



WHAT DOES EXISTING RESEARCH TELL US (AND NOT TELL US) ABOUT DOWNSIZING AS A HUMAN RESOURCE STRATEGY?

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ABSTRAK

Pengurangan karyawan adalah salah satu strategi yang kerap kali dilakukan oleh organisasi karena alasan tertentu. Studi ini merupakan studi literatur dari beberapa penelitian yang dilakukan selama 30 tahun terakhir mengenai pengurangan karyawan sebagai salah satu strategi. Pada masa resesi pengurangan karyawan dimaksudkan untuk mengurangi biaya sedangkan setelah masa ekonomi global dimana terjadi resesi ekonomi global pengurangan karyawan seringkali ditujukan agar organisasi mampu bertahan hidup. Dalam beberapa penelitian disebutkan bahwa pengurangan karyawan sebagai strategi yang seringkali digunakan organisasi untuk tujuan meningkatkan efisiensi dan efektivitas organisasi justru seringkali tidak berhasil mencapai tujuan. Berbagai alasan mengapa suatu organisasi melakukan pengurangan karyawan serta berbagai dampak pengurangan karyawan akan dipaparkan termasuk pada kinerja keuangan organisasi, pengetahuan organisasi, fungsi dan produktivitas organisasi dan pada tenaga kerja baik yang meninggalkan organisasi dan mereka yang bertahan. Banyak penelitian yang telah dilakukan namun tidak menyebutkan mengenai pengurangan karyawan sebagai strategi sumber daya manusia. Penelitian lebih lanjut mengenai pengurangan karyawan patut dipertimbangkan terutama mengenai dampaknya terhadap fleksibilitas di tempat kerja dimana struktur ketenagakerjaan di beberapa sektor dan industri bergeser kearah tenaga kerja kontrak.

Keywords: pengurangan karyawan, strategi

The late 1980's and early 1990's saw the emergence of downsizing as a human resource strategy. Recessionary pressures caused organizations that for many years enjoyed growth and success, to look for ways to cut costs to stay competitive in response to their external environment (Ryan and Macky, 1998; Slocum, Morris, Cascio and Young, 1999). Again in the early part of this century a recession saw organizations using downsizing as a way to reduce expenses. In late 2008 and continuing into 2009, after a period of global economic boom, a number of events including the collapse of the US sub-prime mortgage market and other weaknesses in the global financial system has led to many economies collapsing or heading towards recession which has led organizations using downsizing to stay viable (Shah, 2009).

What started as a tool for organizations to use in times of recession to remain viable has now become a more widely used human resources strategy to achieve a variety of outcomes including remaining competitive in local and global marketplaces (Littler & Benson, 2002; Littler, Dunford, Bramble & Hede, 1997). This essay will review the literature in the area of downsizing from the last thirty years and argue that while downsizing has become a popular human resource strategy, the research demonstrates that it is rarely a successful one which delivers the anticipated organizational outcomes (Cascio, 2005).

In arguing that downsizing is an extensively used but largely unsuccessful human resource strategy, a definition of downsizing will be established. The variety of reasons organizations use this

human resources strategy will be identified including change in business strategy and structure, merger and acquisitions, reacting to recessionary pressures and as a result of increased competition. The impact of downsizing on organizations will be identified and discussed illustrating why downsizing is often not successful. Suggestions from the research literature will be provided to handle responsible downsizing are then discussed.

The essay will conclude with identifying what the current research does not tell us about downsizing as a human resource strategy. Interestingly, while the literature provides tips for organizations to implement downsizing more successfully, it does not tell us why organizations continue to use this strategy in light of all the research that says it does not work. As organizations are currently dealing with pressures to cut costs in the current economic climate, will downsizing be used differently and more effectively than in previous decades, or will the same results be delivered?

A definition of downsizing

Depending on the researchers, downsizing can have different meanings in different contexts, some which may be more useful when describing downsizing as a human resource strategy used by organizations. The simplest definition of downsizing is the reduction in numbers of employees (Ryan and Macky, 1998) or the "planned elimination of positions or jobs" (Cascio 1993). Appelbaum, Close and Klasa (1999) and Ryan and Macky (1998) add that downsizing should include an improvement in organizational efficiency.

Other researchers expand on this definition and raise expectations about lowering costs, streamlining procedures, maintaining products and services, as well as increasing efficiencies (Clarke and Patrickson, 2001; Littler, Wiesner & Dunford, 2003).

