

# “A Global Perspective on the Non-Financial Consequences of Downsizing”

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## **Abstract**

*Firms engage in workforce downsizing for a multitude of reasons, generating a myriad of consequences and implications at organizational, sub-group, and individual levels of analysis. The downsizing literature is extensive, reflecting the prevalence of this management practice in North America and around the globe. Despite the large body of research, there is scarce evidence regarding the success of the downsizing strategy when assessed from financial, organizational, and human resource perspectives. This paper demonstrates that there are patterns in downsizing practices irrespective of country of origin. Internationally-oriented firms adopt similar strategies and practices to handle external threats or internal inefficiencies and experience similar outcomes. Also, there is substantial empirical evidence from multiple countries suggesting that executives have adopted downsizing activities as a strategy, driven by a deep-seated belief that these strategies will improve organizational efficiency, effectiveness, and overall financial performance. The paper shows that managers often experience a crisis mentality following the planning and implementation of downsizing and fail to make effective long-term plans for the firm and its constituencies. Furthermore, executives have a tendency to inadequately prepare for the aftermath of downsizing, and fail to understand how downsizing survivors will be affected by workforce reduction activities. Finally, the authors argue that firms mitigate some of the negative effects by providing training for survivors and introducing human resource policies and plans to mediate the after-effects of downsizing.*

**Keywords:** *downsizing; consequences; implications; global.*

**JEL classification:** M10, M14

## **Introduction**

A review of the scholarly business literature reveals that firms engage in workforce downsizing for a multitude of reasons (Freeman & Ehrhardt, 2012). Downsizing generates a myriad of consequences and implications at organizational, sub-group, and individual levels of analysis (Datta, Guthrie, Basuil, & Pandey, 2010; Gandolfi & Hansson, 2011). The downsizing literature is substantial, reflecting the prevalence of this management practice in North

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America (Freeman, 1994), Britain (Thornhill & Saunders, 1998), Canada (Dolan, Belout, & Balkin, 2000), Europe (Lamsa & Takala, 2000), Japan (Mroczkowski & Hanaoka, 1997; Griggs & Hyland, 2003), Australia (Gandolfi, 2006b), New Zealand (Macky, 2004), South Africa (Littler, 1998), and several Eastern European countries (Redman & Keithley, 1998; Filatotchev, Buck, & Zhukov, 2000), as well as its spread to other regions. While the majority of the downsizing research has been conducted in the U.S. and Europe (Datta et al., 2010), the contraction of workforces is not confined to U.S. firms, but has occurred throughout the world (Ryan & Macky, 1998; Makela & Näsi, 2010; Sturgeon & Van Biesenbroeck, 2010), including African and Latin American countries (Jones, Jammal, & Gokgur, 1998) and transitioning economies (LaPorta & Lopes-de-Silanes, 1997).

Downsizing is also pervasive in countries that are moving from a state-regulated market system with one or only a few market actors in each sector, to a market system based on competition and multiple actors in the majority of sectors. Examples of such countries, where privatization often brings about the need to reduce a firm's headcounts, include Russia, Belarus, Ukraine, and several Eastern European nations (Appelbaum, Everard, & Hung, 1999; Filatotchev et al., 2000).

Cascio (2003) points out that downsizing has also affected China, which has become one of the world's top manufacturing hubs. In 2003 alone, more than 25 million Chinese lost their jobs due to the transformation and privatization of state-owned-enterprises (SOE). Downsizing has even become common in highly industrialized countries known for very stable employment practices, such as Japan and Sweden (Gandolfi, Renz, Hansson, & Davenport, 2012).

There is a wide range of downsizing causes and driving forces, yet no single cause explains and accounts for the pervasiveness of the phenomenon (Datta et al., 2010). Despite these unclear antecedents, the scholarly community emphasizes the strategies and practices employed in North America and Europe. It is evident that popular management practices have a tendency to spread and to be adopted as management fashions or fads, thereby being replicated around the business world (Powell & DiMaggio, 1983; Abrahamson, 1996; Barley & Tolbert, 1997). Consequently, modern-day firms tend to adopt similar or identical strategies and practices to handle challenges like economic downturns, external threats, increased competition, or internal inefficiencies.

