

## **Downsizing – Overall Impact on Workforce and Organizational Performance**

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### **ABSTRACT**

*Downsizing is a process through which the current workforce is reduced who are operating on a payroll basis which is permanent in nature. The following research paper is a qualitative paper that is based on secondary data and analysis the process how downsizing is conducted in an entity and the aftermath of downsizing on the performance of the organization and the mental condition of the employees who have survived the process of downsizing. The article also highlights on comparison between different countries (developed and developing nations) rate of unemployment and factors that led to unemployment and how does it affect the economy as a whole.*

**Keywords:** Employee downsizing; Layoff of employees; cost optimization; Recession.

### **INTRODUCTION:**

“With the changing economy, no one has lifetime employment. But with adequate skills and knowledge it provides a community lifetime employability.”-Barack Obama.

Employee downsizing is a usual practice that is followed by many multinational companies in the past decade for the purpose of the cost control when macro-economic factors are piled against the organization such as increase in the cost of raw materials, international competition from alien companies. In the 21<sup>st</sup> century when automation is taking its place at a rapid pace many companies are readily replacing humans who are not delivering best results to the company are being replaced by machines. To protect the company from such contingent events the companies tend to layoff those set of employees who do not deliver their best to the company or do not show any productivity. This common phenomenon is commonly seen in the manufacturing industry especially in the auto-sector in India where many as 10 lakh people feared of losing jobs due to prolonged slow sales of vehicles. When downsizing is conducted the employees who have survived the process of downsizing are the set of employees who tend to face more demotivation than the ones who are laid off from the company. The aftermath of downsizing can lead to a negative cycle of unprecedented problem for any company such as declines in sales, customer retention, demotivation among the current employees, decline in market share. Therefore, the company should strategize the process of downsizing in a right manner so that the company can effectively reduce the cost and as well avoid demotivation among the current workforce.

### **REVIEW OF LITERATURE:**

“Effects of downsizing on job satisfaction of existing employees in banking sector of Pakistan” by Sumera Aurangzeb and Faira Maqbool Shah (December 2015) is a quantitative research paper which purely focus on the banking sector of Pakistan and the morale of the employees and a random sample of 80 employee working in different banks of Pakistan were taken. The survey was purely being conducted through distribution of questionnaires. The following test revealed that a direct relationship has been established direct relationship

between downsizing of workforce and the aftermath on job satisfaction. The survey was analyzed through using T-Test. The author formed the following hypothesis such as the;

**Ha1:** There has been a direct relationship between downsizing and job satisfaction of existing employees.

**Ho1:** There is no direct relationship between downsizing and job satisfaction of existing employees.

**Ha2:** There has been a direct relationship between downsizing and job security.

**Ho2:** There is no direct relationship between downsizing and job security.

**Ha3:** There has been a direct relationship between downsizing and communication.

**Ho3:** There is no direct relationship between downsizing and communication.

The author concluded that under hypothesis 1 reveals that the outcome demonstrates that there is connection among scaling back and work fulfillment of existing representatives, which implies that the way toward cutting back consequences for employment satisfaction leaves an impact on the morale of the workers working in the banks. Under hypothesis 2 the author concludes, the null hypothesis is rejected and downsizing effects on the job security of existing employees as they tend to shift to other job. Given that the further statistical study reveals under hypothesis 3 there is a relationship between downsizing and communication.

“In the effects of Organizational downsizing and layoffs on Organizational Commitment: A Field Research” by Dr. Asuman Akdogan, Ayse Cingoz, (March, 2009) in their paper wrote about how downsizing is used to reduce the companies operational cost and upgrade its existing technology and respond to macro-economic factors and the mental condition of the employees that survive the process of downsizing. The surveys reported that around 250 employees underwent the process of downsizing. The results reveal that around 55.8% of employees believe that the process of downsizing was conducted fairly and around 42.3% of employees doubted that whole process of downsizing.

“Causes & Effects of Employee downsizing: A review & Synthesis” by Deepak K. Datta, Arlington James P. Guthrie, Dynah Basuil, Alankrita Pande, (January, 2010) in their paper wrote about focused on the process of downsizing. The reports reveals that downsizing is a traditional event that involves many organizational policies which are formulated to upgrade the performance through layoff of the employees. M&A transactions also is a factor that influences the process of downsizing especially when there is a hostile takeover rather than a friendly takeover where the majority stakeholder company replaces the existing workforce with new recruits to introduce new organizational policies.

