Impact of Downsizing on Organizational Performance

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ABSTRACT

Workforce downsizing has become very popular in the last few decades. It is a positive and useful strategy to improve organizational performance and efficiency. In this study we examine the impacts of downsizing on the performance of survived employees. In this research article the independent variable is downsizing and dependent variables are emotional stability, job satisfaction and financial rewards. The research will be conducted on a Pakistani firm.

Keywords: Downsizing, employee performance, job satisfaction, emotional stability and financial rewards

INTRODUCTION

Downsizing is the reduction in the workforce or making a company smaller by shedding staff. It is a positive and a useful strategy to improve organizational performance, efficiency and competitiveness (Cameron, 1994). The word rightsizing sounds better than downsizing (Chopade, 2012). Organizations should be flexible and ready to adapt the changes that will occur in their businesses in order to stay alive and also for the accomplishment of organizational objective. (Bloise, Cook & Hunsaker, 2003)

Many studies have conducted nationally and internationally on the impacts of downsizing on employee performance. On national level it was found that because of downsizing employee loyalty and employee commitment is decreased and the level of job insecurity increased. (Rehman & Naeem, 2011). One of the studies explores the extent to which survivor morale, commitment, loyalty and trust and perceived career development opportunities are affected by the downsizing process (Brijball, 2005) and after the implementation of downsizing approach how the survivors react and perform in the prevailing environment of the organization are receiving more consideration. Downsizing has been considered to the bigger extend especially in financial expressions (Ikyanyon, 2011)

Downsizing is recognized to have positive result for the organization. In many situations organizations are continuing to use the downsizing policy as a cost cutting strategy they are beginning to evaluate the comparative costs and benefits against the negative impact of downsizing on employees. According to the results, downsizing is found to have significant negative impacts, especially on employees.

This research will explain the impact of downsizing on employee performance and how it will impact on the organizational performance. The research will be conducted on a Pakistani firm. It is active since 1947. The company is of engineering and technological industry and it offers wide range of products that is from technological solutions in energy, infrastructure and construction industry and health care.

LIMITATIONS

- The time duration for this article is less.
- The research is company specific so data should be collected from one firm.
- Research is conducted only in a firm in which downsizing has occurred because we need to check the impact of downsizing process on survived employees.
PROBLEM STATEMENT

Downsizing is the premeditated reduction in the range of workforce to improve efficiency and to become more attractive for acquisition and merger. This research article will explain downsizing and its impacts on employee performance. Numerous researches have been conducted on this area nationally and internationally but this paper has targeted engineering and technological sector of Pakistan. As, it is one of the major sector of Pakistan the selected firm plays a vital role in this sector by providing engineering and technological solutions in the energy, health, infrastructure and construction industry. Hence, the aim of this paper is to study the effects of downsizing on the employees of a Pakistani firm.

SIGNIFICANCE OF STUDY

This study will help in determining the things that need to be visualize by the organizations in order to sustain the existing employee performance and loyalty as well right after implementation of downsizing. This research will provide guidance for further researches based on employee performance and downsizing practices. This research will also highlight the consequences that arise in after implementing the downsizing process and also examine the performance of survived employees.

OBJECTIVES OF THE STUDY

- To assess the impact of downsizing on the performance of survived employees.
- To identify the number of survived employees during the process of downsizing in a Pakistani firm.
- To draw conclusion and to suggest recommendations for other organizations regarding the downsizing approach.

Hypothesis Statement

$H_0$: Downsizing has no impact on employee performance.

$H_1$: Downsizing has an impact on employee performance.

LITERATURE REVIEW

Employee resists change because of job insecurity, fear of the unfamiliar things, climate of doubt, fear of dissatisfaction, subordinate pressure and personality conflicts, poor timing and lack of Reinforcing rewards, and selective perception and maintenance (Winkler, George & Jones, 2002). Downsizing process increases the burden on the survivors (Drummond, 2000). When there is a breakdown in the conventional hierarchy, commitment is based on fear rather than on loyalty to the organization. An expanded period of downsizing creates a climate of increased work regimes (Newell & Dopson, 1996).

