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## The perceived impact of downsizing on Survivors: An Empirical Study

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#### Abstract

Today organizations are passing through dynamic change and are following different strategies for their survival and growth. Change is a way of life and the ability to manage change is a key factor for organisational survival and effectiveness. Downsizing is currently one of the most popular strategies being used by organizations in an effort to survive and compete in the current business scenario. Present research work has broadly focused on the survivors of the downsizing process and their opinion about the overall downsizing process. Few key variables were selected on the basis of literature review related to the study and Survivors' perception about downsizing process was measured on these key variables. The study was conducted using a sample of 228 employees/survivors of some selected service providing organization that had undergone major transformation. Data was collected using a structured questionnaire and analyzed using descriptive and inferential statistics.

**Key words:** Downsizing, Commitment, Psychological Insecurity, Career Opportunity, Stress, Turnover Intention, Work Life Balance

### Introduction

Employment downsizing has become a fact of working life as companies struggle to cut costs and adapt to changing market demands. But does this practice achieve the desired results? Studies have tracked the performance of downsizing firms versus non downsizing firms for as long as nine years after a downsizing event. The findings: As a group, the downsizers never outperform the nondownsizers. Companies that simply reduce headcounts, without making other changes, rarely achieve the long-term success they desire. In contrast, stable employers do everything they can to retain their employees. More than three million Americans lost their jobs in 2008. However, 81percent of the top 100 companies in Fortune's 2009 list of "Best Employers to Work For" had no layoffs

that year. Employment downsizing is often implemented during economic downturns as a reactive, tactical action. The most successful organizations, however. use downsizina strategically as part of an overall workforce strategy. Layoffs become just one tool in a portfolio of alternatives to improve firm performance. Management may view this as an opportunity to enhance the organization's medium- and long-term agility through well-planned and targeted coaching, change and career-management interventions.

#### Review of Literature

Individual Consequences of Downsizing: Even though downsizing appears to create an illusion that some positive actions are being taken to turn around an organization, one prime casualty of the



process seems to be the way in which people affected by the process are dealt with (Kets de Vries and Balazs, 1997). Findings from literature on this aspect, including their coping strategies, have been summarized below: The survivors: As Shah (2000) comments: "A firm's post layoff success is contingent upon the reactions of the people in its surviving workforce." Scholars have found a number of negative responses exhibited by survivors of downsizing. The main problems that have been identified are lowered morale (Henkoff, 1990; Kets de Vriesand Balazs, 1997), initial upsurge in productivity followed by depression and lethargy (Applebaum, Simpsonand Shapiro, 1987), perceived violation of the 'psychological contract' (Kets de Vries and Balazs, 1997; Turnleyand Feldman, 1998: Singh, 1998), increased stress(Brockner, 1988) as a result of increased level of uncertaintyand ambiguity, threat of job loss, denial or psychological distancing from the perceived threat (Kets deVriesand Balazs, 1997), 'survivor guilt' (Brockner, 1988), lower commitment, increased absenteeism, turnover(Burack and Singh, 1995), decreased loyalty to organization, fear of future cutbacks, stressed, demotivated, and unproductive workforce (Weakland, 2001), and diminishing expectations regarding future prospects in the organization (Cascio, 1993). In fact, Labib andApplebaum (1993) have found that most downsizing exercises fail to effectively address the 'people factor' whereby the needs of the surviving employees are paid due attention.

Kets de Vries and Balazs (1996) explore the impact of downsizing by examining the individual reaction patterns to downsizing operation. The groups of people who are involved in the exerciseare classified as the victims, survivors, and the executioners. The victim will pass through several sequences of emotion: protest, despair and detachment. According to survivors authors. the and the executioners have two levels of reaction patterns. On an individual level, they experience job insecurity, lack of trust, and short-term decision-making. On an organizational level, they face cultural value change, system breakdown, negative effectiveness and loss institutional memory

As per Mishra and Spreitzer (1998), survivors who trust the top management before and after downsizing, and perceive the downsizing process to be just, are more likely to exhibit constructive responses to the phenomenon since these two factors would reduce the extent to which downsizing is perceived to be threatening. According to them empowerment and job redesign would give survivors the confidence in their individual capacity to cope with the threat of downsizing and hence would result in their exhibiting more active and progressive responses.

