

# The Effect of Downsizing on Survived Employees' Performance: A Case of Pakistan

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## *Abstract*

*This research examines the effects of downsizing on the performance of survived employees in context of Pakistan. Downsizing is used as an independent variable and attributes of survived employees' performance such as employees' loyalty, employees' commitment and job security are use as dependent variables. Three associational hypotheses were developed to analyze the relationship between independent and independent variables. Study is quantitative and questionnaire five point Likert scales are used to collect data. Target population was all employees of Pakistan in government, semi government and private sector out of which 100 was selected as a sample. Data is analyzed through descriptive statistics, correlation and simple regression. Results show that there is negative relationship between downsizing and survived employees' performance.*

**Keywords:** Downsizing, survived employees, loyalty, commitment, Pakistan

**JEL classification:** M10, M12.

## 1. Introduction

Downsizing has become common practice in American business for last 25 years. These steps are mostly taken in order to improve the performance of the firm and competitiveness (P. Guthrie & K. Datta, 2008)

Downsizing is the practice done by the organization by which number of employees is reduced in order to become cost efficient and to improve the operations of the organization. Corporations do downsizing in response to poor economic conditions and in this situation corporate adopt this to cut down its costs or maintain profits. Downsizing may also happen due to merger, by cutting product or divesture of business. Organizations use number of techniques for downsizing that may include early retirements by availing the facility of additional incentives and by transferring the employees to subsidiaries but termination of employments of specific number of peoples. Restructuring changes like departmental consolidation, branch closing and other forms of activities are performed to cut pay bills.

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Gandolfi (2009) two strategies, reactive strategy and proactive strategy, regarding downsizing are normally adopted. Reactive downsizing occur in response to financial or economic situations resulting into external changes that happen in marketplace. To enhance competitive advantages in long run strategy of proactive downsizing is implemented with aim to improve the efficiencies, to take the advantage of new technology, to change skills of workforce or to restructure the organization.

Survived employees of the organization are those employees that have not lost their jobs by the implementation of downsizing strategy and till working on their positions. Survived employees behave differently towards their jobs and organization after the implementation of downsizing.

### **1.1 Research Gap**

All studies regarding downsizing and its impact on survivors' performance are based on conceptual models, meta- analysis and previous literatures. Relationship of downsizing with employees' loyalty, employees' commitment and job insecurity is proved with conceptual model. So there is a need to make some study that can show this relation empirically. That's why quantities data will be collected and analysis will be done on this.

### **1.2 Problem Statement**

Since 1980s different studies have been done that explored behavioral, attitudinal and psychological effects of the downsizing on survivors. Most of studies are of qualitative nature and based on previous literature. Study made in Pakistan regarding the performance of employees that are survived is based on only conceptual model and literature. In Pakistan there is need to conduct an empirical study about the effect of downsizing on the performance of survivors.

### **1.3 Objectives of Study**

Followings are the objectives of this study:

- To study the effects of downsizing on job performance of survivors of organization in Pakistan
- To discuss the objectives of exploring difference of downsizing strategies

### **1.4 Significance of Study**

This study will examine the strategy of downsizing whether active or proactive on the performance of survived employees. Although numbers of studies are made regarding this strategy but that are not empirical. So this study will provide an empirical base and if the relationships are proved then suggesting more dimensions about choosing a proper strategy of downsizing.

## 2. Literature Review

C.Rinefort, Fleet, & Fleet (1998) investigated the strategy of downsizing by which company for the sake of minimizing the organizational cost reduce the number of employees. Hazards of downsizing for the organization is also studied. 140 Firms producing wood products, chemical and paper were studied through interviews, questionnaires and on site visits. Comparisons were made among different costs regarding this strategy before and after its implementation. Results have significant value for manufacturing firms particularly for wood products, chemical and paper sectors where importance is given to performance and cost.