While firms downsize their workforces for a myriad of reasons across the globe, there are common denominators that recur in management's rhetoric. In the private sector, for instance, management often argues that firms need to downsize to reduce costs (Sahdev, 2003; Gandolfi & Hansson, 2011), remain globally competitive (Macky, 2004; Levitt, Wilson, & Gilligan, 2008), maximize shareholder returns (Escalante, 2001), and improve efficiencies (Zyglidopoulos, 2003). Downsizing has also been blamed on declining profits, or poor management decisions that have led to over-hiring (Downs, 1995). In the public sector, downsizing often occurs due to budget reductions (Littler & Gandolfi, 2008) and lost jobs derived from technology improvements (Escalante, 2001).

Downsizing scholars assert that executives adopt downsizing as a strategy due to financial pressures and financial losses (Cameron, Freeman & Mishra, 1991; 1993; Cascio, 1991; 1993). Downsizing may occur due to shareholders' demands (Delorese, 1998), mergers and acquisitions (Kets de Vries & Balazas, 1997), privatization (Littler, 2000), and unacceptable profit margins (Allen, 1997). Ultimately, a commonly held belief is that downsizing improves overall financial performance (Macky, 2004). Other downsizing catalysts include pressures from rival firms (Luthans & Sommer, 1999), poor industry conditions (Espahbodi, John, & Vasudevan, 2000), the deterioration of micro niches (Cameron, Sutton, & Whetten, 1988; Hannan & Freeman, 1988, 1989), shrinking markets (Harrigan, 1982), severe loss of market shares (Hedberg, Greve, & Starbuck, 1978; Starbuck, Greve, & Hedberg, 1978), change in demographics (Mellahi & Wilkinson, 2004), divestments (Montgomery & Thomas, 1988), exit from international markets (Jackson, Mellahi, & Sparks, 2005), failing strategic initiatives and wrong investments (Ghemawat, 1991), and other types of failures (Mellahi & Wilkinson, 2004).

Downsizing generates profound overall implications and consequences, as noted in the management literature and in the business press. A close study of the extensive body of literature on the consequences of downsizing presents a complex, yet rich picture. Despite the large body of research, there is scarce evidence regarding the overall success of this strategy when assessed from financial, organizational, and human resource perspectives (Burke & Greenglass, 2000; Littler & Gandolfi, 2008; Gandolfi, 2009). For example, downsizing produces a range of *financial* consequences. Specifically, a multitude of studies - cross-sectional and longitudinal, North American and international - have demonstrated that while some firms have reported financial improvements, the majority of downsized entities have not reaped improved levels of efficiency, effectiveness, productivity, and profitability (Cascio, 1993; Sahdev, 2003; Macky, 2004; Love & Nohria, 2005; Gandolfi, 2008; Gandolfi & Neck, 2008, Guthrie & Datta, 2008). A closer study of downsizing and its financial consequences is beyond the scope of this research paper.

Downsizing also generates a range of *organizational* consequences. For instance, downsizing consolidates decision-making at higher levels of organizational hierarchy, and often produces a crisis mentality focused on immediate needs at the expense of long-term planning (Cameron, 1994). Downsizing generates a range of *socio-cultural* consequences. From the extant literature, it is possible to distinguish between three categories of people directly impacted by downsizing: victims, survivors, and executioners (Downs, 1995; Kettley, 1995; Allen, 1997; Littler, 1998). Each category experiences different effects of downsizing (Gandolfi, 2008). It has been reported that the human costs of downsizing are immense (Burke & Greenglass, 2000) and far-reaching (Brockner, Greenberg, & Grover, 1988; Datta, et al., 2010; Datta, Basuil & Radeva, 2012). In fact, survivors frequently suffer from "survivor syndrome" (Littler, 1998) and, as a result of having limited resources and support following

downsizing (Gandolfi et al., 2012), experience profound personal and professional consequences (Macky, 2004).