A more comprehensive definition of downsizing is not just reducing the workforce through eliminating jobs; it may include removing functions, redesigning organizational systems, implementing policies to contain costs, reducing work and the process of delayering by removing layers in the organizational hierarchy (Cameron, Freeman & Mishra, 1991; Littler et al, 2003). Additionally, downsizing may be implemented when the organisation is growing as well as contracting.

The levels of detail in the above definitions match three types of human resource strategies outlined by Cameron et al (1991). These are; workforce reduction, aimed at short term head count reduction only; organizational redesign; which has a medium term focus and addresses organizational structural changes such as delaying and removing or merging functions; and systematic, which is aimed at long term cultural change.

How do these definitions of downsizing relate to Human Resource (HR) Strategy? HR strategy is concerned with the activities of an organisation in relation to its people or employees which are critical to its survival and success (Boxall & Purcell, 2008). Any of the above definitions could then relate to HR strategy, though the definition offered by Cameron et al (1991) provides a more thorough definition which moves beyond survival of an organization, towards strategies to contribute to the business strategy and its overall success.

Reasons organizations use downsizing

In the early days of downsizing, organizations looked to achieve outcomes in reaction to external pressures such as recession and cyclical downturns. These were short term strategies that addressed the ongoing viability and survival of the organization (Ryan & Macky, 1998; Slocum et al, 1999). Decisions were based on the simple business equation that to make more money you need to either cut costs or increase revenue. If expenses can be reduced overall this should lead to higher

earnings, increased stock prices and so on. This is a simplistic view and the expected outcomes from downsizing may not eventuate for many reasons which will be discussed later (Cascio, 2005; Cascio and Wynn, 2004).

Labour costs may be a problem for organizations when facing market competition and so undertake downsizing for competitive advantage (Cascio, 1993). This may take the form of increasing labour flexibility to allow organizations to tailor their workforce to demand for products and services. The permanent workforce will be reduced and temporary and contract labour is used when demand requires it (Cascio 2005). Benson and Littler (2002) argue that organizations who look to downsize by cutting labour costs to develop workforce flexibility is a reactive short term strategy with little achievements towards long term competitive positions.

Downsizing can also take the form of outsourcing where organizations remove their non-core functions to focus on the area of their competitive advantage (Benson & Littler, 2002). The main outcome sought is workforce flexibility and improved productivity. Unfortunately the research indicates this form of downsizing may not achieve financial objectives and lowers employee morale, commitment and job satisfaction, because outsourcing is used as a short term cost cutting fix rather than activities driven by business strategy (Benson & Littler, 2002; Hall, 2000).

Organizations may use downsizing after a change in business strategy that necessitates a change in structure to support it. Different organizational structures are required for growing current markets or changing markets, or reducing costs in a stable or declining market (Appelbaum et al, 1999). Redundancies alone will not address or support a change in business plan so organizations use downsizing as part of a wider business strategy to ensure the financial and other outcomes are achieved (Cascio, 2005). Employee numbers may be reduced in some areas but increased in others to bring in skills to execute on the business strategy (Cascio, 2005). A business strategy involving mergers and acquisitions may use downsizing as a way to deal with duplicate roles or departments in the newly formed entity (Ryan & Macky, 1998).

Downsizing can be used by organizations to address overstaffing, improve decision making, increase productivity, and improve internal communication, in the case of delayering (Cascio, 1993). Efficiencies can be achieved through downsizing being used to reduce employee numbers or redesign work (Appelbaum et al, 1999).

Organizations seek a variety of outcomes when using downsizing, however the research indicates that the impact of downsizing may not be as successful as anticipated. In fact, there are many negative consequences for organizations pursuing downsizing as a human resource strategy. The following illustrates the impact of downsizing

The impact of downsizing – on organizational financial performance

The most cited reason for organizational downsizing is for cost cutting or financial performance reasons (Appelbaum, et.al. 1999; Littler et al, 1997; Gandolfi, 2006), however the research tells us that organizations who downsize do not achieve the expected financial outcomes. Slocum et al (1999) did extensive research on over 3000 United States based companies over a 15 year period (1980 to 1994) and looked at their financial performance, specifically profitability and stock performance, after downsizing. Their results showed that organizations who downsize do not improve their financial performance. Only those organizations that also restructure their assets as well as their employees deliver improved profitability. They also found that organizations which downsized did no better on stock performance than those organizations who had stable employment over the same period.

