that survivor guilt potentially depends on many factors, which led the way for further studies.

The second study is based on the possibility that if the decision as to who is laid off is based on merit or seniority, survivors are in a position to reasonably believe that they were chosen to remain due to their greater inputs. This could conceivably induce them to feel less positive inequity or guilt than would survivors of layoffs effectuated randomly. This intuition was corroborated by the fact that, after the layoff, productivity increased more for survivors of a random group than for survivors of a merit group. However, this does not suggest that survivors chosen on the basis of merit do not feel guilt and positive inequity. Two further studies (numbers three and four) that were conducted suggested that seniority-based layoffs, in the experimental context, produce little impact on the survivors' work performance. This corroborates the findings of the second study.

In a fifth study, the level of attachment felt by survivors toward the victims was manipulated so that they would identify with them at various levels, and the layoffs were conducted on a random basis, in which case survivor guilt is expected to be present. All combinations of situations in which there were high or low identification with the victim and fair or unfair compensation of the victim were examined. It was observed that survivors' work performance increase was the lowest when high identification was correlated with uncompensated layoff. Under that situation, survivors judged the treatment to be the least fair, and they might have reacted in such a way to protest against management's unfair treatment of victims.

A sixth study revealed that survivors' work performance increased after the layoffs regardless of whether they experienced job insecurity. However, Brockner *et al.* (1987) found that, when there is job insecurity, there is in addition a more negative feeling toward fellow survivors. As a consequence, competition increases in which everyone tries to work as hard as possible and produce the most, so as to insure that they will deserve to stay in case of future cutbacks.

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Finally, a seventh study of survivors examined the effect that their work environment could have on their stress level. It was found that the more severe the layoffs, the least organizational commitment is present among survivors. It was also deduced that commitment to the company is more strongly correlated with layoff severity than to the commitment to work.

A general conclusion from these seven laboratory studies is that real life layoffs may cause positive inequity which in turn would induce increases in work performance. However, it is impossible to say whether these increases would be permanent. In the case where negative inequity is felt, negative feelings toward management could result, especially when the victims are treated unfairly and survivors strongly identified with them. Finally, perceived fairness, as well as stress, seem to be important mediators of behavioral and attitudinal consequences of layoffs. These laboratory experiments furnish ground for field research, as their results can serve as guidelines of what avenues to investigate.

## Survivors' reactions: empirical studies

In order to get an appreciation of how survivors experience the layoff of their colleagues in real situations, Noer (1993) developed a brief listing and overview. He identified the following negative feelings and concerns experienced by survivors, job insecurity, unfairness, depression, anxiety, fatigue, reduced risk taking, lower motivation, distrust, betrayal, lack of reciprocal commitment, dissatisfaction with planning and communication, dissatisfaction with the layoff process, lack of strategic direction, lack of management credibility, short-term profit orientation, and sense of permanent change. These feelings are not to be taken lightly; in fact, they indicate that survivors are very much impacted upon by what occurred in their firms.

To this effect, Kets de Vries and Balazs' (1997) position on the reactions to downsizing is perspicacious: "It is our belief that the existing literature in this field could be enhanced if more attention were given to the mindset of different *actors* in this all-too realistic psychodrama and to the roles that the various parties play in the process". The researchers also illuminate the fact that it is important to consider not only the feelings experienced by the employees that were not laid-off, but also how those who implemented the actual downsizing are affected by it

psychologically. The researchers felt downsizing breaks down a complex set of interconnections within the organization, and often induces dramatic changes in corporate environment. Presented this way, downsizing is strong enough to tear apart a whole value system, and the resulting organization is thus necessarily different from what it was before.

In their study, Kets de Vries and Balazs (1997) established, in line with the previous results obtained by Brockner *et al.* (1987), that job insecurity impacts organizational effectiveness. As a matter of fact, those chosen to stay with the organization cannot help but wonder how long they will stay. If they witness a first round of layoffs, they cannot help but think that there might be another one coming. Another capital issue is that, with those who leave, especially when they are key people, part of the memory of the organization disappears with them. As for executives, given this context, they become more likely to use a short-term decision approach, seeking ways to generate immediate profits, and not always realizing the long-term implications of their decisions under the stress of downsizing. They learn to adjust their decision-making style to the urgency of what they perceive as threatening.