It is these non-financial consequences of downsizing that are the focus of this paper, which seeks to outline an international perspective of the consequences and implications of downsizing. The organizational, socio-cultural, and human aspects will be examined, with a particular focus on Europe, Asia, and North America. Along the way, this paper reviews a broad array of downsizing literature to portray the consequences and implications of downsizing on an international scale. Specifically, the authors will focus their attention on the impact of downsizing on the firm's culture, organizational climate, and employee motivation. The paper is structured as follows: First, we frame the context of our discussion by assessing whether downsizing is a strategy or a process. In addition, we discuss the phases of downsizing seen in organizations. Second, we discuss how downsizing, by depicting an organization's response to training and development, influences the culture and climate of firms. Third, we discuss human and socio-cultural consequences by examining hierarchical differences in pay and benefits. The paper concludes with a summary discussion and implications for future research.

### **Downsizing – strategy or process?**

In order to understand how downsizing affects organizational performance, we revisit the fundamental question posed by Gandolfi (2006a) “*Is downsizing a strategy or a process?*”. This question is critical to our discussion since it frames the context in which we will look at research to understand the relationship between downsizing and a firm's non-financial performance. According to Merriam Webster, *strategy* is the art of devising or employing plans toward a goal, while *process* is a series of actions or operations conducing to an end. Thus, if downsizing is viewed as a *strategy* then reducing the workforce by this definition should lead to improved performance. If, however, downsizing is a *process*, then reducing the workforce is part of a series of actions that, it is hoped, will ultimately lead to improved performance. Thus, examining downsizing as a process rather than a strategy should help us identify if or how downsizing drives organizational performance.

#### *Phases of downsizing*

Gandolfi (2006a) examined large Australian banks to conceptualize the downsizing process. He concluded that while theoretically participants identified three phases of downsizing — *before*, *during*, and *after* or *post* downsizing — for the most part they distinguished between *before* and *after* downsizing. Furthermore, participants identified the *before* phase as the period that immediately followed downsizing announcements and the *after* phase as that which occurred following implementation. Gandolfi's (2006a) research suggested that organizations did not plan, prepare and/or train employees prior to engaging in downsizing. Thus, he speculated that it was unlikely that firms had appropriate

human resource (HR) plans, policies, or programs in place. These findings were consistent with Cascio's (1993) assertions that firms did not adequately prepare for downsizing and surviving employees were largely ignored (Appelbaum, Delage, Labibb & Gault, 1997; Gandolfi, 2006a).

Also, Gandolfi (2006a) concluded that *while* and *post* downsizing phases were likely to have two sub-phases. The first phase, *while* downsizing, is referred to as a workforce reduction strategy (Cameron, 1994) and is frequently marked by dramatic cutbacks (Gandolfi, 2006a). The second phase requires more time and involves organizational redesign and systemic strategies (Gandolfi, 2006a). Post downsizing has two sub phases. The first phase, viewed as short-term, occurs immediately following downsizing and involves preparing surviving employees to fill vacant positions. The second phase, post downsizing, consists of long-range activities that aim to foster employee empowerment and recommitment, such as counseling, training, professional advice, and support, and focuses on aligning remaining employees with the firm's new vision, mission, and strategic objectives (Gandolfi, 2006a). Thus, if downsizing is a process then it is in the post downsizing phase that we need to ask whether the downsized firm achieved its goal of reaping improved levels of organizational performance derived from downsizing activities.

### **Organizational implications and consequences of downsizing: a global overview**

Downsizing is an *intentional* endeavor (Cameron, 1994). Thus, it should not be surprising that an organization's climate, culture, and surviving employees are deeply impacted by management's decision to downsize (Cameron et al., 1991). In this section, we discuss organizational outcomes following downsizing and examine how organizations may cope with the lingering effects of downsizing.

Clearly, the execution of downsizing generates a range of organizational effects. There is strong evidence suggesting that downsizing practices consolidate decision-making efforts at higher levels of organizational hierarchies and produce a crisis mentality focused on immediate needs at the expense of long-term planning (Cameron, 1994). Furthermore, downsizing activities produce a loss of innovation with decreased tolerance for risk and failure associated with creative activity (Richtnér and Ahlström, 2006).