Change has effected in brighten up the jobs, the modification of working associations and a changeable perspective of career opportunities. They all have contributed to huge redundancies and dismiss the security of employment for many individuals. Latest organizational changes have included the redrawing of divisional boundaries, devastation of hierarchical levels, expanding the spans of control, reducing product diversification, reworking compensation, reorganizing processes, and restructuring governance (Bowman, Singh, Useem, & Bahadury, 1999). Organizational change comes with significant alterations in the organizational composition of the firm, including divisional redecoration and employment downsizing (Mullins, 2002).

This study explores the extent to which survivor morale, commitment, loyalty and trust and perceived career development opportunities are affected by the downsizing process (Brijball, 2005). After the process of organizational change...
and downsizing, the survivors would be pleased, grateful and motivated. For an organization change is a difficult process to undertake. The process should be clearly communicated by the leadership of the organization to the employees that what benefit change will give to our organization. Leadership should identify that survivors have special needs, gives the emotional support they deserve and ensure uninterrupted and honest communication. By doing this managing survivors would not be complex (Brijball, 2005).

Because of downsizing, there is a possibility of arising of disruptions in the workplace that result in pressure, dissatisfaction, nervousness and anger in survived employees (Kravitz, 1993 & Burne, 1994). Downsizing changes the work environment severely for the retained/survived workers along with the Laid off employees who are affected by the downsizing process (Brockner, Jeanette, & Carter, 1985). As survived employees are more in numbers so they explore more psychological effects compared to laid-off employees and have major implications for future research in terms of exploring psychological effects of downsizing (Greenberg, Edward, & Grunberg, 1997).

The survived employees have doubts regarding new or altered work assignments, alteration in career paths and team changes because of unfavorable effects will be faced in future. (Brockner, 1992) and resultantly decrease their job efforts, job satisfaction and organizational dedication (Brockner, Greenberg, Brockner, Davy & Carter, 1986). Because of downsizing, job insecurity will increase and because of job insecurity, employee’s loyalty will decrease that result in poor performance. So, Downsizing has a huge impact on performance of employees and on the entire organization as well (Rehman & Naeem).

Before introducing the idea of downsizing, organization member works lazy but after the introduction of downsizing concept employees will be motivated to perform their jobs better than others and up to their maximum level. If any member lost their job it will generate severe threat for their continued existence in society because of deficiency in job availability as well as psychological demoralization creates problems for them because organization members socio economic situation completely depend on the job. There is a strong association between intrinsic & extrinsic motivation and employee’s performance. Downsizing was occur purposely in P.I.A as a tactic and cause reeducation and after downsizing the effected employees faces lot of difficulties in their life (Rehman et. al, 2013).

Charles Handy initially forecasted that the industrial revolution will change the lives of millions of persons through a process he termed down-sizing. (Appelbaum, Everard, & Hung, 1999). We currently know that downsizing has been applied extensively as an executive tool in firms and governmental organizations around the world. Downsizing is not a latest trend. Downsizing came into importance as a matter of both scholarly and practical concern in the 1980s. (Lecky, 1998) 1990s consequently became known as the downsizing decade (Dolan, Belout, & Balkin, 2000).

Downsizing has occurred from industry to industry (Macky, 2004) While highest levels of downsizing have reported in the manufacturing, trade, and service sector. It is clear that downsizing took place in both the private and public sector (Dolan, Belout, & Balkin, 2000). It has commonly been adopted either reactively or proactively (Macky, 2004). In order to achieve and retain competitive advantage, organizations commonly support downsizing through globalization, emergence of deregulation, unification and possession activities, technological improvement international competition and a change in business tactics (Sahdev & Zyglidopoulos, 2003).
Zehir & Savi, 2004 explain downsizing is an approach having targets and intentional preferences. It enforces to position detailed strategies to achieve the demanded goals. Organizational downsizing is a comprehensive approach that provides a competitive advantage and customer fulfillment (Tustin, 1995) by reducing employees grade, limiting the action area of the corporation and using subconstructors in some arrangements (Nelson, Burke, & Adwood, 1998) to provide a change or enhancement in the size of work force, dimension, functioning and processes of the organization.