Jeon & Shapiro (2006) explained why downsizing pattern of firms may differ substantially in timing and magnitude adopting single-time massive cuts, waving layoffs or zero layoffs practices. Study was done by propositions and asymmetric information. Adverse shocks faced by firms and productivity effect influence the decision of downsizing but different organization with different characteristics adopt different pattern regarding downsizing. If firms have security about their future profits then they may not take step to adopt the practice of downsizing.

Cohen, Coval, & Malloy (2011) employed a new empirical approach to identify government spending's effects on private sector. Secondary data obtained from different sources along with dummy variables were used for this study. This study suggests that along with tax and interest rate there are also new considerations which must be assessed to understand the effect of government spending on economic activity of private sector which results in adaptation of downsizing strategy.

Gandolfi (2009) represented different causes of downsizing. Article is based upon the analysis of previous literature and other secondary sources. Downsizing begets downsizing, three factors including macroeconomic (rise in international competition), industry specific (decrease in sales) and company specific (poor financial results), to cut firm's costs, downsizing strategies (reactive downsizing, proactive downsizing), response to surplus of facilities and employees, technological advancements and innovation are the causes for downsizing.

Djordjević & Djukić (2008) studied the effects of downsizing on corporate reputation. Eight elements on which corporate reputation based is studied. The research is based on referent studies that explore the outcomes of downsizing. Influence of downsizing on eight elements (Product quality, satisfaction of the consumers, stock value, innovation and creativity, promotion activities, vision and leadership, internal communication and satisfaction of the employees, the core of competence, organizational culture and structure, partner network, financial output.) was investigated by which corporate reputation index was determined. It was found that strategy of downsizing cause decline in corporate reputation and it was suggested that consideration must be made regarding downsizing decision.

M. Amabile & Conti (1999) examined work environment for sake of creativity at huge high technology firms during, after and before major downsizing.

They found that downsizing negatively affects different aspects of creativity but may positively later on. Data was collected through questionnaire, 754 employees participated in this study and 455 gave the responses. The results suggest to expand the theories for organizational creativity and to avoid the negative consequences of downsizing.

Richtner & Åhlström (2006) studied the effects of downsizing on innovation through the development of model of mechanism. Details regarding, why and how innovation is affected by organizational downsizing, existing theory is used for the development propositions. Downsizing has negative effects on innovation but process of knowledge creation is the aspect on which downsizing may have positive effects.

Chair, T. Goodsell, S. Dudley, T. Gooden, & E. Colvard (2000) examined the effects of downsizing on survivors of the organization at individual level. Research is accomplished by combining and analyzing systematically the findings from independent studies by applying meta-analysis. Variables and their relationships which depict impact of downsizing on organizational survivors were investigated. In this study comparison was also made between public and non-public sectors which show no significant difference due to small sample size. Behaviors and attitudes that are possessed by downsizing survivors are identified in this research. So this enables managers to develop better understanding about downsizing and its resultant consequences.

Rehman & Naeem (2011) investigated the survivors of organization that are affected by downsizing in Pakistan. Conceptual model was developed for post-effects of downsizing on survivors of the organization. Model used here is logical integration of inevitable post-effects of downsizing and was supported by consequences of previous researches regarding downsizing. Downsizing affects employees' loyalty, their perceptions about job-insecurity and commitments towards organization and cause poor performance of both employees and organization.

### **3. Theoretical Frame Work**

#### **3.1 Inventory of Variables**

**Downsizing:** Early Retirement, Working Hours, Job Assignments, Reduction of Employees, Termination.

**Employees' Loyalty:** Change of Organization, Satisfaction with Environment, Work at Organization for a Long, Losing Job and Productivity, Suggestions.

**Employees' Commitment:** Job Assignment, Staying with Organization.

**Job Security:** Worry about Job, Secure Job, Threat of Job, Job Redundancy, Bankruptcy.

Downsizing is an independent variable which is measured on the base of early retirement, working hours, job assignments reduction of employees and

termination. Survivors' performance is dependent variables which are measured on the base of employees' loyalty, employees' commitment and job security (Rehman & Naeem, 2011).