Clarke and Patrickson (2001) found that cost savings may not be gained and productivity may be reduced during downsizing activities and Appelbaum et al (1999) cited a number of research studies which illustrated many downsizing strategies do not succeed in delivering the expected results such as shareholder return on investment, reduction of expenses, reduction in overall expenditure, improved productivity, stock value, growth indicators and increased profit.

Research studies conducted by Cascio (2005) from 1982 to 2000 supported Appelbaum et al's (1999) studies, which looked at the financial and employment data of United States companies and found no consistent evidence of improved financial outcomes for organizations who implemented downsizing strategies (Cascio & Wynn, 2004, Cascio 1993).

The impact of downsizing – on organizational knowledge

A couple of researchers found that downsizing reduces organizational knowledge. Littler and Innes (2003) reviewed Australian datasets from 1990 to 1999 and found support for their proposition that downsizing leads to loss of skills and knowledge in organizations. The data reviewed excluded public sector organizations but comprehensively represented large organizations with over 100 employees across a variety of industries, though there was a bias towards manufacturing.

Cascio (2005) also supported the problem of downsizing in learning organizations. Learning organizations rely on the social networks their employees create which generate learning and knowledge within the organisation. Often these networks are the organisation's source of competitive advantage and downsizing can wreck havoc by damaging these networks and the reason the organization is successful.

The impact of downsizing – on organizational functioning and productivity

Newly downsized organizations don't function effectively due to not anticipating problems that might arise. Reasons include not having adequate programs in place to assist with the downsizing, such as retraining and redeployment to minimize effects and expecting untrained managers to take on specialist functions after cutting staff with specialist skills (Cascio, 1993).

With the organization not functioning effectively expected productivity gains do not materialise. This can be due to downsizing strategies only reducing employee numbers and organizations not implementing with other broader organizational changes linked to the overall business strategy (Cascio, 1993).

The impact of downsizing - on those who leave the organisation

The obvious outcome for employees who become victims of downsizing is becoming unemployed which can have negative financial consequences of loss of income, and psychological consequences such as loss of self esteem and depression, which affects the individual and their family (Winefield, 2002).

Organizations implementing downsizing responsibly may offer voluntary redundancies or early retirement schemes and some research literature have addressed the impact on individuals who decide to leave the organization during voluntary downsizing activities. Clarke and Patrickson (2001) studied employees who accepted voluntary redundancies from an Australian telecommunications company between two and seven years after leaving their employment. While it would be hard to apply the results across the board to employees who accept voluntary redundancies due to the size of the sample and the single organization and industry studied, the outcomes for this group of employees are still interesting. While the group did not regret their decision to leave the

organization, many had less certainty of full time employment, lower average wages and potentially lower health.

Isaksson and Johansson (2000) studied a Swedish insurance company who offered early retirement during downsizing activities and found that individuals accepted for voluntary retirement experienced satisfaction and psychological well being though males were less satisfied with their early retirement outcomes than females. It is unclear how these results can be applied to other cultural and organizational settings and this could be a point for additional research. Organizations targeting early retirement as a downsizing strategy may need to consider the impact of loss of organizational knowledge and this would be another starting point for additional research.

The impact of downsizing - on those who stay with the organization

Much of the literature reviewed identified the term 'survivor syndrome', to explain those employees who remain with the organization after a period of downsizing and experience a variety of feelings and behaviours, including increased job dissatisfaction, decreased motivation, decreased expectations about promotional opportunities, decreased levels of commitment, decreased morale and increased levels of concern about job security (Clarke and Patrickson, 2001; Littler et al,1997). The survivor syndrome effectively describes the breaking of the psychological contract, the unwritten but nevertheless important contract which outlines expectations between organizations and its employees (Cascio & Wynn, 2004).

In a case study conducted by Littler et al (2003) in Australia, New Zealand and South Africa, outcomes for those staying with the organization after delayering, a form of downsizing, may result in a reduction of career opportunities for individuals, because there are less layers to enable career advancement and development. This also has disadvantages for the organization as management spans of control become bigger and therefore less effective. Organizations then need to take bigger risks when promoting managers as the steps on the management career path are larger. This study was conducted in large organizations in the countries listed previously so it may be difficult to apply these findings to smaller organizations or to outcomes in larger economies; however the findings make sense that if layers are reduced in organizations it would follow that career opportunities are affected.

