Organizational Downsizing: From Concepts to Practices

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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. Existing literature in the area has broadly focused on the following three issues:

- **Why do organizations downsize?**
- **What are the consequences of downsizing on the individual and the organization as a whole?**
- **What are the strategies that can be adopted for successful downsizing?**

While imperatives for downsizing have been considered from economic, institutional, strategic, ideological, and arational perspectives, suggestions for successful downsizing strategies have repeatedly reinforced the importance of adopting a planned, long-term, and people-oriented approach to implementation. The bulk of empirical research, however, appears to have focused on the consequences of downsizing both at the individual and organizational level. Given that downsizing today has achieved the status of an institutionalized norm, the relevant question is not so much whether or why organizations should downsize, but rather, how best to implement the process in a way which will enable organizations to accrue benefits and effectively manage the negative consequences of such an exercise.

A review of literature reveals that a planned approach to the implementation process would lead to sustained and long-term benefits to the organization. Drawing from change management theories as well as related theories in organizational learning, theory of business, and business model innovations, this paper has attempted to identify issues that need to be addressed at each stage of downsizing in order to ensure effective implementation. At one level, this would imply a need to question the very rationale for downsizing in terms of whether it really is the best alternative under the existing situation. At another level, assuming that downsizing has been accepted to be the most viable option, and given that any successful planned change would need to be handled as a multi-stage activity, this would include:

- reframing of the existing mental models and assumptions about the business
- extensive communication with employees at each stage
- managing the needs and expectations of survivors, victims, and implementers themselves
- planning for employability initiatives for employees
- helping employees to renegotiate their existing psychological contract with the organization.

This would necessitate bringing about a change in the mindsets and attitudes of the people involved in the exercise. Moreover, a downsizing exercise would also need to be implemented as a part of an overall corporate renewal package rather than as an isolated strategy on its own.

Suggestions for future research in this area, especially in the Indian context, have been identified with a view to adding to the existing body of knowledge and also facilitating greater understanding on the part of practitioners in handling a downsizing exercise.

**Executive Summary**

Downsizing is a current popular strategy used by organizations to survive and compete in the current business scenario. Existing literature has focused on three main areas:

1. **Why do organizations downsize?**
2. **What are the consequences of downsizing on the individual and the organization as a whole?**
3. **What are the strategies that can be adopted for successful downsizing?**

While downsizing has been considered from various perspectives, ongoing research emphasizes a planned, long-term, and people-oriented approach. The shift from questioning whether to downsize to how best to implement it sets the stage for a multi-stage activity.

Literature review highlights the importance of reframing mental models, extensive communication, managing expectations, and planning employability initiatives to ensure effective downsizing. It also advocates for a holistic approach to corporate renewal.

Suggestions for future research focus on adding to knowledge and enhancing practitioner understanding in handling downsizing exercises.
The opening up of new markets, deregulations, and developments in information technology over the past few decades has led to heightened competition and greater struggle for survival among organizations, forcing them to take a fresh look at the traditional ways of conducting business (Venkatraman and Henderson, 1998). Organizations have now begun to realize that in order to remain competitive in this turbulent scenario, they need to reduce costs (Krishnan et al., 1993). This need has provided the impetus to organizations to initiate a spate of organizational change efforts such as restructuring, layoffs, downsizing, rightsizing, delayering, etc., aimed at reducing the size of the organization. Among these, however, the exercise of downsizing appears to be increasing in popularity (Cascio, 1993) so much so that, today, downsizing has become a favoured strategy of companies attempting to cope with the changing times (Mishra and Spreitzer, 1998). As the turbulence in the marketplace continues, organizations continue to face problems of poor productivity, plunging bottom lines, overstaffing or high overheads — to name only a few. In an attempt to counter these escalating problems, downsizing has been increasingly emerging as an oft-used strategy by organizations.

Since the early nineties, a large number of Indian organizations too, including banks, multinationals, public sector units, and private undertakings have started implementing downsizing initiatives.

While various scholars have come up with varying definitions of downsizing, in principle, most of them seem to agree that downsizing would primarily involve a reduction of headcount in an organization’s workforce (Mentzer, 1996). However, looking at downsizing merely as a means of reducing headcount might prove to be a short-term approach since such an approach has the potential to give rise to enormous negative consequences on the individual employee and the organization as a whole (e.g., Cascio, 1993; Davidson, Worrell and Fox, 1996).