“Corporate downsizing” by Lane Cohee (February, 2018) In his article takes the readers through the process of downsizing with the case analysis of G.D (General dynamics corporation) which initiated the process of downsizing by laying off around 27,500 employees. The author puts a light on the fact that downsizing is widely used as a strategic move to combat competition in the market. A survey conducted on 210 companies revealed that variables such as firm slack, high research and advancement (R&D) force, and human-resource strategies and practices have laid a great enforce on employee retention or employee downsizing. (Cohey, 2018)

“The influence of the downsizing strategy on business structure” by Carmen Soria Bravao, Alfonso Herrero (November, 2016) reflected that downsizing was used as an organizational measures to reduce workforce to adapt the external environment. They reported that Downscaling or scale decrease: keeps up the field of movement while cutting an organization's human and physical assets, diminishing yield so as to adjust to request (Kotler, 1986; Whitney, 1996). Downscoping, Refocusing or rebuilding of corporate portfolios (Johnson, 1996; Markides, 1995; Kreiken, 1980): includes diminishing the field of action by bringing down the vertical and even separation of the worth chain. The findings reveal that the amount of downsizing conducted negatively leaves an impact on the share price and impacts the wealth of the shareholder.

“Strategy of Downsizing Process and Its Effect on Survivors and Organization” (October 2013) by Shinta Dewi Sugiharti Tikson reflects that the impact on the confidence and morale of the survivors of downsizing rather than the effect on their morale and their commitment towards their work. The author initiated to the readers that survivors who survived the process of downsizing have found themselves in a challenging situation rather than the workforce who are laid off from the company. Thus, in this the longer term it results into decline of sales turnover, poor survivor morale. The researcher highlights if the execution of downsizings gets wrong then in majority it affects the service sector when the employee with low morale gets shifted to another service as a result the following service company fails to retain its customer.

“The relationship among survivor qualities- attitude, commitment and motivation-after downsizing” by Crispin Chipunza and David M. Berry (May 2010): The researchers have purely focused on the attitude of the workforce working in manufacturing industries in Africa after they have survived the entire process of downsizing. For understanding the attributes of the workers (discipline, attitude & motivation) towards their employer after downsizing, the author has conducted the research through selecting a sample of around 150 people working in

selected manufacturing companies. It is quantitative research paper that is presented through various statistical tools such as central tendency and co-relation analysis. The outcomes demonstrated that survivors had elevated levels of inspiration and moderate to palatable degrees of disposition and inspiration. A huge relationship was seen between survivor inspiration and duty.

“Does downsizing really matter? Evidence from Japanese multinationals in the European manufacturing industry” by Norifumi Kawai (October 2011): The study focuses on effects of downsizing using a random sample of 67 multinational companies of Japanese origin operating in European market. The study reveals that external factors such as declines in demand of products and competition from international companies and other factors such as for example stale deals development and poor benefit improvement of universal aggressiveness, advancement of stable administration) were the focal inspirations for firms to take part in workforce decreases. Utilizing the arranged probit and different relapse procedures, a negative relationship was found between the reception of cutting back by firms and saw showcase and hierarchical execution, in particular deals development and worker inspiration.

“Do institutional Traditional Matter During Crisis? Employee Downsizing in Korean Manufacturing Organizations” by Ekin Alakent, Seung Hyun Lee (May 2010): The following research paper talks about the rapid fall of the regular practice of employment in the sector of manufacturing industry in South Korea in 1997 East Asian economic crisis. Through this research paper the author wants to coin whether due to various macroeconomic factors change their hiring process or despite such an alarming state they will standstill with their regular practices. The author chose around 574 manufacturing entities and conducted the hypotheses and found that under different macro-economic conditions such as financial and other macro-economic factors apply inverse powers on authoritative activities; (2) hierarchy, for example, terrible showing on profitability and fare make a requirement for headcount decreases while factors, for example, size, household possession, government backing, and unionization make social and institutional weights that repress scaling back; and (3) related knowledge with cutting back conservatives the connection between institutional factors and further cutting back.

Dumb and Dumber: The impact on Downsizing on Firms performance as moderated by industry conditions by James P. Guthrie and Deepak K. Datta (February 2008): The downsizing of employee has been a common practice in North America over the last decade. Through the research paper the author coined the question: Do downsizing leaves an impact on the overall performance of the company? After maintaining for a lot of entity and firm-level factors, our outcomes show that scaling down is related with abatements for ensuing firm benefit but in long term they result into negative impacts and are increasingly articulated in businesses described by innovative work (R&D) power, growth, and less capital force.

