OVERVIEW OF DOWNSIZING

Downsizing is often described as ‘trimming the fat’ that means to reduce operating costs and making a company leaner. The downsizing process involves reducing the size of the workforce, plant closures, and making the firm’s departments more productive and efficient. According to Cameron (1994, p. 192), downsizing is defined as a set of activities undertaken on the part of the management of an organisation and designed to improve organisational efficiency, productivity, and/or competitiveness. Cameron’s definition embraces a holistic approach in an attempt to increase a firm's overall performance. On the other hand, Cascio (1993, p 95) asserts that downsizing is essentially ‘the planned elimination of positions or jobs’. In other words, the primary purpose of downsizing is not increased organizational performance, but the reduction of the workforce.

CAUSES OF DOWNSIZING

Economic crisis: The economic crisis is the biggest cause of downsizing a business. The recent economic recession triggered a number of layoffs in many reputed and popular organizations around the world. According to the survey, most companies (big or small) consisting of a higher percentage of staff downsize due to efficiency (Shook and Roth, 2011).

Automation: in this technical world, most manual work can be done by a machine with a much better and cost effective way. That is why, in these organizations, the work process is extremely fast and easily meets the requirements of the market. Hence, it results in the reduction in the number of employees (Nidumolu, Prahalad, and Rongaswami, 2009).

Change in Strategy: Some companies may reduce certain areas of operation and focus on other areas. For example, if a company is working on a project in which there are no assured returns, it may downsize its employees working on that particular project. It will focus its resources on specific projects which could be profitable ventures (Cameron, 1994).

Merger and Acquisition of companies: These are also common reasons for business downsizing. In order to stay in profit or to expand market reach, some firms/ companies merge their operations with another firm and operate as a single entity. Also, when an organisation purchases another, there is a definite change in the management, and the staff of the acquired company has to face the prospect of unemployment. Usually, in such cases, a company cuts staff to eliminate redundancy in work (Cash, Earl, and Morison, 2008).

Excessive workforce: as we hired excess staff to meet the needs of growing business at the time of higher demand. Similarly, in times of economic crisis, companies downsize the employees when the demand is low or in less growth. In that case, some companies stop hiring new staff and only believe to retain their existing (Cascio, 1993).

POSITIVE EFFECTS OF DOWNSIZING

Financial stability: Downsizing can help companies in meeting its financial obligations to survive during competition and downturn. Employers may be able to perform a smooth layoff process if downsizing is performed during economic downturns because it has higher relevance to the situation (Datta et al., 2009).

Competent performance culture: Companies can set an example and create a competitive environment by terminating the employees with consistent low performance and behaviour issues. It eliminates the incompetent and unwilling employees and replaces the position with better suitable candidates who could be more talented and knowledgeable (Datta et al., 2009).

Restructure workforce and expansion: Downsizing can be used to restructure the workforce within the organisation. Money saved and generated through downsizing can be invested elsewhere such as sales, innovation, product line extension and etc. to gain competitive edge in the market including in downturn situations. It makes management and operations effective and easily manageable due to less count of employees (Coucke et al., 2007).

NEGATIVE EFFECTS OF DOWNSIZING

Reputational loss: Downsizing is one of the strongest reasons to easily bring down the reputation of employers in the market. A bad reputation can cause serious issues in terms of existing employee relationships, re-hiring or recruitment, trust factor amongst employees and attracting talent and knowledge. It is difficult and takes ages to earn and maintain reputation in the market again (Flanagan & O’Shaughnessy, 2005).

Loss of Talent and Knowledge: Time and resources invested for developing the talent and knowledge of departed employees goes in vain, especially from the tenured ones. Another
investment is needed for fulfilling the same talent and knowledge position in the organisation (Kammeyer-Mueller et al., 2001).

Reduction in service standards due to Psychological impact: Reduction in number of hours, change in shift patterns, cut down on compensation and benefits and influence from departed employees may bring dissatisfaction, demotivation, low commitment and loyalty, hatred towards employers, work pressure, job insecurity and low morale on survivor employees. Such Psychological impacts can deviate the performance and produce poor quality standards of service (Dlouhy & Casper, 2019).

Legal issues: Some companies may experience legal backlash brought by employees who have been laid off. Employers may face lawsuits due to performing biased layoffs, inaccurate and incomplete communication on legal requirements for employment, issues created by labour unions, not abiding by the corporate governing laws (Gee & Kleiner, 1996).

SOLUTIONS TO DOWNSIZING

Reduction in number of working hours: HR managers can cut labour costs by eliminating overtime costs of existing employees. Overtime should be treated as an exception instead of a rule and thus elimination of overtime costs creates a substantial saving.Reducing labour hours - This can be done by using the KPI (Key Performance Indicator) or any other historical data which will allow to break down sales per hour and employee. By following such indications, the company can decide that during what time of the day the employees can work most efficiently thus reducing overall hours.(Cascio, 1993)

Job sharing: By using part time labor, we do not need to pay for benefits, contributions, bonuses and other perks such as prerequisite and foreign trips, paid vacation that a full-time employee is receiving. Similar to this job sharing where typically two people are retained on a part-time or reduced time basis to perform a job normally fulfilled by one person working full-time. Since all positions are shared, this leads to net reduction in per-employee income.(Cascio, 1993)

Retaining / re-training talents: Downsizing impacts a company's workforce capability and might think of expanding its workforce again. In such cases, it is better to retain, retrain or reassign someone already in the company than hiring a new employee because the latter is more costly, and it also embodies many uncertainties. Rehiring laid-off workers can reduce the expenditures for severance payments and unemployment benefits. (Trevor & Nyberg, 2008)

Early Retirement incentives: Companies can implement Early Retirement Incentives strategy (ERI) to employees by offering them benefits to leave earlier in the future which is a clear and quick way to reduce labor cost in the short terme. (Appelbaum, Patton & Shapiro, 2003)

Mandatory Furloughs: Company can release some employees, but intend to bring some back when business improves. It reduces the harm caused to workers by preventing layoffs. As a result,this helps in maintaining relationships with individuals affected while they are on furloughs ("Furloughs: An Alternative to Layoffs for Economic Downturns", 2020).

Boosting confidence in remaining workforce: In the post-layoff environment, a tailored communication plan must be implemented to realign the existing workforce with the current business condition. The fundamental task in this period is to explain to the remaining employees the urgency and necessity of layoffs and also convince them that layoffs were appropriate, legal, fair and were conducted to make the organization stronger. The communication must be conducted in a way to convince them the company needs them and value their skill, knowledge and abilities. (Pfeil, Setterberg & O’Rourke, 2004)

CONCLUSION

Downsizing plays an integral part to improve performance by scaling down the workforce and sustain during unfavorable economic and financial conditions, which may have some consequences. Management can adopt several alternatives to create a win-win situation for effective employee relations and achieve organizational objectives.

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