Ironically, although overall communication tends to become more restricted, the organizational climate becomes more politicized as special interest groups organize and become more vocal (Burke & Cooper, 2000; Littler & Hansson, 2007). Other reported negative consequences following downsizing practices include decreased morale and productivity, increased numbers of conflicts, slower conflict resolution, and loss of trust (Cutcher-Gershenfeld, 1991). While increased levels of individualism and disconnectedness hinder teamwork, poor leadership (or its complete lack), and an increased level of resistance to change generate conservatism and a rigid, protectionistic stance (Cameron, 1994). In contrast, other studies have reported positive organizational outcomes, including

lower overhead costs, less bureaucracy, faster decision-making, smoother communication, greater entrepreneurship, and increased overall employee productivity (Burke & Cooper, 2000).

#### *Coping with organizational effects - the need for training and development*

Management must mitigate the effects of downsizing potentially caused when surviving employees lack the necessary knowledge, skills, and abilities needed to fill vacant positions. Likewise, management itself is often not prepared to adjust to the effects of downsizing. Gandolfi (2006a) posits that firms engage in downsizing without appropriate human resource policies and plans in place. Ultimately, this impacts the organization's financial performance. Gutknecht and Keys (1993) indicate that firms are often resistant to investments in post downsizing training programs due to the costs associated with training. Yet, training and development of existing employees is pivotal to the firm's ability to recover from post-downsizing effects (Nadeem, 2010).

Research has shown that, following a downsizing activity, surviving employees experience decreased organizational commitment, productivity, motivation, and job satisfaction, and display a tendency to shift to a purely transactional contract (Mihajlovic & Zivkovic, 2008). Employees often report feeling overwhelmed by an increased workload, guilt, anger, and/or relief (Gandolfi & Hansson, 2010). Nadeem (2010) concluded that firms that provided training for employees to improve employee knowledge, skills, and abilities were rewarded with motivated, committed, and satisfied employees. Furthermore, training improved the organization's overall productivity and morale.

#### *The function of training as a national orientation*

According to Forrier and Sels (2003), firms in some countries invest more in training than do others. Chinese firms, for example, make significant investments in the training function (Zhong-Ming, 1999). At a national level, China has developed management training programs in reaction to its changing economy. Zhong-Ming (1999) posits that China's economic transition has increased the need for professional training and management education. In response, special management training programs were introduced in 1978 (Zhong-Ming, 1999). Successful completion of the program was necessary for managers and supervisors in certain industries ~~in order~~ to assume management responsibilities. A decade later a management training program was developed by the Chinese State Economic Commission in collaboration with firms in the U.S., UK, EU, Canada, and Japan. State-owned enterprises identified training opportunities by examining knowledge, skills, and abilities for positions. After managers completed the training program and were working in a position for a period, post qualifications were assessed (Zhong-Ming, 1999). In the 1990s, companies in China, including state-owned management, market-oriented shareholding systems, and state enterprises have expanded China's on-the-job training programs expansion in response to a

nationwide downsizing movement that eliminated 16 million positions. On-the-job training was used for not only surviving employees, but also for the reemployed Chinese citizens (Zhong-Ming, 1999).

Specifically, Zhong-Ming (1999) concluded that training in China was reoriented and recalibrated due to the changing economy to incorporate the following shifts:

1. from an academic to a professional orientation. Shifting training to fit skills needed for management;
2. from general knowledge learning to competency development. Universities and schools in China expanded education in organizational behavior and human resource management in business programs;
3. from technical orientation to managerial focus. Rather than focusing on technical training, the focus shifted to learning “soft” skills such as leadership, communication, and process skills;
4. from a common program to an adaptive curriculum planning. Management education went from a universal orientation to a flexible adaptive orientation customized to the needs of the organization;
5. from “one-shot” training to strategic distributive development. Organizations began to subscribe to the value of longitudinal training programs instead of one-shot or one-time training.