## **METHODOLOGY:**

### **Need for the study:**

The study examines the different factors whether internal factors or external factors such as global recession, rise in competition, hostile takeover, change in government regulations that give rise to unemployment in an economy. This study focus on different strategies that will allow the industries to make policies to avoid the downsizing of employees which can prevent further loss to the companies.

### **Objective of the study:**

- The main purpose of the study is to conduct an extensive study to understand downsizing and job satisfaction of existing employees who have survived the process of downsizing.
- There has been a relationship between downsizing and job security.
- The importance of the strategic decision by the practicing HR professionals to safeguard the interests of the survivors.
- Along with studying the organizational performance we also tend to find how government policies can enhance the employment opportunities.

### **Research methodology:**

- The data is based on secondary data using resources from different government websites that provides insights about the changes in the unemployment rate and what are the factors that give rise to unemployment.

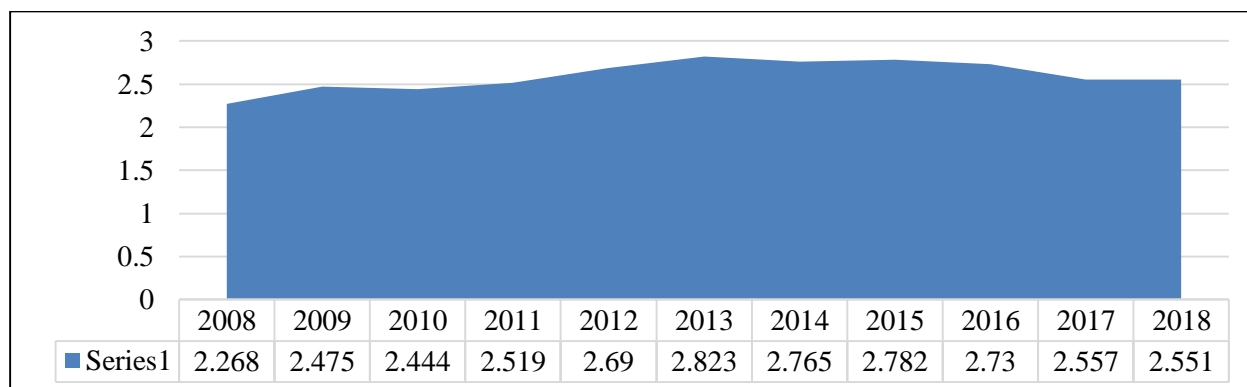
## FINDINGS AND DISCUSSION:

### Inference:

The below chart shows how employability in a country like India is driven by many macro-economic factors such as global recession, change in government policies formulated by government agencies. The chart resembles how global recession in 2008 that hit the developed economies where millions of people lost their jobs. Due to the global recession the unemployment rate in India also increased from 2.268% to 2.479 that left lakhs of people with no jobs. As per the survey conducted in 2008 by the Labour Bureau of Ministry of Labour and Employment noted that between the month of October and December 2008 around five lakhs people lost their jobs. The industries that were primary victims of recession were textile and garment industry, metals and metals products, automobile, transportation, construction.

This shows how inflation is one of the factors that have driven recession during the period from 2008-2014 where there was increase in the price of the raw materials, low investment risk strategy initiated by the entrepreneurs to avoid further fall in the value of the investment that lead the organization cut their production cost which created a vicious cycle of unemployment in India. The employment conditions post the Congress-UPA government in 2014 when BJP government were vested with the power the unemployment rate started to decline as from 2.823 in 2013 it declined to about 2.551% and the economic conditions started to stabilize due to the economic measures taken by the government. The major implication is that how collaboration between organization and government can solve the problem of recession by increase the savings of the workforce, increase the investment of the organization and certain initiatives taken by the government were Make in India, Pradhan Mantri Kaushal Vikas Yojana, Startup India Standup India to promote entrepreneurship and many other policies that has helped the government to track down recession and create employment opportunities.