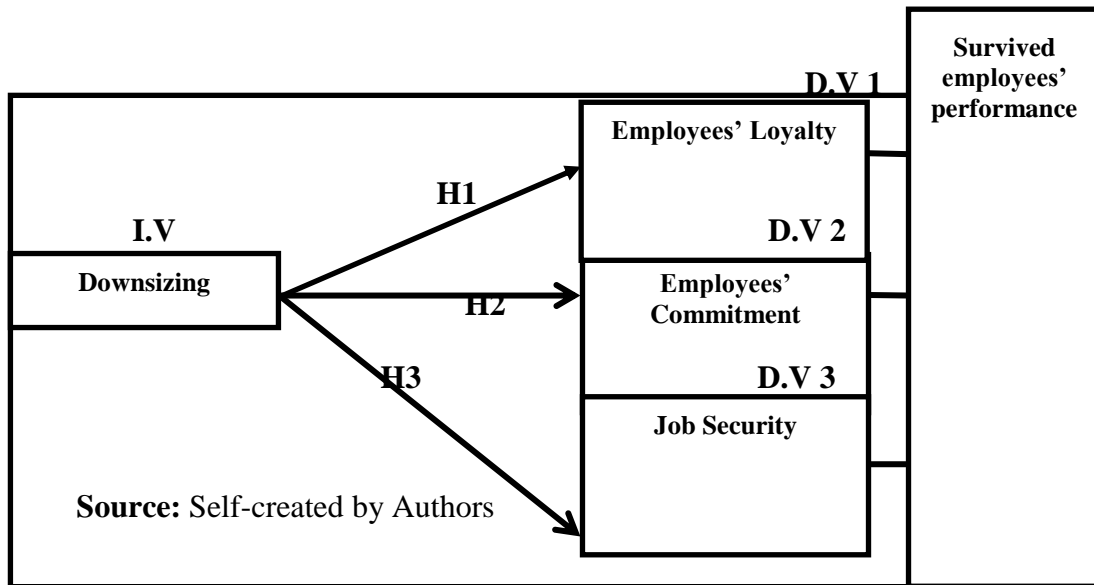


Figure 1. Conceptual Framework

### 3.2 Hypothesis Development

Wali- ur- Rehman and Hummayoun Naeem (2011) have made study on downsizing and its effects on survivors' performance and they identified that downsizing negatively affects employees' loyalty

H<sub>0</sub>: Downsizing has no relationship with employees' loyalty

H<sub>1</sub>: Downsizing has negative relationship with employees' loyalty

Wali-ur-Rehman and Hummayoun Naeem (2011) have made study on downsizing and its effects on survivors' performance and they identified that downsizing negatively affects employees' commitment

H<sub>0</sub>: Downsizing has no relationship with employees' commitment

H<sub>2</sub>: Downsizing has negative relationship with employees' commitment

Wali-ur-Rehman and Hummayoun Naeem (2011) have made study on downsizing and its effects on survivors' performance and they identified that downsizing positively affects job-Insecurity

H<sub>0</sub>: Downsizing has no relationship with Job-Security

H<sub>3</sub>: Downsizing has negative relationship with Job-Security

## 4. Methodology

### 4.1 Data Collection Methods

The research is based on empirical analysis because previous studies regarding this problem statement by James F. Wolf, Chair, Charles T. Goodsell, Larkin S. Dudley (2000) and Wali-ur-Rehman & Hummayoun Naeem (2011) are of qualitative nature and conceptual models and meta-analysis are used.

Data is collected through questionnaire adapted from various questionnaires used for similar type of studies. Questionnaire used for this study is divided into two portions. First portion is developed to collect demographic information about sample. Attributes regarding demographic information are consisted of gender, age, qualification, experience and sector of working (government, semi government and private). Second portion of questionnaire is contained four factors. At first all these four factors contained five elements but after reliability test some elements were eliminated. So after elimination first, second and third factors all have four while fourth factor has three elements. These elements are measured on five points likert scale (strongly disagree to strongly agree).