The increasing regularity with which organizations the world over are going in for downsizing initiatives, and the potential negative consequences that may arise if downsizing is not properly managed, makes its study extremely relevant in today’s context. Keeping in mind the expectations that organizations have from a downsizing exercise, the issue of properly managing the process of implementation of downsizing in an effort to reduce the negative consequences associated with such a process assumes a great deal of importance. Given this scenario, the present paper attempts to identify issues that would be relevant to both practitioners and scholars in understanding and managing the dynamics and processes of a sensitive and crucial exercise like downsizing through a review and critique of the major studies and findings of scholars on issues related to downsizing. Before concluding, the paper endeavours to extract a summary of learnings that can be culled from existing research. Finally, it also attempts to suggest some areas of future research which might help to add to the knowledge base of both academics and practising managers in coping with this phenomenon.

**STUDY OF DOWNSIZING**

In tandem with the rise in its popularity, a substantial body of literature has also developed exploring various aspects of downsizing. While some studies have attempted to understand the theoretical imperatives which motivate organizations to downsize, others have studied the possible consequences that downsizing might have on the individual employee as well as on the organization as a whole. A few studies have also tried to examine the various ways in which downsizing can best be implemented in order to yield the maximum benefits to the organization. Broadly, therefore, the study of downsizing till date appears to have encompassed three major issues:

- Why do organizations downsize?
- What are the consequences of downsizing on the individual and the organization as a whole?
- What are the strategies that can be adopted for successful downsizing?

**Why Do Organizations Downsize?**

Researchers have approached this question from a variety of perspectives ranging from economic imperatives and market constraints, approaches based on organizational theories, and ideological motivations to social compulsions. Kets de Vries and Balazs (1997) feel that downsizing is often a price paid by organizations for previous mismanagement and strategic errors in reading the market by the top management. According to Nelson and Burke (1998), globalization of the marketplace, technological advances, and growing importance of the service sector coupled with global benchmarking with competitors in terms of overhead costs are some of the market forces that have motivated organizations to resort...
to downsizing. Some organizational benefits expected from downsizing may include increase in productivity, improved quality, enhanced competitive advantage, potential regeneration of success (Nelson and Burke, 1998), lower overheads, less bureaucracy, more effective decision-making, improved communication, and greater innovativeness.

Broadly, the various perspectives and approaches to understanding why organizations downsize may be classified as follows:

**The Economic Perspective**
The economic perspective rests on the assumption that managers’ actions are inherently rational and that downsizing is undertaken with a view to increasing an organization’s future productivity and economic performance (McKinley, Zhao and Rust, 2000). But, even though downsizing helps to reduce costs, it may be offset by increases in other expenses arising from negative consequences of downsizing. Moreover, researchers are yet to prove conclusively that downsizing results in improved financial performance of a firm (Krishnan and Park, 1998). While, in the early eighties, companies began downsizing with a view to cutting costs and improving the bottom line, today, even companies posting record profits are resorting to downsizing to become ‘lean and mean’ (Mishra, Spritzer and Mishra, 1998). Therefore, while economic imperatives might have been the overriding motivation for companies to downsize in the initial stages, today, other non-economic factors may also be providing the impetus to downsize.

**The Arational Perspective**
Budros (1999) has attempted to address the issue of why economically viable and financially sound organizations also go in for downsizing. In characterizing downsizing as an organizational innovation, his framework proposes a marriage between (1) the social context which can be either organizational or extraorganizational, and (2) the basis of organizational action which may be both rational and arational. In his framework, Budros has identified four quadrants representing four conditions/factors which cause organizations to downsize and also determine their rate of downsizing. Some of these factors are organizational size, employee compensation levels, extent of deregulation of the industry and extent of economic troughs and peaks, employee-centredness of the firm, financial vs. non-financial background of the CEOs, linkage with the organizations that have downsized earlier, and percentage of downsized organizations considered as the frontrunners in the industry. Budros’ approach is unique in that his framework breaks away from the restrictive assumptions of rationality and incorporates a wider spectrum of perspectives for viewing downsizing. However, his propositions might have been better strengthened by more empirical bases rather then relying substantially on data from the popular press.

**The Ideological Perspective**
Adding ideological variables to the list of possible determinants of downsizing, McKinley, Mone and Barker (1998) have identified two ideologies, viz., the ideology of self-reliance of the employee and the ideology of debureaucratization which provide a cognitive framework in which the concept of downsizing gains legitimacy. The ideology of self-reliance of the employee stresses that, ultimately, it is the employee himself who should be responsible for his own career welfare and job security instead of relying on the organization to take care of his career. The ideology of debureaucratization recommends the reduction or elimination of hierarchies. In reducing hierarchies, middle managers are most often displaced from their jobs leading to workforce reduction. Hence, organizations whose top management espouses these ideologies are more likely to downsize.