In those cases where downsizing was conducted by cutting jobs without the establishment of a proper plan, it was observed that survivors' commitment and loyalty to the employer disappeared, and that employees started distrusting top management. The only way to remedy such an outcome is by conducting planned layoffs and by communicating more efficiently with employees.

Survivors' reactions in this study fell into one of two categories: either they distanced themselves from the victims when they did not particularly relate to them, or when they did identify with the victims, they distanced themselves from the organization. Survivor guilt was observed, but some survivors increased their productivity. In such a case, this was coupled with a race among survivors, due to the insecurity they felt with respect to their own jobs. Generally, survivors also tried to convince themselves that the layoffs were legitimate; that is, that those who left were those that deserved to leave, and this phenomenon also contributed to increase productivity – however, with lower morale. Such results were consistent with Brockner *et al.* (1987) and Brockner (1988).

A new perspective is also given by Kets de Vries and Balazs (1997), who stated that it can be interesting to view the similarities that exist between survivors and victims. Looking at the situation from this angle, both groups

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were put under extremely stressful circumstances, both lost work colleagues and friends, and both were constrained to live without the formerly enjoyed job security. To this effect, Kets de Vries and Balazs (1997) reiterated the fact that all involved human beings need to go through a mourning process in which they successively live a period of disarray, one of yearning and searching for what they lost, and wonder where they will be able to fit. Not surprisingly, victims as well as survivors in the study had the tendency to feel as though they were to blame for the firm's troubles. It is only when a certain time had elapsed that survivors started to accept the facts they were faced with, to redefine themselves and to accept their new organization.

### Trust

Mutual trust between managers and employees is a critical element in building effective work relationships; it is especially important when firms undertake downsizing efforts, which entail much uncertainty and conflict (Mishra *et al.*, 1998). As Mone (1997) states, the extent to which employees trust management largely impacts their response to downsizing. Layoff victims and survivors need to feel that management is concerned with their needs. All employees must feel that they are in control of their future, of their destiny, even if it means that they will be laid off (Mishra *et al.*, 1998). It is therefore important that trust be built among internal and external (employees, suppliers, customers, shareholders, etc.) stakeholders (Mishra and Mishra, 1994), as ultimately, downsizing affects not only the organization and its employees, but also the industry, society and national economic health as a whole (Mone, 1997).

Furthermore, Mone (1997) believes job security, uncertainty, self-efficacy, stress, commitment, loyalty, morale, self-esteem and job satisfaction can all be negatively affected by a low level of trust. Likewise, a lack of trust can lead to increased absenteeism, tardiness, theft, and sabotage which can result in decreased workplace cooperation, innovation, productivity and quality performance. Essentially, a low level of trust results in employees viewing the downsizing activities as purely negative and management will have much difficulty getting employee support when undertaking future initiatives. de Vries and Balazs (1997) succinctly express the dilemma of trust: "People need to believe in the organization to make it work, but they need to see that it works to believe in it!". Building trust among all members of the organization is one of the

most critical success factors to successful downsizing operations.

In order to downsize successfully, firms need the expertise of human resource professionals who will help in formulating all aspects of the strategic plan of their downsizing activities; they occupy a crucial role.

### Role of human resource personnel

Active participation of the human resource department is very important to the successful implementation of downsizing strategies (Cameron, 1994a; de Meuse *et al.,* 1994; Freeman, 1994; Mone, 1994). Because successful downsizing is largely dependent on the effective management of the human resource system, human resource professionals need to be involved in the strategic issues of downsizing (Appelbaum *et al.*, 1987b; Cameron, 1994a; de Meuse *et al.,* 1994; Freeman, 1994). For example, the selection, appraisal, rewards and development of employees (Freeman, 1994), the identification and evaluation of skills, knowledge and abilities (Mone, 1994), the design of effective educational programs for all levels of the organization (de Meuse *et al.*, 1994) and the examination of current and foreseen workforce requirements (Mone, 1994) must be implemented in collaboration with the human resource department.