Reliability is checked through Cronbach's Alpha which is consisted of values 0.802 for first 4 elements, 0.568 second 4 elements, 0.781 for third 4 elements and 0.548 for last three elements.

The survey questionnaire method has been used to collect data about study. Target population is all employees of government, semi-government and private sectors but major focus of study is on private sector because mostly the practice of downsizing is done in private sector. Sample frame is consisting of 400 employees because it is sufficient size to represent the all population. On the base of fact that time is limited, population is scattered and to generalize the result on entire population sample size is selected of 100 employees.

For making questionnaire easily understandable and there is no grammatical and spelling mistakes pilot testing was done.

### 4.2 Data Analysis Methods

$$EL = \alpha + \beta DS + \varepsilon \quad (\text{Equation- 1})$$

$$EC = \alpha + \beta DS + \varepsilon \quad (\text{Equation- II})$$

$$JS = \alpha + \beta DS + \varepsilon \quad (\text{Equation- III})$$

Where,

DS= Downsizing

EL= Employees' Loyalty

EC= Employees' Commitment

JS= Job Security

As survived employees' performance is measured on base of employees' loyalty, employees' commitment and job security so each time the effects of downsizing is measured on employees' loyalty, employees' commitment and job security individually through simple regression

Descriptive statistics is used to show the characteristics of sample and data collected from sample. As relational hypothesis are developed in this study and as per nature of relationships simple regression is used as a inferential statistics through correlation. Simple regression is used because in this study effects of downsizing are to be measured on employees' loyalty, employees' commitment and job security separately. Downsizing affects employees' loyalty,

Employees' Commitment and job security in what directions is further measure of survived employees' performance which is actually be measured against downsizing.

## 5. Results and Discussion

**Table 1. Descriptive Statistics of Demographic Information**

		Gender	Age	Qualifications	Job Experience	Working sector
N	Valid	100	100	100	100	100
	Missing	0	0	0	0	0
	Mean	1.2400	1.9800	1.8800	2.0600	2.5800
	Std. Deviation	.42923	.68135	.43298	.76303	.75452
	Minimum	1.00	1.00	1.00	1.00	1.00
	Maximum	2.00	3.00	3.00	4.00	3.00

Respondents contain 76% males and 24% females out of total sample 100. Ages of respondents are 20-24 years 24%, 25-28 years 54% and more than 28 years are 22%. 16% of respondents have qualification graduations, 80% masters and 4% have MS/M.Phil. Job experience of respondents is less than 1 year 20%, 1-5 years 60%, 6-10 years 16% and more than 10 years are 4%. Out of 100 respondents 16% are working in government sector, 10% in semi government sector and 74% are in private sector. From all attributes of demographic it is cleared that most of respondents of population are males, age between 25-28 years, qualification masters, experience between 1-5 years and working in private sector.

**Table 2. Descriptive Statistics of Variables**

	N	Mean	Std. Deviation
Downsizing	100	3.7875	.61173
Emp_Loyalty	100	2.5275	1.01622
Emp_commitment	100	2.4725	1.12248
Job_security	100	2.2334	.58168
Valid N (listwise)	100		

Above table shows means and standard deviations of independent and dependent variables. Downsizing is independent variable with (3.78) mean and standard deviation (.61173). Employees' loyalty is dependent variable with (2.5275) mean and (1.01622) standard deviation. Employees' commitment is also dependent variable with (2.2725) mean (1.12248) standard deviation. Finally the job security with (2.2334) mean and (.55168) standard deviation is also dependent variable.