In contrast to the Chinese approach, Belgian companies invest comparatively little in training (OECD, 1999). Belgian firms have traditionally not warmed to providing training because of open contracts (Forrier & Sels, 2003). Organizations are reluctant to invest in training when employees can leave to work for competitors. Certain conditions are likely to support increased training. For instance, if a firm undergoes downsizing due to financial problems, it is not likely to reduce the amount of training investment. However, if an organization engages in downsizing as a systemic strategy, it trains employees actively. Also, downsized firms invest less in training than turbulent organizations, which experience unstable inflow and outflow in the number of employees (Forrier & Sels, 2003). Furthermore, organizations that have an internal labor market are more likely to invest in training and monitor pre-training (assessing organizational needs) and post-training (assessing training effectiveness) than are firms lacking such a market. Finally, an internal labor market means that a firm mostly recruits from within and will externally recruit employees, but at a lower rate (Forrier & Sels, 2003). Perhaps in an effort to counter the cultural norm, the Belgian government has provided financial support to firms investing in training.

### **Socio-cultural and human implications and consequences of downsizing: a global overview**

Downsizing generates a range of socio-cultural and human consequences. A literature review reveals similar patterns of explanations, implications, and

outcomes on the individual level of analysis, irrespective of country of origin (Datta, et al., 2010; Gandolfi & Hansson, 2010). While downsizing processes might unfold differently in various countries, influenced by national laws and regulations, outcomes appear to be noticeably similar (Hansson, 2008).

It has been reported that the human costs of downsizing are far-reaching (Burke & Greenglass, 2000). Research depicts strong evidence of adverse psychological effects resulting from job loss, including psychological stress, ill-health, family and marital problems, reduced self-esteem, depression, psychiatric morbidity, helplessness, anxiety, and feelings of social isolation (Havlovic, Bouthillette, & Van der Wal, 1998; Gandolfi, 2007). There is also evidence suggesting that job loss caused by downsizing generates permanent damage to the downsizing victims' careers (Dolan et al., 2000), including a loss of earning power upon reemployment (Konovsky & Brockner, 1993) and decreased levels of employee commitment and loyalty that tend to carry over to the next job (Macky, 2004).

Downsizing survivors display a variety of dysfunctional work behaviors and attitudes (McMahan & Pandey & Martinson, 2012). This has been well documented in the literature and includes decreased levels of motivation (Brockner, Greenberg, Brockner, Bortz, Davy, & Carter, 1986; Kinnie, Hutchinson, & Purcell, 1998), morale (Smeltzer & Zener, 1994), commitment (Beylerian & Kleiner, 2003), job satisfaction (Redman & Keithley, 1998), and speed of conflict resolution (Hansson, 2008), as well as increased propensity to leave the firm (Appelbaum, et al, 1997), and increased levels of resistance to change (Macky, 2004) and conflicts (Cutcher-Gershenfeld, 1991). Further, survivor sickness pathologies include distrust towards management (Cascio, 1993), increased levels of absenteeism (Gandolfi, 2005) and employee turnover (Brockner et al., 1988), as well as decreased levels of employee involvement (Beylerian & Kleiner, 2003), risk taking (Allen, 1997), and innovation (Gandolfi & Oster, 2009). Similarly, researchers have reported lowered levels of productivity (Estok, 1996), work performance (Beylerian & Kleiner, 2003), efficiency (Lee, 1992), product and service quality (Fisher & White, 2000), learning (Sahdev, 2003), and competence (Gettler, 1998). These outcomes are, in many aspects, fairly homogenous within a global context (Littler, 1998; Macky, 2004; Hansson, 2008).

In the review of the socio-cultural and human consequences of downsizing, there is little evidence that the outcomes differ across nations. Littler (2000) compared Australia, New Zealand, and South Africa in terms of correlation between frequency of downsizing and survivor syndrome scale (within country data). In Australia, there was a weak positive correlation between frequency of downsizing and the survivor syndrome scale, but this correlation was not found for New Zealand and South Africa. The results from New Zealand stood out, indicating a negative relationship – the higher the reported frequency, the more positive the human resource outcomes.