According to Turnley and Feldman(1998) negative reactions to psychological contract violations might be mitigated to some extent through good working relationships with co-workers, making conservative promises to new recruits which the organization can live up to, clear explanation with rationale for the downsizing decision, extensive and transparent communication with employees regarding the exact scope of the changed contract, evenhandedness in dealing with both survivors and victims. and encouraging cohesiveness and team spirit among employees.



Wiesenfeld, Brockner and Thibault(2000) believed that a crucial factor in ensuring the success of a downsizing effort is the speed and effectiveness with which survivors adapt to the changed conditions Managers, through their actions, can help influence the reactions of other survivors in ways that are beneficial to the organization. On the other hand, managers are increasingly being targeted layoffs during organizational downsizings. Hence, the way managers themselves are affected in a downsizing operation would determine how they would exert this influence.

Shah (2000) has taken a social network to investigate approach survivors' reactions to structural changes in a firm. Conducted under the assumption that downsizing severs relationships and destroys a firm's existing networks, the study revealed that survivors exhibited negative reactions to loss of friends but positive reactions to the loss of coworkers in similar structural positions since it improved their promotional and opportunities career within the organization. The victims: Apart from the resulting financial distress and social dissociations, a major issue for the victims is perceived violation of their psychological contract(Kets de Vries and Balazs, 1997; Turnley and Feldman, 1998; Singh, 1998; King, 2000), as mentioned above. This would result in unwillingness to trust future employers and a greater tendency to work for their self-interest rather than organization's interest. Their overall trust in people and confidence on the top management are also found to decrease. The implication of this is that for any organizational change activity to be successful, it is essential that the existing

psychological contract with the employees be renegotiated in order to help them cope better with the transition. Victims have been found to resort to a variety of coping mechanisms to deal with the drastic changes that downsizing brings to their lives.

According to Kets deVries and Balazs (1997), while some victims are adaptable and proactive in finding another job and in starting afresh, others actually manage to turn this unpleasant experience into a new opportunity for foraying into new fields. On the other hand, a large number of victims ended up becoming antagonistic and hostile with depressive reactions and low self-esteem triggered by the trauma of being 'rejected.'

In addition, Leana, Feldman and Tan (1998) have identified certain factors which would influence the types of coping behavior among victims. The main predictors include demographic factors (older workers perceive job loss to be more disruptive and hence resort to symptom-focused strategies),emotional reactions to job loss (optimists would more problem-focused focus on strategies), evaluation of disruption due to job loss (greater concern for career disruptions would mean greater focus on problem-focused strategies), corporate assistance (higher severance pay would enable employees to focus on symptom-focused strategies). The implementers: Termed the 'executioners' by Kets deVries and Balazs (1997), these top managers have been found to display various types of psychological responses including detachment, hostility, depression, absenteeism, feelings of guilt, increased stress associated with having to personally handle the laying off of previous colleagues and subordinates,



and rationalization of their action by devaluing and blaming those they have laid off.

Kozlowski (1993) define downsizing as 'a deliberate organizational decision to reduce the

workforce that is intended to improve organizational performance. This definition captures the explicit tensions between the organizational control of the decision to downsize and the uncertainty about the outcomes for the organization, and implicit tensions between the potential benefits for the organization and the potential impacts for the reduced workforce.

Robinson (1999)has introduced the concept of 'toxic handlers' — managers who shoulder organizational pain by helping their co-workers deal with their workplace frustrations, sadness, and bitterness are the toxic handlers. Hence, in times of crisis like organizational change (layoffs, downsizing, etc.), one important role for the implementer might be to act as a toxic handler.

Anderson, (1996) found that downsizing led the employees of the organization feel unnoticed and disregarded. Survivors in downsized organization mostly complain that in most of the managerial decisions, their interests have been overlooked (McleanParks and Kidder, 1994). This resulted in negative perception by employee who would continuously think that it was an unequal treatment by organization (Kanter and Mirvis 1989; Mirvis and Kanter 1991; & Spritzer and Mishra, 2002).