Positive emotional orientation towards membership is morale (Price, 1972). In this view, morale is the feelings of employee's desire to belong to the organization and happy with their organization. High morale is essential for optimal achievement of the organization (McManus, 1996). Morale is generally referred as psychological attitude of employees towards their job and place of work. Employee morale is a psychological condition with the respect to feelings of an individual or group of workers and satisfaction that results in courage, commitment and discipline. With intrinsic work aspects level of attainment can be achieved, such as diversity and challenge, response and learning, and space to develop and extrinsic conditions of employment such as reasonable and satisfactory pay, job safety, and health and protection. (Manning & Curtis, 2003).

A survey was conducted in manufacturing industry in Kayseri (Turkey) for studying the consequences of downsizing and how it will have an effect on survivors' commitment to the organization. For this study the framed hypothesis were survivor's affirmative observations of downsizing will have positive effects on their emotional, prolonged and normative commitment. Results disclosed that employees' positive perceptions of downsizing increased organizational commitment such as emotional, prolonged and normative commitment. Regression analysis was used to study the correlation between organizational commitment and survivors' observations of downsizing. (Akdogan & Chingoz, 2009)

Another study was conducted in Turkish public banks to examine the implication of downsizing on employees working. This study investigated the impact of rightsizing on emotional and behavioral commitment of survivors working at Turkish public banks. According to result of regression analysis, emotional commitments are increased when the employee's job stress decreased. Behavioral commitment decreased when work attendance and emotional commitment increased. Emotional commitment also increased when job satisfaction increased. No relation prevails between career satisfaction and organizational commitment. Emotional commitment of workers decreased when their wages are reduced. (Zehir & Savi, 2004)

**Variables**

Dependent variable is downsizing. Independent variables are financial rewards, (Saeed, 2013), emotional stability (Timothy, 2001) and job satisfaction (Timothy, 2001).  

**METHODOLOGY**

**Sample and procedure**

Questionnaires were sent in a Pakistani firm in which downsizing has occurred. Prospective respondents were the employees who are working in the firm after the downsizing process. Respondents were both male and female employees. 80 questionnaires were distributed and returned. Questions were design on the basis of variables that is job satisfaction, emotional stability and financial rewards. Respondents were asked to show their extent of agreement and disagreement with the statements that are shown in the questionnaire. 5-point Likert-type scale is used ranging from strongly disagree (1) to strongly agree (5).
test applied on the data is one sample t-test.

**DATA ANALYSIS**

In table 1 “N” shows the total number of observations that is 80. The average mean for emotional stability, job satisfaction and financial rewards is “4.1475”, “4.1167” & “4.0688” respectively. The standard deviation of the data is “.30146”, “.30049” & “.28400” respectively. The standard error of the mean is “.03370”, “.03360” & “.03175” respectively.

In table 2 we can observe that the “t” values are positive which shows that our estimated mean value is less than the actual mean value for emotional stability, job satisfaction and financial rewards. Degree of freedom is (N-1) = 79. The “P-value” is “0.000” which is less than “0.05” for emotional stability, job satisfaction and financial rewards respectively. The difference between estimated and actual mean value is “1.14750”, “1.11667” & “1.06875” respectively. Confidence interval has the lower and upper limit for emotional stability is “1.0804” & “1.2146” respectively. For job satisfaction the confidence interval has the lower and upper limit is “1.0498” & “1.1835” respectively. For financial rewards the confidence interval has the lower and upper limit is “1.0055” & “1.1320” respectively. The confidence interval limit does not contain zero.

**RESULT**

On the basis of following observation I reject my “Null hypothesis” that is downsizing has no impact on employee performance and accept the “Alternative hypothesis” that is downsizing has impact on employee performance. I am 100% sure on my decision because the P-value is “0.000” which is less than “0.05” and the confidence interval limit does not contain zero.

**CONCLUSION**

The result obtains from the following research we can say that downsizing has impact on employee performance because employee loyalty and commitment is decreased after the downsizing process. Workload is also increased which creates mental disturbance and make employees emotionally unstable. Financial rewards play a vital role in the performance of employees and motivate them to better for the achievement of organizational goals. The
result also shows that downsizing improves organizational performance but reduces employee performance.

**RECOMMENDATIONS**

- Change contains uncertain things so communicate with your employees about the process.
- The benefits of downsizing should be communicated properly so that employees feel secure and committed to the organization.
- Management should increase the morale of employees to gain performance.
- Organization’s financial reward system should be excellent so that employees feel motivated to perform.

**REFERENCES**


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