**The Institutional Perspective**
The institutional perspective emphasizes that the search for legitimacy and uncertainty reduction are more potent motivators for downsizing than economic efficiency and profits (McKinley, Zhao and Rust, 2000). This perspective states that downsizing has taken on the status of an institutionalized norm and hence imparts legitimacy to those adopting this strategy. In fact, McKinley, Sanchez and Schick (1995) have drawn on this institutional perspective to identify three social forces, viz., constraining, cloning, and learning which motivate downsizing in organizations. Since the current thinking among organizations is to get leaner and smaller, managers are constrained to do what is considered ‘right,’ in this case, getting smaller by reducing the workforce. Cloning forces result from imitating competitors and following their actions irrespective of whether their strategies have proved beneficial or not. Since downsizing has become the order of the day, imitating compet-
itors in this respect imparts some legitimacy to the manager. Finally, learning forces occur through educational institutions and professional associations where the effectiveness of the downsizing approach is further reinforced. The concepts of constraining, cloning, and learning forces are equivalent to the institutional theoretic concepts of coercive isomorphism, mimetic isomorphism, and normative isomorphism respectively, which explain how organizations strive for legitimacy.

The Strategic Perspective

Dewitt (1998) has attempted to broaden the definition of downsizing to include not only reductions in manpower but also reductions in non-human resources of the organizations. Hence, the choice of downsizing approach in terms of reduction strategies, viz., retrenchment, downscaling, and downscoping is likely to be based on firm, industry, and strategy influences. Distinguishing between ‘broad’ and ‘focused’ firm strategies, it was found that while firm-level influences (recent capacity expansions, recent product introductions, and recent investments) were the only significant predictors of broad firm choice of downsizing approach, industry-level influences (competitors’ recent capacity expansions, product introductions, and investments) were the main predictors of focused firm choices. The strength of this approach lies in highlighting a relatively unexplored aspect of viewing downsizing as a strategic choice made by the organization in response to firm level and industry-level influences, different from the ideological and theoretical perspectives taken by other researchers.

Overall, the strength of the above discussed approaches lies in the fact that they provide alternative windows to view downsizing and partially answer the question of why organizations, despite inconclusive proof of the economic efficacy of downsizing, continue to resort to such practices.

In summary, what appears to emerge from the above is that while the various perspectives examined by researchers suggest that economic imperatives, institutional compulsions, ideological beliefs or arational perspectives might be some of the diverse causes for downsizing, it is not necessary that these causes are mutually exclusive. In fact, a typical downsizing decision may be dictated by a mixture of more than one of the above compulsions depending on the context in which the decision is being taken.

CONSEQUENCES OF DOWNSIZING

The majority of research on downsizing has been conducted to examine and understand the consequences of downsizing (McKinley, Mone and Barker, 1998) on the individual employee as well as on the organization as a whole. Effects on the individual employee have been studied predominantly from a psychological and behavioural viewpoint with a focus on the ‘survivors’ (employees who remain in the organization after downsizing), ‘victims’ (employees who are actually asked to leave), and ‘executioners’ or implementers (managers who are involved in directly implementing the downsizing, including asking people to leave).

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 Vries and Balazs, 1997), initial upsurge in productivity followed by depression and lethargy (Applebaum, Simpson and Shapiro, 1987), perceived violation of the ‘psychological contract’ (Kets de Vries and Balazs, 1997; Turnley and Feldman, 1998; Singh, 1998), increased stress (Brockner, 1988) as a result of increased level of uncertainty and ambiguity, threat of job loss, denial or psychological distancing from the perceived threat (Kets de Vries and 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 and Applebaum (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.

On the other hand, some empirical studies have
found positive effects on survivors of downsizing in terms of increased loyalty (Emshoff, 1994) and viewing downsizing as an opportunity for personal growth (Henkoff, 1990). All these studies have reported employee-friendly strategies adopted by the implementing organizations which positively affected the responses of the individual employees.

As per Mishra and Spreitzer (1998), survivors who trust the top management prior to and after downsizing, and perceive the 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. Moreover, 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. Concentrating on the responses of managerial level employees, Armstrong-Stassen’s (1998) study found that job performance and organizational commitment of managers suffered significantly following downsizing. It also identified individual predispositions and support variables which facilitated more successful adaptation to organizational change.

Managers in firms undergoing downsizing and corporate restructuring are much more likely to perceive a violation of their psychological contract by the organization (Turnley and Feldman, 1998). Psychological contract has been defined as “an individual’s belief in mutual obligations between that person and another party such as an employer” (Rousseau and Tijoriwala, 1998). Perceived violation of psychological contract might lead to a decrease in the employees’ organizational commitment (Guzzo, Noonan and Elron, 1994) and enhance their intention to quit their jobs and to look for alternative employment. However, 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 (Turnley and Feldman, 1998).