Akdogan&Cingoz, (2009),in his research found that a good communication process can be very beneficial to the firm,

particularly when managers are attempting to implement change in the organization. Thus when managers are implementing a downsizing strategy they should take time to inform employees about everything to do with the strategy. Employees will then show higher levels of commitment.

Amabile& Conti (1999) determined that an organization's work climate is negatively affected by downsizing and that creativity is markedly diminished during the entire downsizing process. It was further established that creativity in the downsized firm remained depressed beyond the actual downsizing implementation.

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 emplovee 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 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).

Hussain S , Nayyab H , Fareed Z, Ahmad H, Shahzad F(2014)concluded that downsizing has inversely affected attitudes and behaviors of all employees. More experienced employees are less afraid of downsizing but downsizing has disrupted the thoughts of employees with



less experience because they think they will be the victim of downsizing soon. Downsizing has distorted perceptions about work and employees are feeling less job security. That's why they are now less commit-ted, less motivated, less satisfied and they are thinking to switch their jobs as soon as they get better job opportunity. Economic downfall and losses are major reasons of downsizing. It has also been found that downsizing has more impact on attitudes of employees in the present case.

### Objectives of the study

- 1) To identify the dimensions of downsizing process and assess survivors' perceptions towards different dimensions of downsizing process.
- 2) To evaluate the key elements of process of downsizing and its relationship with the demographic profiles of survivors.

### Hypothesis:

**Hypothesis 1:** There is no significant difference between the employees perception towards dimensions of downsizing process across the demographic characteristics of respondents.

Hypothesis 2: The Perceived Reasons of Downsizing is not associated with the Education Level of Employees Research methodology:

The study was undertaken in Dehradun area on those selected individuals who have gone through the process of downsizing in their career and were successfully retained by their respective organisation. These 228 employees were

drawn using a snowball sampling technique. Data was collected using a self-developed questionnaire, specifically designed to capture survivors' cognitive, affective and behavioral responses to a series of downsizing exercises adapted by the organization. The questionnaires comprised of two sections. The first section which focuses on demographical data of the subjects includes age, highest educational qualification, tenure, job category, race, gender and is measured on a nominal scale. The second section contains questions based on the key dimensions of the study:-Communication, Management support, management/organization, Commitment, Psychological Insecurity, Career Opportunity, Stress, Health Issues. Turnover Intention and Work Life Balance. The abovementioned dimensions were measured using a 5 point Likert scale ranging from strongly disagree (1) to strongly agree(5). The questionnaires were administered by mail in order to enable respondents to complete it at their own convenience as well as using face to face interview.

The analysis presented in the above table reveals that sample is dominated by the respondent ranging in the age group of 45-55 years as it contributes 28.1% in the sample. Majority of the respondent are male and married. Sample is composed of highly educated person earning monthly income of Rs15000 to Rs.60000. Most of the respondents are post graduates. It has been found that majority of the employees are from low level management.



Table 1:Demographic characteristics

	Categories	Frequency	Percentage
Age wise classification	25-35 years 35-45years 45-55yesrs 55-65years Above65 Total	45 38 64 35 46 228	19.7 16.7 28.1 15.4 20.2 100.0
Genderwise classification	Male Female Total	166 62 228	72.8 27.2 100.0
Marital status	Married Unmarried Total	183 45 228	80.3 19.7 100.0
Educational Qualification	Graduate Post-graduate Professional qualification, if any Total	64 85 79 228	28.1 37.3 34.6 100.0
Income-wise classification	Below Rs.15000 PM Rs15001to Rs.25000 PM Rs.25001 to Rs.40, 000 PM Rs.40, 000 To Rs 60000PM Total	53 61 65 49 228	23.2 26.8 28.5 21.5 100.0
Position in theorganization	Top Level Management Middle level Management Lower level Management Total	67 80 81 228	29.4 35.1 35.5 100.0

Organization undertake downsizing program due to various reasons. These include like Restructuring of organization, Technological advancement,Lack Fund, Increased out sourcing, Global competition, Mergers and Acquisition, Reduce costs, Right size resources relative to market demand, Signal that

the company is taking proactive steps to adjust to changing business needs, Take advantage of cost synergies after a merger, and Release the least-productive resources etc. The study reveals that Lack of Fund is the main reasons of downsizing as it was revealed by 11.5% employees of the sample.