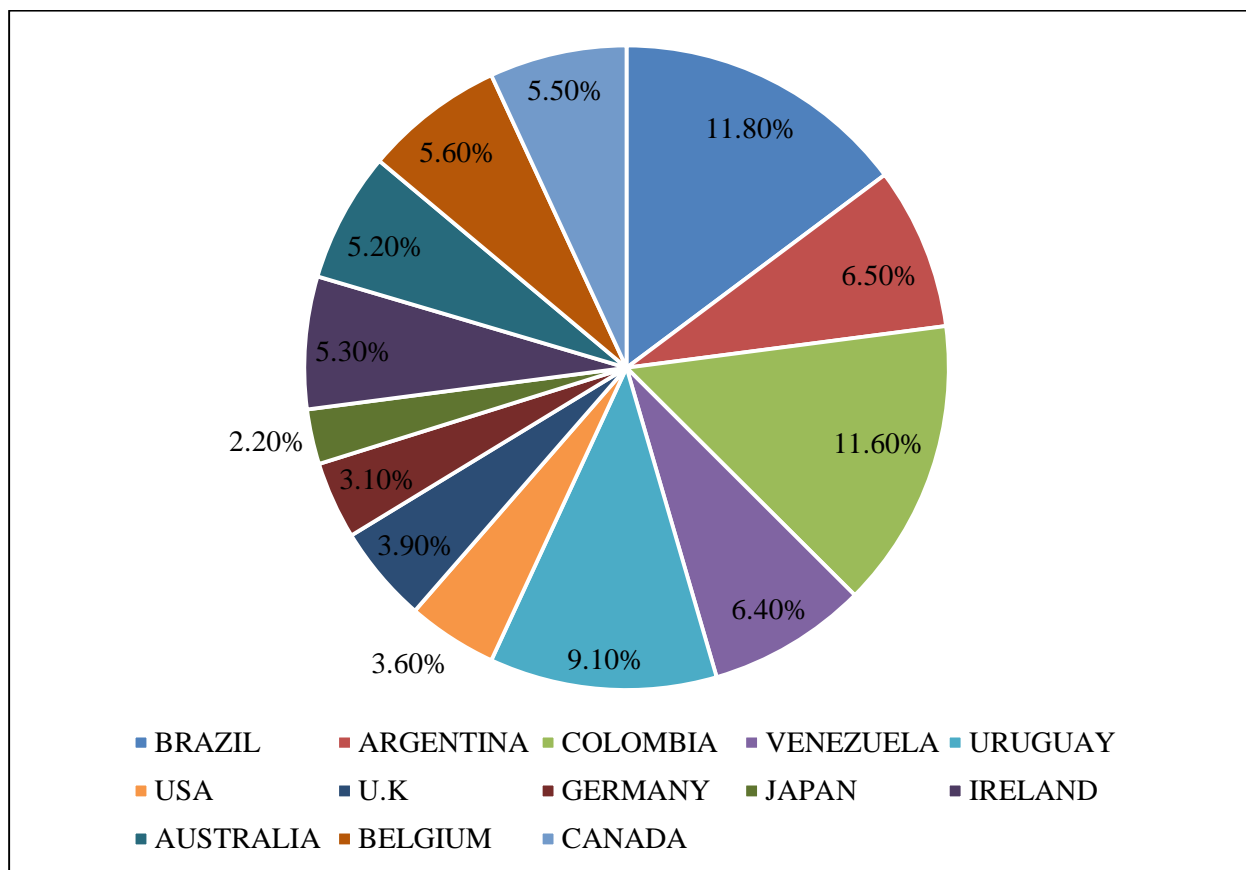
**Figure 1: Unemployability in India from 2008-2019**



Source: [www.ceicdata.com](http://www.ceicdata.com)

**Table 2: Comparison between unemployability rate of different countries**

Countries	Unemployment Rate	Change	Annual Change.
Brazil	11.8%	0	-0.30
Argentina	6.5%	-0.80	-
Colombia	11.6%	3.13	0.03
Venezuala	6.4%	-0.90	0.30
Uruguay	9.1%	-0.07	0.03
Usa	3.60%	0.1	-0.1
U.K	3.90%	0.1	-0.1
Germany	3.10%	0	-0.3
Japan	2.20%	0	-0.2
Ireland	5.30%	0.1	-0.3
Australia	5.20%	-0.06	0.17
Belgium	5.60%	0.1	0
Canada	5.50%	-0.2	-0.4