Littler (2000) concluded that there is little or weak evidence on the outcomes between downsizing practices in Australia, New Zealand, and South

Africa compared to the reported human outcomes in downsizing firms in North America. Nonetheless, Littler (2000) outlined a set of conclusions from the international comparison:

- negative HR-related outcomes and survivor syndrome are difficult to avoid in a post-downsizing context;
- survivor syndrome is not inevitable and the processes can be managed;
- there are some signs of a recurring cycle of the survivor syndrome across the analyzed countries.

### *Cultural differences*

Cultural differences not only affect the decision to downsize, but also how downsizing victims, survivors, and executioners will be treated following downsizing and the tactics organizations will employ (Gandolfi, 2010; Tziner, Fein & Oren, 2012). For instance, a key distinction between firms in the United States and Japan is their employment contracts with employees. Japanese firms have traditionally guaranteed lifetime employment in an implicit fashion (Gandolfi, 2014). Thus, Japanese firms are historically averse to layoffs and more likely to opt for creative forms of restructuring and cost-savings. This practice is in contrast with firms in the United States that frequently resort to workforce layoffs (Lee, 1997).

In addition to employment contracts, a firm's decision making is influenced by corporate governance and involvement by a board of directors. Kang and Shivdasani (1997) examined banks in Japan and the United States from 1986 to 1990. These countries were selected because banks in the United States are restricted from owning equity of other firms, whereas Japanese banks are allowed to own up to 5 % of outstanding shares of their client firms. It was concluded that during the two years surrounding a decrease in organizational performance, employment dropped 15 % in the United States and 4.7 % in Japan. Compared to their U.S. counterparts, Japanese companies were more likely to respond to a drop in performance by expanding operations, often through diversifying activities. Japanese banks with greater equity ownership were more likely to experience layoffs, the removal of outside directors of the board, and a reduction of assets, plant closures, and discontinuations of operations (Kang & Shivdasani, 1997).

Staying with the same countries, shareholders exert influence differently over executives and managers. In Japan, shareholders often use passive threats which are effective because there is no clear separation between board members and management (Wu & Delios, 2009). Banks in Japan are more directly influenced by board members because they often make significant investments in the firm. Japanese boards are often comprised of senior officials within the organization. However, in a more recent move, the number of outside board members has also increased in Japan (Wu & Delios, 2009).

As demonstrated in this paper, cultural differences impact the decision to downsize and how employees will be treated. In addition to cultural differences, firms also differ in how swiftly they implement downsizing strategies.

### *Compensation and benefits*

Reducing employee compensation and benefits during some stage of downsizing is often part of the strategy employed to improve financial performance (Kelly, 1996). In some instances reductions in compensation and pay will occur in a pre-downsizing phase (Lin, Zu-Hsu, & Gibbs, 2008). There is empirical evidence to suggest that firms see downsizing as an opportunity to reduce wages (Guiniven, 2001) and employment costs (Cascio, 1993). Furthermore, downsizing may trigger changes in health plans, life insurance programs, disability plans, retirement plans, nonqualified deferred compensation agreements, and severance plans (Kelly, 1996).

Kelly (1996) points out that firms that downsize may actually experience an increase in the cost of employee benefits in the short term, due to an increase in demand for employee benefits by survivors. Improving benefits provides survivors with a sense of security, increases retention, and reduces productivity distractions. An organization can also increase tax efficiencies and obtain lowered premiums by taking advantage of group purchasing (Kelly, 1996). Likewise, executive pay tends to increase as surviving executives receive increased compensation in order to encourage restructuring activities (Dorata, 2008; Hallock, Strain, & Webber, 2012).

Much of the published research regarding compensation and downsizing has focused on executives, especially CEOs of U.S. firms. These studies typically employ agency theory (Buck, Liu, & Skovoroda, 2008) and use pay as a dependent variable (Tosi, Werner, Katz, & Gomez-Mejia, 2000) suggesting performance drives pay. According to agency theory, shareholder principals impose executive compensation packages that align with their own interests. Therefore, executive pay increases when shareholder wealth increases. In the U.S., it is suggested that CEOs have the capacity to do this since they are able to manipulate board structures (Bebchuk & Fried, 2004). Buck et al. (2008) posited that executive pay in other countries is influenced by corporate governance, institutional contexts, and cultural environments. Thus, it would not be expected that executives in other countries would experience the changes in compensation and benefits commonly found within U.S. organizations (Buck et al., 2008).