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Table 2 Employees Perceived Reasons of Downsizing

		Respons	ses	Percent of
		N	Percent	Cases
\$reasos <sup>a</sup>	Restructuring	51	5.8%	22.4%
	Technological advancement	40	4.6%	17.5%
	Lack of Fund	101	11.5%	44.3%
	Increased out sourcing	96	10.9%	42.1%
	Global competition	74	8.4%	32.5%
	Mergers and Acquisition	35	4.0%	15.4%
	Reduce costs	97	11.1%	42.5%
	Right size resources relative to	100	11.4%	43.9%
	Signal that the company is	66	7.5%	28.9%
	Take advantage of cost synergies	77	8.8%	33.8%
	Release the least-productive	140	16.0%	61.4%
Total		877	100.0%	384.6%

Another4.6%, 11.5%, 10.9%, 8.4%, 4.0%, 11.1%, 11.4%, 7.5%, 8.8%, and 16.0% respectively indicated that Technological advancement, Lack of fund, Increased out sourcing, global competition mergers and acquisition, reduce costs, right size resources relative to market demand Signal that the company is taking proactive steps to adjust to changing business needs, take advantage of cost synergies after a merger and Release the least-productive resources as reason of downsizing.

It signifies that only13.8% percent employees believed that the purpose of downsizing is to signal that release the least-productive staff from the organiation are the most important reasons as it was indicated by 16% employees in the sample.

Further cross table analysis using chi square test was carried out with the assumption that reasons of downsizing as revealed by the employees is not associated with the level of education of the employees. Chi-square test was carried out and value found to be 20.32776 which is less than the table value43.773. Hence null hypothesis is accepted indicating that no association between the reasons as revealed with the level of education of the employees.

Downsizing of the organization has become one of the important strategic tools for the management to meet competition. However this possesses large number of problem before survivor. The proper opting of standard process of downsizing bring smooth change in the mind of employees.



Table 3 Degree of Association of Employees Perceived Reasons of Downsizing Across

the Education Level of Employees								
			Educa	tional Qua	alification			
			Matri c & below	Under- Graduat e	Graduat e	Post- Graduat e	Professiona I qualificatio	Tota I
\$reaso	Restructuri	Coun	1	0	24	13	13	51
S <sup>a</sup>	Technologic	Coun	0	0	19	10	11	40
	Lack of	Coun	3	1	47	32	18	101
	Increased	Coun	0	2	40	35	19	96
	Global	Coun	0	0	34	24	16	74
	Mergers and	Coun	0	0	15	13	7	35
	Reduce	Coun	2	2	45	26	22	97
	Right size	Coun	2	2	45	33	18	100
	Signal that	Coun	1	1	32	18	14	66
	Take	Coun	0	1	38	24	14	77
	Release the	Coun	1	2	59	47	31	140
Total		Coun	10	11	398	275	183	877
Chi Square(x²) = 20.32776 at 5% Level of Significance and 40DF								

Percentages and totals are based on respondents.

Table 4 Survivors Perception towards successful Downsizing: A Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Communication during downsizing	228	1.67	5.00	3.3494	.63372
Management support	228	1.67	5.00	3.4591	.62009
Trust on management/ organization	228	2.00	4.40	3.2105	.58126
Commitment	228	1.00	5.00	3.3333	1.05502
Psychological Insecurity	228	1.88	4.63	3.5203	.59764
Career Opportunity	228	1.25	5.00	3.0833	.77521
Stress	228	2.00	5.00	3.6374	.84659
Health Issues	228	1.50	5.00	3.1513	.94689
Turnover Management	228	1.00	5.00	3.1294	1.06286
Work Life Balance	228	2.00	5.00	3.1469	.58742
Valid N (listwise)	228				

The survivor employees were such as Communication during asked to rate the following attribute downsizing, Management support, Trust



on management/organization, Commitment, Psychological Insecurity, Career Opportunity, Stress, Health Issues, Turnover Management, Work Life Balance on a scale of 1 to 5. Mean and SD was calculated using SPSS software. Highest mean of (3.6374) of the factor like Measure to reduce stress among

employees while downsizing indicated that employees have positive perception towards this factors. It was followed by Psychological Insecurity among employees with mean=3.5203. High SD of factor like Turnover Management(1.06286) and Commitment, (1.05502)