Ultimately, the employees of an organization provide the much needed constant innovation, superior customer performance, and healthy corporate culture that encourages members to be team players; hence, organizations that downsize must be prepared to make significant investments in their employees (de Vries and Balazs, 1997).

In the downsizing literature, many researchers provide "downsizing models", strategies for effective downsizing, or varieties of checklist they recommend be adopted by those organizations with the intention of downsizing. The following section provides a summary view of some conclusions drawn from the research and the most common recommendations.

### Conclusion and recommendations

In order to make the implementation of downsizing more successful, certain guidelines are proposed in the literature. Mone (1994) stresses three issues, namely training employees for jobs that they may have to undertake during and after downsizing, providing performance feedback that is relevant and specific to the employees' jobs, and rewards that appropriately reflect the appraisal systems. De Meuse *et al.* (1994) also

provide guidelines which include: plan the downsizing activities with the human resources department, encourage the participation of all members of the organization, ensure that communication is open and honest, treat the layoff victims with respect and dignity while supporting the survivors, assure that top management is visible and is responsible to provide direction and overall vision.

Mishra *et al.* (1998) accentuate the need for open and honest communication during and after the downsizing effort in order to promote a sense of trust throughout the organization. Survivors are very conscious of how those who have been laid off are treated; when those remaining know that their former colleagues have been taken care of, their feelings of trust and commitment are enhanced.

Moreover, technology can be used to increase the extent of managers' control. Mid-level managers have derived the most benefit from the introduction of computers and their applications that include word processing, voice mail, electronic mail, and tracking of orders. Technology has decreased significantly the time that mid-level mangers spent "pushing paper work" (Schmenner and Lackey, 1994).

Firms should not view downsizing as a one-time quick fix solution, but rather as part of the organization's long-term strategy (Cameron, 1994; Cascio, 1993). One of the 14 better practices provided by Feldman and Leana (1994) to manage layoffs calls for corporate-level financial assistance combined with corporate-level safeguards against short-term expedient actions. Organizations intending to downsize have to avoid short-term actions as they threaten long-term strategy. Cameron *et al.* (1991) suggest that downsizing be defined as a proactive strategy, that is, an aggressive strategy which provides a solution to an end in the present and an increase in productivity in the long term. Finally, Appelbaum *et al.* (1987a,b) encourage firms to look to the future of the organization; they suggest that the notion of "continuity of career" be emphasized and that all employees adopt a mindset that includes them in the firm's new mission.

Another downsizing "must" subsumes that headcount reductions are only one way of cutting costs, and that firms must consider alternatives to permanent, large-scale layoffs (Feldman and Leana, 1994). Cameron (1994) suggests a variety of activities including restricting overtime and providing leave without pay. Appelbaum *et al.* (1987a,b) warn against equating downsizing with terminations and layoffs. Terminations should be

used as a last resort; on the one hand, they are costly, on the other hand, they make hiring good employees in the future difficult. Furthermore, reductions in headcount should be integrated with planned changes pertaining to how work processes are designed (Cascio, 1993).

Before engaging in any downsizing activities, the organization must undertake a thorough analysis of the organization itself; this includes identifying the future mission and vision of the firm as well as its core competencies, and setting goals, deadlines and targets for the downsizing effort (Cameron, 1994). The first step in the downsizing model provided by Appelbaum *et al.* (1987a,b) urges organizations to conduct a thorough evaluation of the business; problem recognition and the initial decision take precedence over any other issues at this point. The firm must address its short- and long-term objectives and the effects of downsizing. Moreover, part of the advanced analysis requires that redundancies, excess costs, and inefficiencies be identified (Cameron *et al.*, 1991).

