

## THE EFFECTS OF EMPLOYEES DOWNSIZING ON ORGANIZATIONAL BEHAVIOR

UDC: 658.3:005.962

Review Paper

Nemanja BERBER<sup>1</sup>, Zlata BRACANOVIĆ<sup>2</sup>

<sup>1</sup>University of Novi Sad, Faculty of Economics, 24000 Subotica, Segedinski put 9-11, Republic of Serbia

<sup>2</sup>IMR INSTITUT D.O.O., 11090 Beograd, Patrijarha Dimitrija 7, Republic of Serbia

E-mail: [zlatabracanovic@gmail.com](mailto:zlatabracanovic@gmail.com)

Paper received: 14.11.2019.; Paper accepted: 28.11.2019.

**The main objective of this paper is to explain the concept of downsizing and the way of its implementation in enterprises. Also, the aim is to point out the inevitable negative consequences that occur in the company, related to employees and their behaviour. Under pressure from the global economy, businesses are in a constant race for high-level competitiveness and profitability. In most developed and developing countries, restructuring processes are intense and often present in companies. Downsizing, as one of the possible organizational restructuring strategies, can be implemented in several ways. The idea is mainly to reduce the number of employees, which reduced the cost of doing business, but at the same time, several negative consequences affected employees and organizational behaviour.**

**Keywords:** Organizational behaviour; Downsizing; Employees; Human resource management.

### INTRODUCTION

Due to the constant pressure in both, local and global markets, businesses are forced to adapt to new requirements in order to sustain and enhance their business activities. Business adaptation involves transformation through restructuring processes. These are very complex processes and contain a large number of individual activities. These include mergers, acquisitions, defences against takeovers, and joint ventures. At the same time, this involves creating appropriate strategies, demergers, selling organizational parts, leaving the business, disinvesting into individual businesses or business segments. One of the strategies is the process of downsizing. This means reducing the number of organizational or managerial levels, changing technical and technological nature and new marketing strategies. What makes all these process similar is a reduction in the number of employees or a loss of a job, (Đorđević, Petković, & Đukić, 2018, p. 144). The consequences are inevitable and contain a number of negative psychological conditions for employees who have left and those who remain in the company, especially in the context of weaker trade unions

and less possibilities for negotiation, (László, Sipos, & Slavić, 2018).

The paper will deal with segments where a business crisis can be generated, it will outline the processes and forms of downsizing implementation in companies as well as ways of approaching employees. Also, it will be about the complexity of negative reactions of employees after the application of downsizing. The methodology applied in the study included exploration of available literature and results of previous research.

### CHANGE PROCESSES IN ENTERPRISES

Restructuring processes in developed economies, initiated by strategic issues of survival and business development, encompass planned changes to cope with the crisis and increase profitability, (Amsden, Kochanovitz, & Teylor, 1995). The changes relate to management, organizational structure, reorgani-zation of production and market portfolios, (Arnal, Ok, & Torres, 2003). At the same time, they relate to debt rescheduling, marketing repositioning, redefinition of investment

policy and a number of other activities. Most often, businesses are unable to adapt to the changing daily environment. In the past, during 1980s, many large American corporations participated simultaneously in the downsizing of their operations, by leaving areas where competitive advantage was limited, (Savović, 2017, p. 132). Figure 1 shows the segments that generate change or restructuring bills. In these segments, uncertainties can occur that lead to a decline in the business of the company and should be analysed in a timely manner.

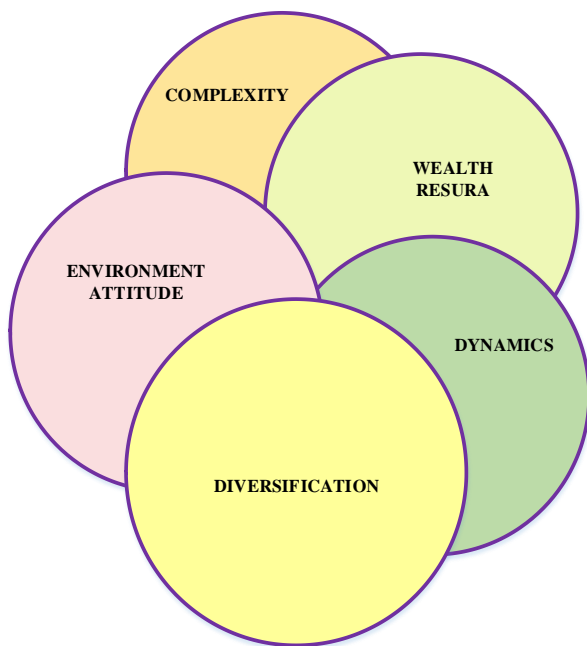


Figure 1: Uncertainty segments that generate restructuring

Source: Authors according to Jaško, Čudanov, Jevtić and Krivokapić (2013)

Enterprise restructuring is a term used in the literature to signify significant changes in business volume and diversification, capital structure and organizational structure. It is usually implemented with the aim of increasing productivity and business efficiency, reducing costs and increasing shareholder value, (Elmuti, Kathewala, & Monippallil, 2005). In transition economies, restructuring is common after privatization of public and state enterprises, (Jednak, Kragulj, &

Parežanin, 2018), and usually was related to an increase of unemployment.

Reducing a business or restructuring is one way of responding to a business crisis, (Stošić, 2014). Possible company restructuring operations are: mergers, acquisitions, downsizing, spin-offs, etc. Due to changes in the external environment, caused by increased market and competition liberalization, globalization and rapid technology development (Reinert, 2004), that create fears of liquidation, the restructuring process seeks to mitigate the crisis in the company's operations, (Bracanović, 2008).