Table 5: Employees Opinion about Ways to avoid Downsizing

		Responses		Percent of
		N	Percent	Cases
	Hiring Freezes	47	8.7%	20.9%
	Salary Cuts Or Freeze	87	16.1%	38.7%
	Shortened Work Weeks	105	19.5%	46.7%
	Restricted Overtime Hours	120	22.3%	53.3%
	Unpaid Vacations	105	19.5%	46.7%
	Temporary Plant Closures	75	13.9%	33.3%
Total		539	100.0%	239.6%

The study reveals that 22.3% employees restricted overtime hours to avoid believed that company should provide downsizing.

Table 6: Employees Perception towards outcome of Downsizing,

		Responses		Percent
		N	Percent	of Cases
\$a2 <sup>a</sup>	Damaged Employee Morale	156	16.5%	68.4%
	Poor Public Relations	78	8.2%	34.2%
	Work Overload Of Survivors	147	15.5%	64.5%
	Deteriorating Staff Relationship	75	7.9%	32.9%
	Enhance Unfair Competition Among Employees	114	12.0%	50.0%
	Future Rightsizing Hiring Costs	132	13.9%	57.9%
	An inability to quickly capitalize on Opportunities when the economy improves.	87	9.2%	38.2%
	Enhances Employees Stress	159	16.8%	69.7%
Total		948	100.0%	415.8%

It is also found that 19.5% employees believed that shortened work

weeks can be another option to avoid downsizing whereas 19.5% employees also



feels that companies can also provide unpaid vacations.16.1 percent employees believed that companies should cut or freeze salary inorder to avoid downsizing. 13.9 percent employees are of the opinion that companies should close the plants temporarily. Only 8 percent indicated that companies should freeze hiring to avoid downsizing.

Downsizing can have a significant adverse effect on the survivors depending upon how they perceive it. The study reveals that majority of employees believed that downsizing enhance employees stress as well as damage their morale.15.5 percent employees believed

that downsizing increase work load of survivors.13.9 percent employees believed that one of the side effect of downsizing is future rightsizing hiring costs.12percent respondent are of the opinion that downsizing also enhance the unfair competition among employees.9.2 percent employees indicated that downsizing leads to an inability to quickly capitalize on opportunities when the economy improves. Poor public relations as a side effect of downsizing were indicated by 8.2 percent employees. On the other hand, only 7.9 percent employees believed that deteriorates downsizina staff relationship.

Hypothesis 1: There is significant relationship among the key elements of downsizing process.

Factors	F	Sig.
Communication during downsizing	3.375	0.006
Management support	1.518	0.185
Trust on management/organization	2.77	0.019
Committement	0.411	0.841
Psychological Insecurity	0.5	0.776
Career Opportunity	2.994	0.012
Stress	5.414	0
Health Issues	2.972	0.013
Turnover Intention	2.501	0.032
Work Life Balance	6.527	0

Analysis of variance was conducted for key variables of the study with the age group of respondents. It was found from the above table that the significance value for the variables were less than 0.05 for Communication during downsizing, Trust on Management /organization, Career Opportunity, Stress, Health Issues, Turnover Intention, Work Life Balance. It implies that null hypothesis is rejected. In other words, there is significant impact of age group on the perception of the respondents towards these variables of downsizing process. However for variables such as Management support, Commitment and Psychological Insecurity the significance value is > 0.05. Thus null hypothesis is accepted. It implies that there is no significant impact of age group on the perception of the respondents towards these variables.



Table 8 . One Way ANOVA of Means of Different Downsizing Process Elements Across Gender Categories of Respondents

Factors	F	Sig.
Communication during downsizing	2.005	.079
Management support	2.393	.039
Trust on management/organization	.901	.481
Commitment	.458	.807
Psychological Insecurity	1.062	.382
Career Opportunity	1.722	.131
Stress	3.097	.010
Health Issues	.392	.854
Turnover Intention	1.613	.158
Work Life Balance	1.236	.293

From the above table it is found that the value of significance in case of factor like Management support, stress is less than .05 .Therefore null hypotheses (H0) is rejected and it is concluded that there is significant difference in the opinion of employees about downsizing across the different gender. However null

hypothesis is accepted in the case of factor like communication during downsizing, Trust on management/organization, commitment, psychological Insecurity, career opportunity, health Issues, turnover Intention, work life balance.