A crucial factor in ensuring the success of a downsizing effort is the speed and effectiveness with which survivors adapt to the changed conditions (Wiesenfeld, Brockner and Thibault, 2000). 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 for 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 approach to investigate 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 co-workers in similar structural positions since it improved their promotional and career opportunities 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 an unwillingness to trust future employers and a greater tendency to work for their self-interest rather than the 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 de Vries 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.’

It has been found that victims normally resort to symptom-focused coping strategies or problem-focused coping strategies (Leana and Feldman, 1990) to deal with the trauma of being laid off. Symptom-focused strategies include seeking social support from family and friends,
seeking financial assistance, and engaging in community programmes. Problem-focused strategies would include searching for re-employment, seeking retraining, and shifting to a new location. In addition, Leana, Feldman and Tan (1998) have identified certain factors which would influence the types of coping behaviour 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 focus more on problem-focused strategies), evaluation of disruption due to job loss (greater concern for career disruptions would mean greater focus on problem-focused strategies), and corporate assistance (higher severance pay would enable employees to focus on symptom-focused strategies).

**The implementers:** Termed the ‘executioners’ by Kets de Vries 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.

Armstrong-Stassen (1998) found that managers who were optimistic, had a high future success expectancy, a high tolerance for ambiguity, and a greater openness towards change were less negatively affected by downsizing than those who lacked these emotional resources.

Frost and Robinson (1999) have introduced the concept of ‘toxic handlers’ — managers who shoulder organizational pain by helping their co-workers deal with their workplace frustrations, sadness, and bitterness. 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.

**Organizational Consequences of Downsizing**

Researchers have come out with both positive and negative effects on organizational performance following a downsizing (Krishnan and Park, 1998), and “the promised payoffs of downsizing have been mixed at best” (Mishra, Spreitzer and Mishra, 1998).

Cascio (1993) has found that, in many organizations, the anticipated economic benefits like lower expense ratios, higher profits, increased return-on-investment, and boosted stock prices fail to materialize. Similarly, other anticipated organizational benefits like lower overheads, smoother communication, greater entrepreneurship, and increase in productivity do not develop. As per a Wall Street Journal survey, out of a total of 1,005 downsized firms, only 46 per cent had actually cut expenses, 32 per cent had increased profits, 22 per cent had increased productivity, and 22 per cent had increased bureaucracy against these intended goals.

A significant issue that is becoming increasingly common in downsizing operations currently is that the middle managers are being targeted more and more. Floyd and Wooldridge (1994) have found that roughly 20 per cent of the job losses in the US since 1988 have come from middle management positions. Their observation is that top managers often fail to make distinctions about the variety of contributions made by middle managers. Hence, along with headcount reductions, the organization also ends up losing valuable organizational memory, knowledge base, and experience of the middle managers.

De Meuse, Vanderheiden and Bergmann (1994) concluded that firms that engaged in layoffs continued to fare worse in terms of financial performance than organizations which did not. In fact, after showing slight improvement in performance in the year immediately following layoffs, all the firms started showing progressively decreasing performance results and to a larger degree than firms which did not initiate layoffs.

In addition to the direct employees, shareholders also exhibit reactions to announcements of downsizing by companies. For example, Ursel and Armstrong-Stassen (1995) have found that shareholders reacted negatively to layoff announcements exhibited through abnormal stock price reactions. However, Davidson, Worrell and Fox (1996) found that investors tended to view early retirement programmes favourably.

Researchers have concluded that the financial costs associated with downsizing in the form of severance pay, rehiring laid-off employees as consultants as well as other non-financial costs like the loss of key talent, disappearance of crucial skills, disruption of organizational memory, loss of morale and trust of survivors along with reduced organizational commitment may be partly responsible for the unmet expectations from downsizing. With reduced hierarchies and decreased managerial headcount, downsized organizations are coming to depend more on trust and empowerment.
Mishra and Spreitzer (1998) argue that employee trust and empowerment especially for survivors decline considerably during downsizing. These gaps in communication might lead to survivors becoming increasingly suspicious of the management’s intentions. Moreover, their individual competency may be threatened as they take on the jobs of their laid-off colleagues leading to perceptions of job overload and lack of job clarity.

However, Cascio, Young and Morris (1997) and Wagar (1998) have found that firms that engaged in ‘pure employment’ downsizing (permanent reductions in personnel without any decrease in assets) did not show significantly higher performance (profitability and return on common stock) as compared to other organizations in their industry. However, organizations that downsized personnel along with a restructuring of their assets showed higher financial performance than other firms in their industry. The implication of this finding is consistent with suggestions of other researchers that downsizing needs to be a part of an overall restructuring package to have long-term benefits for the organization.