**Source:** <https://countryeconomy.com/unemployment>

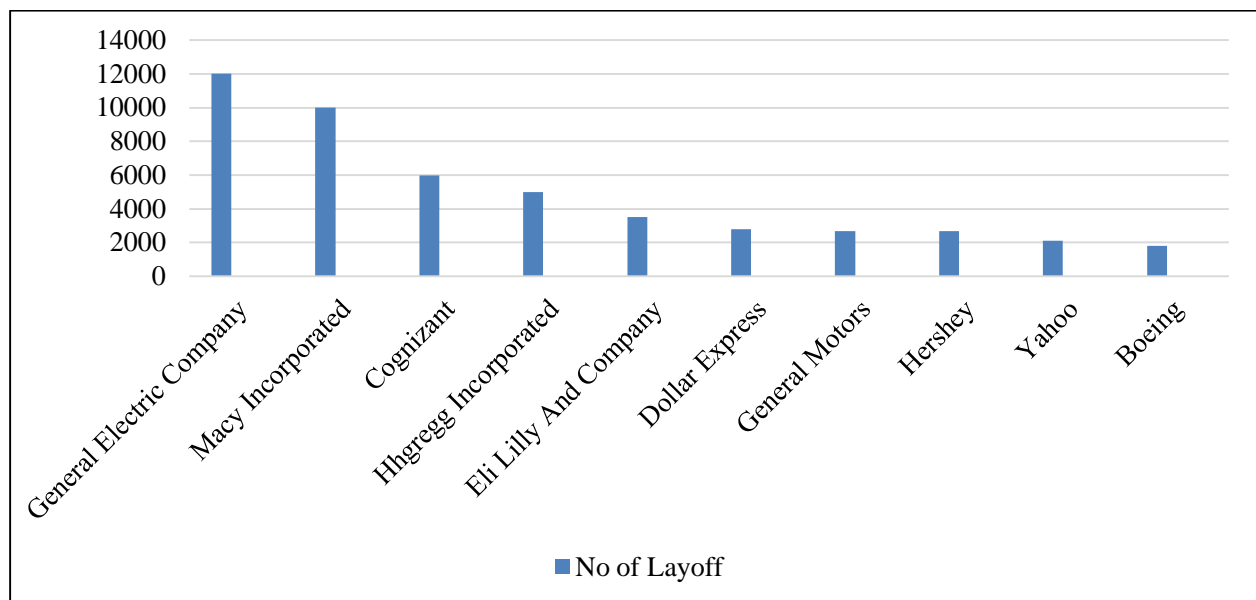
#### **Inference:**

The above data is presented on the basis of infrastructure, education, political factors, competitive advantage, technological advantage, optimum utilization of resources that impacts the employability of a nation. In comparison developed countries such as USA, United Kingdom, Ireland, Australia have advantage of controlling unemployment over the Latin American countries because of technological advancement, political stability, optimum utilization of resources where Latin American such as Colombia, Venezuela are affected by political turmoil that lead to high unemployment crisis and inflation which in turn affects the employment opportunities.

**Table 3: LAYOFF OF EMPLOYEES BY TOP COMPANIES AND THEIR REASONS :**

Company	Layoff	Reason	Type
General Electric Company	12000	Restructuring	Industrial
Macy's Incorporated	10000	Demand Downturn	Retail
Cognizant	6000	Cost Cutting	Services
Hhgregg Incorporated	5000	Closing	Retail
Eli Lilly And Company	3500	Restructuring	Pharmaceutical
Dollar Express	2800	Acquisition/Merger	Retail
General Motors	2700	Cost Cutting	Automotive
Hershey	2697	Cost Cutting	Food
Yahoo	2100	Acquisition/Merger	Technology
Boeing	1800	Buyout	Aerospace