Table 9 One Way ANOVA of Means of Different Downsizing Process Elements Across the Marital Status of Respondents

Factors	F	Sig.
Communication during downsizing	1.986	.082
Management support	1.894	.096
Trust on management/organization	1.827	.108
Commitment	.772	.571
Psychological Insecurity	1.072	.377
Career Opportunity	2.445	.035
Stress	4.482	.001
Health Issues	1.807	.112
Turnover Intention	2.556	.028
Work Life Balance	2.309	.045

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From the above table it is found that the value of significance in case of factor like Career Opportunity, Stress, Turnover Intention, Work Life Balance and Stress is less than .05. Therefore null hypothesis (H0) is rejected and it is concluded that there is significant difference in the opinion of employees about downsizing

across the marital status of employees. However null hypothesis is accepted in the case of factor like Communication during downsizing, Management support, Trust on management/organization, Commitment, Psychological Insecurity, and Health Issues.

Table 10 One Way ANOVA of Mean of different downsizing process elements across education level of respondents

Factors		F	Sig.
Communication downsizing	during	1.655	.162
Management support		1.305	.269
Trust management/organization	on	.406	.804
Commitment		.376	.826
Psychological Insecurity		.583	.676
Career Opportunity		3.384	.010
Stress		3.198	.014
Health Issues		.807	.522
Turnover Intention		1.693	.153
Work Life Balance		1.591	.178

We see from the table that the value of significance in case of factor like Career Opportunity and Stress is less than .05. Therefore null hypothesis (H0) is rejected and it is concluded that there is significant difference in the opinion of employees about downsizing across the different educational qualification of

employees. However null hypothesis is accepted in the case of factor like Communication during downsizing, Management support, Trust on management/organization, Commitment and Psychological Insecurity, Health Issues, Turnover Intention, Work Life Balance.



Table 11: Table 9 One Way ANOVA of Means of different downsizing process

Elements Across Income Level of Respondents,

Factors		F	Sig.
Communication	during	3.440	.005
Management support		1.486	.195
Trust	on	3.144	.009
Commitment		.991	.424
Psychological Insecurity		2.087	.068
Career Opportunity		2.527	.030
Stress		3.790	.003
Health Issues		3.022	.012
Turnover Intention		2.048	.073
Work Life Balance		2.300	.046

We see from the table that the value of significance in case of factor like Communication during downsizing, management/organization, Trust on Opportunity, Stress, Health Issues and Work Life Balance is less than .05. Therefore null hypothesis (H0) is rejected and it is concluded that there is significant difference in the opinion of employees about downsizing across the different income groups. However null hypothesis is accepted in the case of like factor Management support, Commitment and Psvchological Insecurity, Turnover Intention.

### Conclusions and Suggestions

Today organizations are passing through transformation phase crucial and opting management are various strategies to gain competitive advantages and sustain in the market. Downsizing is currently one of the most popular strategies being used globally by most organizations even multinational companies across the world. However smooth transformation is possible only if employees are taken into confidence.

Present research work has broadly focused on the survivors' opinion of the downsizing process and its outcome. Few key variables were selected on the basis of literature review related to the study .From the analysis it was found that there is negative side effects of downsizing on the organisation as well as survivors. Study also projects that that there is significant difference in the opinion of employees about downsizing across the different income groups education and marital status of the employees. It was also found that process of downsizing has most negative impact on organisation by Damaging employee morale, deteriorating public relations, work overload of survivors, deteriorating staff relationship, enhance the unfair competition among employees future rightsizing hiring costs, an inability to quickly capitalize on opportunities when economy improves, enhances employees stress. Hence it is suggested that management must take employees into confidence and take appropriate initiative to achieve duel goals i.e. smooth downsizing and lower employees'



resistance as well as increased organizational performance.

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