Bedeian and Armenakis (1998) have taken a more cautious approach in evaluating the effects of downsizing. They have argued that when organizations downsize as a defensive reaction to decline rather than a voluntary strategy to bolster performance, they are likely to face a ‘cesspool syndrome’ with the most competent, and therefore, perhaps, more mobile employees quitting voluntarily, leaving behind their relatively incompetent and inefficient colleagues who will ultimately hasten the organization’s decline. Likewise, Bowman and Singh (1993) and Krishnan and Park (1998) are of the opinion that downsizing can be used for long-term benefits for the firm only if it is managed properly.

From the above, it can be concluded that during the process of downsizing, organizations in general appear to pay insufficient attention to the ‘people factor’ which results in a host of negative psychological and behavioural reactions among all three categories of employees affected by the downsizing process, viz., survivors, victims, and implementers. These reactions adversely affect the productivity and effectiveness of the individual employee. However, researchers have also reported empirical evidence in support of both positive and negative consequences of downsizing on organization’s performance (both financial and otherwise). This indicates that downsizing alone cannot ensure an improvement in firm’s performance. The method of implementation of downsizing has been suggested as being a crucial variable in influencing the success of any downsizing strategy.

**STRATEGIES FOR SUCCESSFUL DOWNSIZING**

Various scholars have come up with different interpretations to explain why downsizing efforts in a large number of organizations have failed to achieve the desired results. One reason might be an overly simplified and short-sighted approach on the part of the organizations where downsizing may be equated with cost-cutting through headcount reductions (Kets de Vries and Balazs, 1997). This would lead to the disappearance of crucial human capital and hence to the negative effects cited in the previous section. Therefore, a more constructive way of looking at downsizing could be to make it a part of a ‘continuous corporate renewal’ process whereby an organization assumes a long-term perspective (Cascio, 1993) of improving productivity, cutting costs, and increasing profitability. The above seems to imply that the reason why the expected benefits from downsizing have failed to materialize is due to lack of a planned approach to downsizing (Cameron, Freeman and Mishra, 1991; Labib and Applebaum, 1993). One more aspect that needs to be addressed is the fact that with the seemingly increasing popularity of downsizing among organizations, employees need to be made aware that the traditional concepts of job security and lifetime employment are now fast becoming obsolete (Singh, 1998). As a result, the individual employee needs to be trained in career self-management and the concept of ‘employability,’ wherein he can assume control over his own career rather than depend on an unwilling organization to take his responsibility.

Scholars (Cameron, Freeman and Mishra, 1991; Cascio, 1993) have found that organizations that downsized most effectively in terms of organizational performance (viz., performance against goals, perceived customer expectations, and comparison with competitors’ performance) employed some common strategies:

- Implementation by command from the top with recommendations from lower-level employees based on job and task analyses of how work is currently organized.
- Using of both short-term (workforce reduction) and long-term (organization redesign and systemic change in the organization’s culture) approaches along with across-the-board and targeted
downsizing.
• Paying attention to the needs of both survivors and victims.
• Using internal resources to identify areas of redundancy and inefficiency and then targeting those areas for downsizing.
• Viewing downsizing as a means to an end (a strategy to enhance competitiveness) as well as the targeted end.

In an earlier work, Nutt (1983) had theoretically explored the effects of an organization’s climate (in terms of its centralization, complexity, production, and efficiency) on the type of implementation approaches managers might adopt in the context of project planning depending on their power bases, and had identified 16 different types of approaches available to the manager. While conceptually appealing, this study appears to leave certain aspects untouched. For example, its deterministic approach to the organization’s climate does not consider the possibility that a manager’s discretion and individual actions might also, in turn, serve to shape the organization’s environment to some extent. Moreover, while advocating implementation techniques tailored to particular environments, it does not elaborate on the processual details as to how a manager can adopt these techniques in terms of actual actions.

Khandwalla’s pioneering work on turnaround strategies (1992) among sick companies around the world (including some from India) had identified different strategies used by declining organizations. According to him, turnaround strategies can have any of the two approaches: surgical or non-surgical. In surgical turnarounds, the focus is on “chopping, trimming and regrouping…….” with “….little to cheer the believers in Theory Y management.” Accordingly, the lowest priority in this approach is accorded to participative management, human resource development, management by mission, team work, etc. The other approach, viz., non-surgical turnaround (‘turnaround without tears’) focuses on people-management elements like credibility-building exercises, extensive communication with employees, participative management, emphasis on core values, incentives and motivation, and training and human resource development along the broad lines of the Theory Y approach. Khandwalla believes that the Theory Y approach would be more acceptable in those societies where, because of massive unemployment or underemployment, large-scale retrenchments by organi-
ing downsizing. Moreover, these senior managers’ treatment of survivors and the way they handle the layoffs would have a major impact on the survivors’ attitudes and work behaviours. In fact, the strength of this approach lies in their firm belief that best practices in downsizing are well within the control of organizational leaders whose implementation procedures would decide whether downsizing can be a means for organizational improvement.