## 6. Hypothesis Testing

**Table 3. Correlations**

		Downsizing	Emp_Loyalt y	Emp_commitmen t	Job_securit y
Downsizing	Pearson Correlation	1	-.713**	-.711**	-.709**
	Sig. (2-tailed)		.000	.000	.000
	N	100	100	100	100
Emp_Loyalty	Pearson Correlation	-.713**	1	.731**	.468**
	Sig. (2-tailed)	.000		.000	.000
	N	100	100	100	100
Emp_commitment	Pearson Correlation	-.711**	.731**	1	.496**
	Sig. (2-tailed)	.000	.000		.000
	N	100	100	100	100
Job_security	Pearson Correlation	-.709**	.468**	.496**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	100	100	100	100

\*\* . Correlation is significant at the 0.01 level (2-tailed).



Table shows the correlation significant values of independent and dependent variables. First regression table shows that downsizing as an independent variable has negative relationship (-.713) with employees' loyalty with significant value .000 and it means that  $p < .01$  so null hypothesis (no relationship between downsizing and Employees' loyalty) is rejected and alternative hypothesis (negative relationship between downsizing and Employees' loyalty) is accepted.

Again according to regression the relationship between downsizing and employees' commitment is negative (-.711). This value is significant at .000 by which it means that  $p < .01$  that's why null hypothesis (no relationship between downsizing and Employees' commitment) is rejected and research hypothesis (negative relationship between downsizing and Employees' commitment) is accepted.

At third table shows the negative relationship (-.709) between downsizing and job security significant at .000 that's means again  $p < .01$  so based on these values null hypothesis (no relationship between downsizing and job security) is rejected and alternate hypothesis (negative relationship between downsizing and job security) is accepted.

As downsizing negatively related to employees' loyalty, employees' commitment and job security so it means that downsizing is negatively related to survived employees' performance which is main concept of dependent variables (Employees' loyalty, employees' Commitment and Job Security)

The value of  $R^2$  is .508 and means that dependent variable employees' loyalty is 50.8% predicted by independent variable downsizing. From this value it is indicated that regression line fits the data satisfactorily.

Overall scenario of the model is depicted by ANOVA table. So according to ANOVA measurements independent variable (downsizing) predicts dependent variable (employees' loyalty) by .000 significance. F value 101.145 from ANOVA table is significant and depicts that prediction of independent variable about dependent variable is good.

For dependent variable employees' commitment and independent variable downsizing the value of  $R^2$  is .506 so it means that dependent variable is 50.6% predicted by independent variable regression line fits data sufficiently. By ANOVA table downsizing predicts employees' commitment by .000 significance indicated by F value 100.201

Job security as a dependent variable value of  $R^2$  .502 against independent that's mean independent variable predicts dependent variable by 50.2%. Regression line fits data to satisfactory extent. F value 98.937 from ANOVA table dependent variable is depicted significantly at .000.

Standardized coefficient values -.713, -.711 and -.709 of downsizing for employees' loyalty, employees' commitment and job security means that downsizing is contributing significantly towards respective dependent variables.

## 7. Conclusion

Previous studies regarding downsizing and its effects on survived employees' performance was conducted by qualitatively through meta-analysis and conceptual models. Main objectives of the study are studying the background of downsizing strategy, doing detail review of the literature regarding downsizing and its causes and effects, investigating methodologies, models and methods used in previous studies and studying the effects of downsizing on survivors of organization in Pakistan. Research is done on quantitative basis and data is collected by questionnaire and descriptive statistics is used to represent characteristics of sample and data and simple regression through correlation to analyze data.

Null hypothesis regarding there is no relationship between downsizing and employees' loyalty, downsizing and employees' commitment and downsizing and job security are rejected and that's why all alternatives hypotheses there is negative relationship between downsizing and employees' loyalty, downsizing and employees' commitment and downsizing and job security are accepted because the dependent variables and independent variable are negatively correlated with high significant level which are also strengthened by R squared values, F values. So it is proved that downsizing has negative effects on survived employees' performance in Pakistan.

## 8. Limitation of Study

This study is done for sample of 100 due deficiencies of time and other constraints. So it may be small sample to generalize the result on whole population. Major portion of sample was consisted of private sector so government and semi government also be considered with equal weightage.

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