**Note:** The above data is based on the no of layoff took place during the year 2017



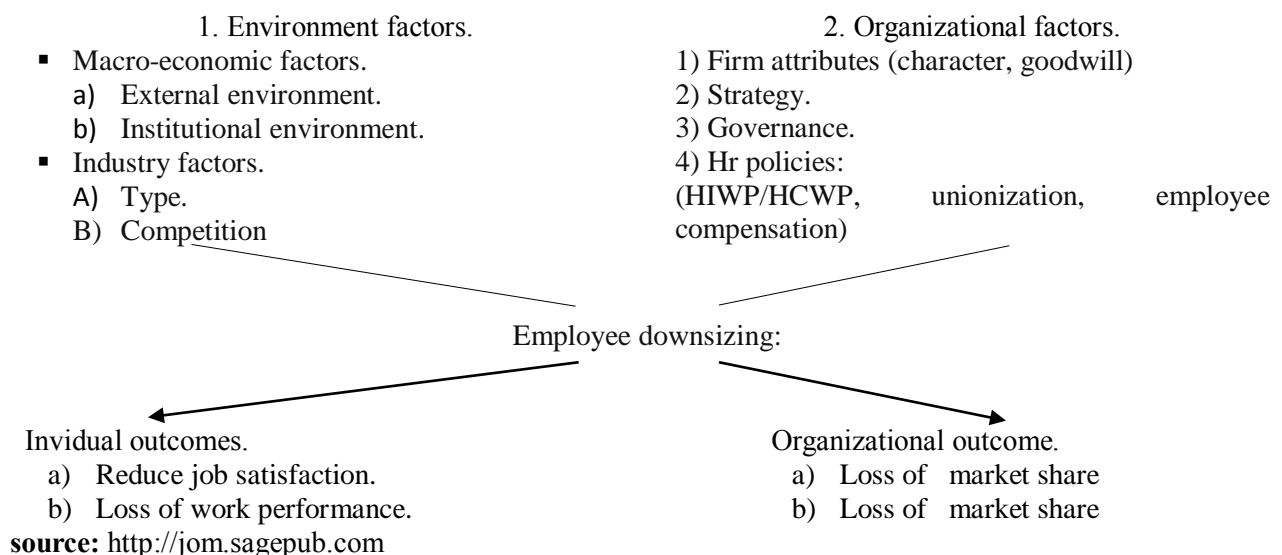
Source: 247wallst.com

### Analyzing the factors that give rise to downsizing and their potential effects through a case study of Tata Steel and stack of 400 employees:

TATA STEEL, once known as Tata Iron and Steel Company Limited (TISCO), is an Indian global steel-production organization headquartered in Kolkata, West Bengal, India, and a backup of the Tata Group. It was positioned 486th in the 2014 Fortune Global 500 positioning of the world's greatest corporations. It was once the seventh most significant Indian brand of 2013 according to Brand Finance. But in September 4, 2019 Tata Steel plant operating in Europe decided to close two of its subsidiary Orb electrical steels in Seaport, South Wales and at the Wolverhampton Engineering Steels service Centre in the UK which were leading to a layoff of 406 workforce and upon the announcement of closure of 2 units the shares fell down by 4 % on the Bombay stock exchange. The reasons given by the company for the closure of the ORB Electrical steel was due to its continuous losses and not achieving any sort of profit for several years has lead the board for the closure of the units and also its struggle to face a stiff competition from other European competitors in the fast-moving market to supply steel used in electricity transformers and there were no fair chances of its return to profitability. Another main factor for its closure was the plan to convert the plant to make steel for future Electric vehicle to meet customer needs which would have cost the company over Rs 435 cr at a time when the company was already was facing stiff competition.

Source: Business lines, edition Volume 26, September 4, 2019.

**Figure 2: An integrative model of employee downsizing**



### **Analysis of factors that lead to downsizing and efforts taken by the HR professional to resolve the conflict between the workforce and the management;**

Notwithstanding the clear across the board utilization of scaling down to build benefits, improve singular representative execution or to be more practical, there is little proof that these advantages are effectively accomplished. Rather, examine demonstrates that representative reactions because of the experience of cutting back are regularly connected with a wide scope of negative mental reaction. Also, the reactions are connected to goal to turnover, and decrease in employment performance. As a result, issues inside the association influence staff resolve and turnover. Because of this, a few researchers see that an association would not accomplish its proposed result, for example, higher efficiency or productivity, because of poor survivor spirit or execution problems. In practice, it is extremely pivotal to settle on the correct choice and plan the correct system to execute cutting back in such a case that an association is wanting to cutback a portion of its laborers, they should not displaced employees who have the correct abilities, information and conduct.

### **CONCLUSION AND FINDINGS:**

Through the extensive study of the paper we can say downsizing conducted with the motive of cutting down costs by the organization to maintain their revenue, market share & customer retention. But in the longer run the results suggest that it has caused adverse effects on the organizational performance. The company has faced many adverse problems where the trusted customers were confused about the companies' policies and procedures of the company. The final outcome of the downsizing process that the loyal customers of the company were shifted to the rival competitors. In the case of the employees who were the survivors of the entire process of downsizing were subject to various challenges rather than the people who were laid off by the company. The challenges that they were subject to were absenteeism, decrease in job satisfaction, decrease in self esteem. Due to which the workforce turnover increases as a result the company has to incur an additional cost on training. The findings also suggest that along with internal factors of the company other external factors such as political interference such as government regulations also play a pivotal role in influencing the employment opportunities of an economy. In countries such as Latin America where there is abundance of resources but lack of political commitment with an unstable government policies there is a huge mass unemployment that is affecting a huge population of youth towards the scale of unemployment.

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