Citing faulty timing, unrealistic strategy, and weak commitment of managers to the downsizing strategy as the major reasons for the failure of most downsizing efforts, Dewitt, Harrigan and Newman (1998) and Mishra, Spreitzer and Mishra (1998) have suggested certain guidelines for strategic downsizing. Their recommendations are based on the belief that smaller can be beautiful if shedding layers of fat reveals an inner core of strength. The proposed strategies are as follows:

- devise a well-conceived and executed programme of downsizing
- regard downsizing as a preparation for the future so that it becomes a part of the strategic adaptation process
- clarify future opportunities for the organization and its employees by deciding on a viable niche for the organization to operate in and accordingly decide what tangible and intangible resources are needed to be retained
- manage the downsizing process through proper pacing of the downsizing exercise and extensive and rational communication with the stakeholders.

Freeman (1999) has developed a framework for studying downsizing strategies as a package of change. Looking at downsizing from a macro perspective, she has identified two general approaches for organizations when undergoing downsizing and redesign. One of the options cited is ‘downsizing-driving-redesign.’ This involves low-level incremental change and is associated with less communication and systemic analyses, narrow participation of employees in the implementation process, and lower magnitude of change in other organizational attributes like human resource management systems, top management team composition, and operating and control systems. The other option is ‘redesign-driving-downsizing.’ This involves more fundamental organizational change and is associated with high-level changes that involve restructuring, more communication, broader participation in change efforts, and systemic analyses. In general, organizations pursuing the second type of approach have been found to be more aggressive and careful in their change efforts than those pursuing the first approach.

Chatterjee and Bhattacharyya (2001) have explored the issue of implementation of downsizing in India through their empirical study of the downsizing process in an electrical and electronics appliances company. While the small sample size hinders the generalizability of the findings, the study’s main contribution lies in highlighting some major issues that downsizers, and specially implementers, in India need to keep in mind while carrying out downsizing. It is also one of the few studies which has attempted to look at downsizing from the implementer’s point of view. The findings support or illustrate implementation issues discussed in existing literature in terms of the importance of:

- clear and consistent communication strategies and management actions
- information sharing with implementers
- helping employees to deal with the trauma associated with the downsizing experience
- choosing implementers with care and suitably motivating them through sufficient autonomy and organizational support to help them deal with their own psychological issues.

In another study of voluntary retirement scheme (VRS) among Indian organizations, Maheshwari and Kulkarni (2003) have identified certain issues relating to its implementation. They have found that VRS patterns differed among organizations and that a majority of organizations failed to improve their performance after VRS. Their study also serves to highlight the importance of issues like procedural justice, transparent communication, and active involvement of line managers in communicating with employees in the implementation exercise.

Summarizing the above, it can, therefore, be concluded that researchers, while differing in specific recommended strategies, broadly agree that downsizing strategies with a long-term approach are more likely to result in improved firm performance after downsizing as compared to short-term approaches that concentrate primarily on headcount reduction. Prescriptions regarding implementation approaches for downsizing have encompassed two major issues: (1) approaches focusing on employee-welfare, and (2) approaches focusing on the change-management aspect of downsizing. A major
issue in adopting a long-term approach is the people-centred orientation where the needs of survivors, victims, and implementers are properly addressed and the need for a renegotiation of the existing psychological contract with employees is accorded priority during implementation. Another aspect is using downsizing as a part of an overall package of organizational renewal process rather than as an isolated strategy.

**ISSUES IN INITIATING AND IMPLEMENTING DOWNSIZING**

Reports in the popular press as well as the findings from academic literature indicate that downsizing has attained a great deal of legitimacy among organizations as an accepted strategy for improving organizational effectiveness. This is despite inconclusive findings in literature linking downsizing to improvement in organizational performance. Among organizational scholars and practitioners alike, downsizing has taken on the status of an institutionalized norm and very few organizations today appear to question the appropriateness of such a strategy. Often, managers and scholars look for a ‘miracle worker with a magical wand’ (Drucker, 1994) who will turn around an ailing organization. Downsizing is currently being perceived as one such miracle cure where treatment is being meted out without adequate diagnosis of the underlying problem. Given the mixed results from downsizing literature, it is felt that there is a need to question the basic rationale and assumptions under which downsizing initiatives have been hitherto undertaken. As per the ‘theory of business’ proposed by Drucker (1994), organizations need to constantly re-examine the assumptions regarding the environment, mission, and core competencies, analyse their fit with the present reality, and arrive at a strategy to deal with these changed assumptions. From the point of view of downsizing, it would imply that organizations might need to re-evaluate their acceptance of downsizing as the most optimum strategy for dealing with business downturns.