Why is downsizing often unsuccessful?

Appelbaum et al (1999) offer a number of reasons as to why organizations are often unsuccessful in implementing downsizing as a human resource strategy to achieve the outcomes they seek. Their reasons include; not assessing the organization's readiness for change correctly, using downsizing as a "management fad" when it does not suit the organizational goals, change is not necessary or using downsizing as a "short term solution" to address long term organizational issues, not matching the downsizing strategy to the organizational situation and factors such as organizational culture, level of trust in the organisation and leadership which can hinder the success of implementation.

What successful organizations do when downsizing?

Despite the research telling us that downsizing does not achieve the outcomes organizations expect, it also offers suggestions on how to implement more successfully. A common theme in the literature is to help those employees who stay with the organization, as well as those who leave. Assistance offered to those staying might include regular open and honest communication from

management, training and development, offering incentives for learning new tasks, reviewing human resource management systems like selection and reward to address downsizing changes, and looking externally to suppliers and how downsizing principles could be applied to them (Cameron et al, 1991). While these researchers identified the best practices in "white collar" downsizing in the US car industry, it would seem these common sense principles could be applied across different groups of employees and industries.

Appelbaum et al (1999) reviewed three cases of successful downsizing and found a number of factors present in each case that assisted managers implementing downsizing changes and survivors to make the downsizing strategy successful. Cameron et al (1991) made similar recommendations such as extensive communication to employees about reasons for the downsizing and how people would be treated through the process, and training to managers to assist them with those leaving the organization and those staying.

Cascio (2005) offers additional advice to organizations to consider the reasons for downsizing and how this fits with the long term business strategy, to try and keep the organisation as stable as much as possible, seek input and ideas from employees before implementing downsizing strategies, and have a fair and equitable process to make layoff decisions in a consistent way. Cameron et al (1991) found that organizations that used downsizing as a successful HR strategy implemented both short and long term downsizing strategies.

CONCLUSION

Downsizing as a human resource strategy is used by organizations as a response to recessionary pressures and cyclical downturns to cut costs and stay viable, as well as being used widely by organizations to compete in local and global markets. Downsizing has become a popular human resource strategy, despite the research demonstrating that it is rarely successful in delivering the anticipated organizational outcomes.

The existing research on downsizing as a human resource strategy tells us the variety of reasons organizations use downsizing which include a change in business strategy and structure, merger and acquisitions, reacting to recessionary pressures and as a result of increased competition. Ultimately, downsizing is used by organizations for cost cutting to improve financial performance.

The impact of downsizing on organizations however does not have the intended consequences. Cost savings may not be gained and productivity may be reduced during downsizing activities. Expectations of shareholder return on investment, reduction of expenses, improved productivity, stock value, growth indicators and increased profit, are often not met.

Future research directions

There is quite a lot the current research does not tell us about downsizing as a human resource strategy. The literature provides information on how to implement downsizing more successfully however the link between implementing downsizing and achieving the expected organizational outcomes is missing.

Research on the reasons organizations continue to use this strategy in light of all the research that says it does not work, is also glaringly missing. As organizations are currently dealing with pressures to cut costs in light of the current economic climate, will downsizing be used differently and more effectively than in previous decades, or will the same results be delivered? This is a critical starting point for continued research into using downsizing as a human resource strategy to inform and develop trusted and professional human resource practitioners. Such research should assist

human resource practitioners' link successful downsizing initiatives with the long term business strategy to inform successful human resource strategy.

In addition, future research into downsizing needs to consider the impact on workplace flexibility. The research should address whether downsizing has negative consequences for women and others in organization's seeking workplace flexibility. In Indonesia, downsizing strategy was extensively used as part of restructuring program in the late of 1998 including identifying redundant roles, restructuring and outsourcing as well as part-time and job share roles. These roles were easier to remove from the organization as they were perceived to have less affect on productivity and customer service, and were all held by women seeking flexibility for family responsibilities. Is this the experience in other organizations in Australia and other major economies? If so, what affect does this have on workplace flexibility outcomes for women and others in the workforce, who hold these roles? And how do human resource practitioners use this information to assist organizations achieve flexibility outcomes for their employees?

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