Planning is another issue that must be taken very seriously. The plan must take into consideration several issues, including the severity of the firm's problem, the employees' skills and abilities that have become redundant or unnecessary, whether the firm is in a hiring mode, and in what position the community finds itself with respect to the overall hiring environment (Appelbaum *et al.*, 1987a,b). Furthermore, the downsizing team is responsible for any decisions pertaining to how, when, where and with whom downsizing activities will take place (Appelbaum *et al.* 1987a,b). Feldman and Leana (1994) recommend that during the planning stage, alternatives to extensive downsizing be examined. Cameron (1994) and Cameron *et al.* (1991) state that a broad array of downsizing strategies should be implemented; for example, short-term workforce reductions, long-term organizational redesign, and systemic change should be adopted.

It is essential that employees be involved in all aspects of downsizing. Cameron (1994) suggests that employees should be implicated in the identification of what needs to be changed. Similarly, Cameron *et al.* (1991) state that the most effective downsizing strategies are those that are actually recommended and designed by the employees of the firm. Cascio (1993) associates survivors' syndrome with a lack of employee involvement. He suggests that by actively including all employees in the planning stage of downsizing, it is possible to avoid the negative consequences felt by survivors. In a similar vein, Cameron (1994) recommends that

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customers and suppliers also be implicated in designing and suggesting improvements.

Honest, direct and empathetic communication is vital to effective downsizing operations (Feldman and Leana, 1994). Employees must feel that the layoff plans are being carried out because of economic necessity, not due to individual performance. Although Appelbaum *et al.* (1987a,b) stress that communication is important throughout downsizing, they emphasize that it becomes even more crucial near the end. It is important that all affected employees be properly advised of the organization's plans to downsize. Moreover, they suggest that when it comes time for the actual announcements of downsizing to be made, groups of employees should be addressed, not individuals. When firms clearly and honestly inform employees of the reasons why layoffs are necessary, the employees are able to retain their sense of dignity and to go to their colleagues and supervisors for social support (Feldman and Leana, 1994).

Another important element in successful downsizing concerns the extent of support that survivors and victims of layoffs receive. Concern, attention and support must be given to survivors and victims alike (Cameron, 1994). Support for victims may include enough advance warning, financial benefits, counseling, and outplacement services, while for survivors, training, cross-training, and retraining should be provided. According to Cameron (1994), *post hoc* on-the-job training is to be avoided; employees should be made to feel as competent and as capable as possible.

Likewise, Feldman and Leana (1994) include in their eight organizational policies and interventions the need to provide to displaced workers advance notification of layoffs, severance pay and extended benefits, education and retraining programs, outplacement assistance, and other services stemming from collaboration among private and public sector organizations. In order to help survivors accomplish their work with reduced staff, avoid high turnover among the employees remaining in the firm, and maintain employees' sense of commitment and job involvement, they suggest that survivors be paid equal attention as layoff victims.

Lastly, Appelbaum *et al.* (1987a,b) advise firms to create outplacement opportunities for layoff victims and survivors. For layoff victims, strategies include giving employees enough advance warning so that they may find employment elsewhere, contacting other firms and seeking outplacement; for survivors, support can include early retirement packages, incentives for voluntarily leaving and informing employees of employment openings at other companies.

Although there is an abundance of recent literature covering downsizing, much of it has been collected through case studies and is thus descriptive in nature. Consequently, there is still much room for research, especially empirical studies, to be undertaken in the field of downsizing.

# Future research

The hypothesis that downsizing results in greater efficiency could be further studied. The reasons that compel some executives to downsize also warrant future research. In fact, the decision-making process of executives could be empirically tested as well as whether certain personality characteristics are significantly related to the decision-making process adopted. Future research could investigate, through longitudinal studies, the long-term financial performance of downsized companies. The controversial role of information technology should be addressed in order to establish a harmonized view pertaining to the effects provided by such investments. Finally, employees (survivors and victims) are of course affected by downsizing; it is of interest, however, to investigate how other stakeholders, for example, customers, suppliers, and the community at large, may be impacted by downsizing activities. This is a modest challenge.

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## Application questions

1   What should organizations invest in retraining and outplacement of downsized staff? What are some economic reasons for doing so as well as moralistic ones?

2   Consider your own organization or organizations which you know well, where downsizing has taken place. How could it have been better conducted?