In order to create wealth in the long term and remain resilient as a business, organizations need to routinely innovate their business models (Hamel, 2000). Given the short life span of any organizational strategy, the challenge for organizations would lie in using innovation to constantly reinvent the company’s core competencies. This innovation would come from “harnessing the imagination of every single employee every single day” (Hamel as quoted in Kirkpatrick, 2004). Hence, organizations would need to develop innovative strategies for wealth creation rather than resorting to more short-term, ‘quick-fix’ strategies like downsizing. Pfeffer (1998) reiterated the same when he suggested that an organization should evaluate various alternative approaches to cost-cutting before deciding on one which would involve reducing its manpower.

Literature, as indicated in the earlier sections, has suggested that downsizing, if practised, should be undertaken as a part of an overall package of corporate renewal process rather than as an isolated strategy. If, after a process of dialogue and deliberation of alternatives, downsizing is decided on as a strategy for organizational revival and effectiveness, the next step would be to effectively implement the process in such a way as to gain long-term benefits. According to Drucker (1994), organizational rejuvenation would require not just diagnosis and analysis but also hard work in implementing the change. In this context, it has to be remembered that implementation would involve not only carrying out actions and processes but also facilitating an overall change in the mindset and attitude of the organization’s members. Downsizing is a change intervention and any organizational change needs to occur gradually through a dialectical process in which changes in individuals’ cognitive structures help to stabilize changes within the organization (Basseches, 1994) and aid in developing an organization’s adaptive potential (Argyris and Schon, 1978).

As has been mentioned previously, downsizing has often been a knee-jerk reaction by organizations in response to certain perceived business shortcomings. This, from the viewpoint of organizational learning, represents what is typically known as single-loop learning (Argyris and Schon, 1978) where an organization makes simple adaptations and takes corrective actions (Romme and Witteloostuijn, 1999). From a change-management perspective, it would be imperative for an organization to develop a sustainable learning ability in order to bring about long-term change in the organization. The double-loop and triple-loop (or deutero-learning) concepts (Argyris and Schon, 1978; Romme and Witteloostuijn, 1999) involving collective reframing of problems, developing new policies, objectives and mental maps, and putting in place new structures, strategies, and processes could contribute to a transformation process for the organization.
From the above, a common theme that appears to emerge is the necessity for organizations to realign their mental models and assumptions regarding their business models and put in place strategies which would fit in the demands of the existing context so as to facilitate organizational transformation for long-term sustainability. Keeping in mind the above principles and given the fact that planned change, in order to be successful, needs to be handled as a multi-stage activity, some important issues need to be kept in mind while initiating and implementing a downsizing strategy. Drawing from the theories and concepts discussed above, some suggestions in this context are enumerated below:

**Pre-downsizing Stage**

- Questioning the organization’s existing ‘theory of business’ in the context of current realities, both within and outside the organization
- Creating a culture of enquiry and open communication in the organization to facilitate innovation and awareness regarding the changed realities
- Collectively arriving at an appropriate set of strategies that will take the organization forward.

**Pre-implementation Stage**

If downsizing is chosen as a strategy for change, then the necessary steps would include:

- Adopting a planned approach to the process of implementation. This would involve:
  - understanding the implications of downsizing in terms of changes in organizational structures, policies, roles, and relationships
  - identifying the changes in individual and organizational assumptions, mindsets, and attitudes which would be needed in the changed scenario
  - ascertaining the new competencies which would be required in the changed context.
- Choosing appropriate implementers or change agents and training them to handle the process effectively
- Sharing the rationale for downsizing through continuous communication with employees in various forums
- Maintaining a continuous dialogue to incorporate innovative suggestions and understand individual issues and assumptions
- Communicating detailed procedures to the concerned stakeholders in a transparent and timely manner.

**Implementation Stage**

- Introducing new processes and structures that would facilitate stabilization of the change
- Helping individual employees to question old assumptions, develop new competencies, and manage changed roles and relationships through communication, mentoring, and training initiatives
- Being sensitive to the needs of survivors, victims, and implementers. This would include:
  - managing the negative emotions associated with the process
  - helping employees to deal with the trauma through one-on-one counselling and extensive communication
  - being open to feedback and dialogue.
- Ensuring procedural justice in implementation (e.g., using objective, performance-based criteria for manpower reduction rather than across-the-board reductions based on age and tenure; matching claims to actions, etc.).
- Providing organizational support to victims through training for new skills, identification of new career opportunities, etc.