### *Executive pay*

Executives are pivotal to a firm's ability to recover from downsizing activities (Dorata, 2008). Executive support for changed goals is critical for a firm to achieve its new goal of improving financial performance (Buck et al., 2008). Executive pay may be changed either to encourage executives to achieve the organization's new goals (Buck et al., 2008) or to adjust for ineffective leadership (Lin et al., 2008). Changes in executive compensation and benefits may be initiated to correct past inefficiencies, diversifications, or missteps. Also, executive compensation and benefits may be changed prior to or after downsizing to reduce conflict between shareholders and executives (Lin et al., 2008). Thus, executive compensation and benefits may be changed to reward positive outcomes post-

downsizing or to adjust for prior poor performance (Hallock, Strain & Webber, 2012).

Downsizing that results from mergers and acquisitions impacts compensations packages and often reflects both firms' statuses. Montmarquette and colleagues (2004) conducted an experiment to identify executive compensation schemes and performance after a merger (Montmarquette, Rulliere, Villeval, & Zeiliger, 2004). They examined a French and a German pharmaceutical company that recently consolidated and underwent post-merger downsizing. They concluded that the use of differing compensation packages among executives reduced team cooperation and that financial incentives improved output (Prendergast, 1999). However, financial incentives were not effective with heterogeneous groups. Thus, it is likely in firms with mixed cultures that other factors, such as norms and social behaviors, impact team cooperation and output (Montmarquette et al., 2004).

Singh and Agarwal (2002) compared the impact of union and non-union metal-mining firms on executive compensation levels and structure in Canada. They proposed that unions can produce two divergent outcomes during downsizing by negotiating executive pay concessions. The first outcome produces a dampening effect by reducing executive compensation due to pressure from collective bargaining and media exposure. The second outcome produces a ratcheting effect by increasing executive compensation and by increasing wages at lower levels within the firm. They found a significant positive relationship between union presence and executive higher salaries, bonuses, short-term compensation, cashed/exercised stock options, other long-term incentives, and total compensation. These research results were obtained when conducting bivariate analyses, that is, one way ANOVA and zero order correlations, but were not found when conducting hierarchical regression analyses.

Fisher, Lee, and Johns (2004) examined company turnaround following retrenchment, replacement of the chairman or chief executive, and ownership change in Australia and Singapore. Retrenchment was defined as asset divestment and cost reduction often caused by downsizing (Fisher et al., 2004). These countries were selected because they have similar governance transparency yet different cultures. They concluded that there was no significant difference in the speed of change of the CEO or Chairman in either country and no indication that Australian companies were likely to change the CEO or Chairman faster than Singaporean companies. Likewise, there was no support that Australian companies would undertake retrenchment faster than Singaporean companies. Furthermore, there was no difference in firms that engaged in any of the four actions and their turnaround performance (Fisher et al., 2004). Australian companies were, however, found to be more likely to change ownership than Singaporean companies.

Singh and Agarwal (2002) posit that executives are impacted differently from the effects of downsizing compared to lower level employees. Certainly, in some instances, executives seem to fare better with compensation and benefits post downsizing. Still, research indicates that it is not a guaranteed outcome (Feldman,

Leana, & Bolino, 2002). Executives, like employees at lower levels, may find themselves either unemployed or underemployed making less money than prior to the downsizing. Yet, a distinct advantage executives have over other employees is that they often negotiate their severance packages before entering the firm (Jones, 2006).

Andre, Magnan, and St-Onge (2008) found that following a merger and acquisition in Canada, the CEO's compensation increased despite underperformance. Thus, an executive who survives downsizing may experience an increase in salary, bonuses, stock options, and enhanced value to a retirement plan (Hallock, Strain, & Webber, 2012). These results stand in contrast to the results for lower level employees described earlier in this paper. This disparity in treatment in executives and non-executives has shown negative effects. Flint (2003) examined the impact of downsizing in hospitals in Canada and found that the hospitals reduced non-management positions only and did not cut executive pay. Not surprisingly, lower level employees at these hospitals expressed deep resentment.