**Post-implementation Stage**

- Renegotiating psychological contract with the survivors
- Providing support and opportunity to employees for trying out new competencies
- Facilitating a change in the mindset of employees such that they assume greater responsibility in planning for their career and employability rather than depending on the organization for ensuring their welfare
- Monitoring and managing the consequences of downsizing at the individual and organizational level
- Developing a culture of continuous monitoring and questioning of the ‘theory of business’ whereby change becomes a systemic, on-going process rather than a one-off intervention
- Initiating a collective learning culture wherein (a) mistakes are seen as learning opportunities, and (b) the experiences and insights gained are used to manage current and future realities.
As long as the incidence of downsizing continues to enjoy a high degree of popularity among organizations, there would always exist opportunities for organizations to improve on their practices. This would also imply the need for continuous research on this process in order to improve and innovate on the practices employed on a continuing basis.

One stream of research might focus on an understanding of the theoretical compulsions of downsizing in the Indian organizations in particular and compare them to the imperatives identified in the existing literature of Western origin. Another stream can concentrate on the psychological, behavioural, and social consequences of downsizing on the individual employees as well as on their immediate families. A third perspective might attend to the purely practical issue of implementation of downsizing in the Indian organizations and attempt to draw up a menu of suggested best practices typical to the Indian context in comparison to those already suggested by the Western researchers.

Though researchers in the area of downsizing have agreed that downsizing has become a popular, organization-wide intervention for improving effectiveness, most of the existing literature is based on prescriptions and anecdotes (Luthans and Sommer, 1999). Specifically in the area of implementation of downsizing, scholars (e.g., Labib and Applebaum, 1993; Mishra, Spreitzer and Mishra, 1998; Dewitt, Harrigan and Newman, 1998; Krishnan and Park, 1998) have theoretically suggested that the process of implementation is a key ingredient in ensuring the success or failure of a firm’s performance following downsizing, though there have been no empirical evidences linking the implementation process to firm performance either directly or indirectly. As against this, in the area of other change management exercises like mergers and acquisitions, TQM, etc., scholars have empirically established that implementation is the most decisive variable affecting the success or failure of such exercises (Hubbard and Purcell, 2001; Huang, Horng and Chen, 1999). Hence, in the context of downsizing, there exists a need to empirically establish some linkage between the process of implementation and a firm’s performance following a downsizing operation.

Another area that might merit a more detailed study is the role of the implementer in the context of downsizing. Having established the importance of implementation in ensuring an organization’s performance during any organizational change initiative, researchers in related areas (e.g., process innovation and organizational change management) have gone further and sought to establish the importance of the individual implementer in the implementation process. For example, Linton (2000) has established the importance of reciprocity, relations, and types of interactions which are likely to help the individual implementer in carrying out his job. Lewis (1999) has studied the various approaches adopted by individual implementers for communicating to their employees during the process of implementation. In the area of downsizing, the individual implementer has been studied but mainly from the point of view of the psychological effects of the phenomenon on him as a person (Kets de Vries and Balazs, 1997) and his individual predispositions which might dictate his coping strategies during this stressful event (Armstrong-Stassen, 1998). However, unlike the other two categories of employees who are also likely to be psychologically affected by downsizing (namely, survivors and victims) and who play a comparatively passive role, implementers have a more direct and active role to play in the course of the implementation process, since the final responsibility for implementing the downsizing decision rests on them. Therefore, just as there is a need to empirically establish the significance of the implementation process on the performance of a downsized firm, there also exists a need to go beyond merely psychological responses of the individual implementer to empirically studying what the organizational role of the individual implementer implies.

Reports in the popular press in India testify to the growing incidence of the phenomenon of downsizing in the Indian organizations be it multinationals or companies of Indian origin. This, coupled with the fact that, till date, there have been only a handful of studies investigating the phenomenon of downsizing in the Indian context makes India a relevant context for studying and understanding the impact of downsizing and its implementation on the organization. Therefore, there is ample scope for continued research in this particular area. Accordingly, more academic studies would be needed to understand the phenomenon of downsizing as it is taking place in India today.

**CONCLUSION**

The broad questions relating to downsizing (why, what, and how) have been studied in fairly rigorous detail till date. Despite a theoretical understanding of the princi-
ples underlying the process, the negative consequences associated with this exercise on both organizations and individual employees continue unabated (Labib and Applebaum, 1993). It is hypothesized that this could be the result of viewing downsizing as a panacea for organizational problems rather than seeing it as a part of an overall strategy for organizational renewal. These negative consequences could be minimized by viewing it as a process of transformation not just through incremental changes but also by reframing existing mental models, assumptions, policies, and relationships to enhance the adaptive potential of the organization.

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