#### *Non-executive pay*

Limited research has been conducted regarding non-executive employees' pay post-downsizing. One example is Zimermanova (2010) who examined how the recent economic crisis affected pay in small and medium-sized organizations in the Slovak Republic and in the European Union. In the Slovak Republic, the government establishes a minimum wage amount by industry. Members of the European Union, on the other hand, legally enforce nationwide minimum wages that apply to a majority of full-time employees in each country (Zimermanova, 2010).

During the economic crisis in 2009, in the Slovak Republic and in the European Union, 66.83 % of small business owners paid at the level of minimum wage (Zimermanova, 2010). One third of small business owners also reported that they pay part of the wages as "black money" to reduce the amount of money they would have to pay for individual insurance funds. While the study did not indicate how many firms participated in downsizing specifically, organizations reduced the workforce as the primary strategy to save costs. Three quarters of the businesses in the study indicated that the economy forced them to reduce employees' wages. Some of the organizations reduced wages at the same time they reduced the workforce. Additionally, bonuses were cut by many organizations (Zimermanova, 2010).

Employees that survive the first round of downsizing are not guaranteed that they will not fall victim to a second round of cuts (Gandolfi, 2006a). Unlike for executives, who frequently have severance packages no matter where located, entitlements for lower-level employees vary by country. According to the OECD (1999), countries such as Australia, Belgium, and Finland do not require firms to pay severance. Denmark provides severance for white collar workers, but not for blue collar workers. The United States, Germany, and Sweden, for instance, do not

offer a legal entitlement to severance unless it is included in a collective agreement. If workers are dismissed due to redundancy in Australia and in the Czech Republic, they are entitled to severance. The amount of severance varies drastically between countries. Austria, for instance, by far offers the most in the amount of severance by providing 12 months of pay for employees that work for the organization for at least 25 years. Most countries pay a percentage of pay based on the amount of time worked. These facts show that non-executive employees may not fare as well as executives in the wake of downsizing; lower-level employees will experience a reduction in pay and benefits if they survive downsizing and receive little severance if they are forced to exit the organization (Gandolfi, 2006b).

### **Concluding thoughts**

In this paper, we have demonstrated that there are patterns in downsizing practices irrespective of country of origin. Internationally-oriented firms adopt similar strategies and practices to handle external threats or internal inefficiencies and experience similar outcomes. In the scholarly downsizing literature, there has been a strong focus on the strategies and practices employed in North America and Europe. As explained previously, popular management practices tend to spread and be adopted as management fashions or managerial fads. It is not surprising, therefore, that modern-day firms across the globe have adopted similar or identical strategies and practices to handle downturns, external threats, increased competition, or internal inefficiencies.

There is substantial empirical evidence, from multiple countries, suggesting that executives have adopted downsizing activities as a strategy driven by a deep-seated belief that these strategies will improve organizational efficiency, effectiveness, and overall financial performance. Still, as scholars, we have stressed that downsizing has the propensity to generate negative performance outcomes and harmful psychological effects for downsizing executioners, victims, and survivors.

This paper has highlighted that, in privately held firms and in multiple countries, downsizing is frequently used to reduce costs, remain globally competitive, maximize shareholder value and returns, improve organizational efficiencies, or respond to changed patterns of profitability. There is some evidence suggesting that poor management leads to an over-hiring of employees during profitable years. This is in contrast to the public sector where downsizing has occurred in organizational entities affected by new governmental mandates, budget and regulatory changes, as well as changes in the political structures on both the local and federal levels.

Finally, as demonstrated throughout the paper, the adoption of downsizing has not yielded the highly anticipated organizational rewards. So why did this occur? Cameron, a downsizing authority, concluded that managers often experience a crisis mentality following the planning and implementation of downsizing and fail to make effective long-term plans for the firm and its constituencies. Furthermore, executives have neglected to prepare adequately for

the aftermath of downsizing and failed to understand how downsizing survivors will be affected by workforce reduction activities. The paper has shown that firms have mitigated some of the negative effects by providing training for survivors and introducing human resource policies and plans to mediate the after-effects of downsizing.

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