Since organizational restructuring certainly involves downsizing activity, it is necessary to carefully choose the right approach, (Cerović, 2009). This is the only way to mitigate the negative consequences for employees. The most difficult is to restructure large, mature businesses, (Stošić, 2015). Considering the complexity of such systems and already established ways of behaviour and thinking, transformation in such cases requires special effort. Figure 2 shows the time between business performance and transformation type.

Business management often does not want to start this process at this stage, since it does not yet recognize the explicit need for it. Sometimes the resources are insufficient to trigger change. The right reaction is generally expected when the first symptoms of a decline in performance occur. In practice, many companies do not even respond yet, because they believe that this decline is temporary and transient. Most often, this means reduced sales and poor quality of the product or service, increased number of customer complaint, (Habel, & Klarmann, 2015). Such disruptions are becoming more common and spreading from department to sector through the overall organizational system of the enterprise. These are management warning signs that indicate a problem. Such a situation should not be neglected as it leads to serious consequences. All of the above, in the coming period, is mainly the need to reduce costs and therefore reduce the number of employees in companies.

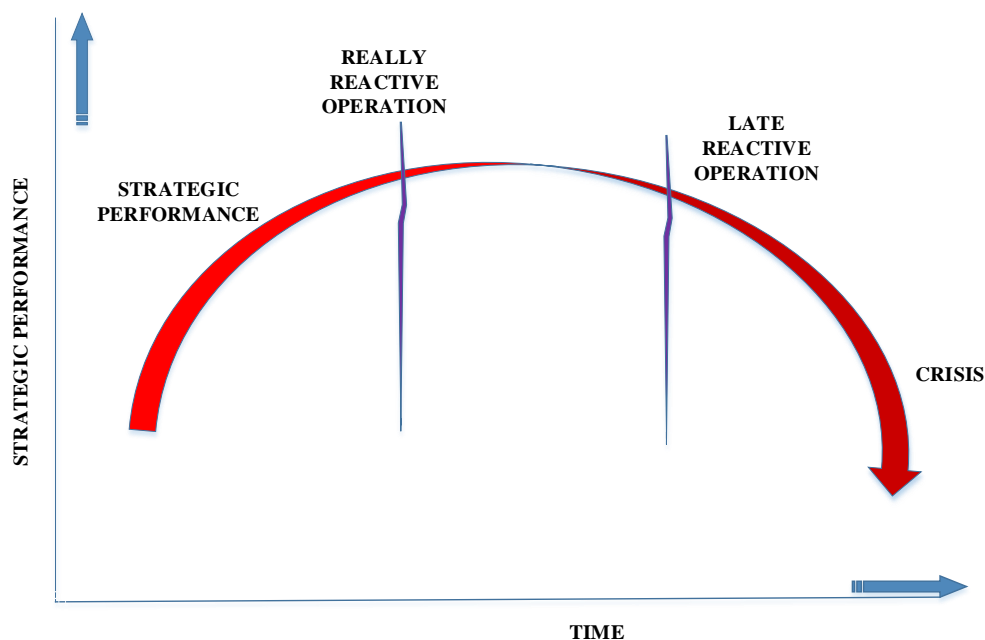


Figure 2: Time between business performance and transformation type  
Source: According to Chowdhury and Lang (1996)

## APPLICATION OF THE DOWNSIZING PROCESS

Restructuring through reduction as an organizational strategy most often involves a restructuring strategy that can be implemented in different ways. In modern conditions, generally the first option is through reducing the number of employees through layoffs. Many companies use this method of termination of employment. The tendency is particularly reflected in labour-intensive activities, where employee salaries represent the highest cost.

This leads to undesirable social and psychological effects, which is why there are increasing views, primarily in the EU, on the implementation of socially responsible restructuring. Funds were also created to overcome the negative effects of these activities on society.

The intensity of the restructuring process was strongly influenced by developments in the capital market as well as privatization. Activities and business operations related to the acquisition of ownership and control of companies through mergers and acquisitions / M&A / (Guthrie, & Dutta, 2008) lead to abovementioned processes. Through other various financial and business transactions they become very common, especially with the globalization of the market, internationalization of business and pronounced

trends towards concentration of capital. At the same time, the occurrence of company takeovers and their merger has become common practice.

Rapid changes in the market, the pressure of intense competition and the recession are forcing companies to make organizational changes, (Nuti, 2009). It refers to the adaptation of the enterprise structure to the requirements of the environment. Businesses concentrate only on core competencies, and address other activities through outsourcing or strategic partnerships. The goal of such an orientation is to reduce costs and increase efficiency accordingly. Because costs can be predicted with certainty over revenues and therefore a greater focus on reducing them. Most businesses, in the face of such demands and environmental pressures, are geared toward downsizing implementation, (Homburg, Klarmann, & Staritz, 2012). This implies a series of management activities to improve efficiency, productivity and competitiveness. The positive effects of the downsizing could be seen as lower operating costs, higher profits, increased rate of ROI, increase in stock price, increase in productivity, improved communications, higher levels of entrepreneurship, etc. (Cascio, 1993).

For some, downsizing means losing a job, for others the survival of a business. Theoretically, it should basically not be aimed at reducing the number of employees, although in practice it

usually results. The goal of downsizing is to maintain productivity at lower overall costs, which means that an organization performs a similar level of activity with fewer employees. Fewer employees now need to complete the same amount of work, (Hart, Thomson, & Huning, 2016).

Considering the root causes, as well as the downsizing timeframe, (Dougherty, & Bowman, 1995), managers have two approaches to reducing manpower:

- Strategic downsizing or rightsizing that refers to implementing implementation for the

purpose of a long-term enterprise development strategy. This implies a plan to adjust the enterprise for the future to the optimum size in line with expected changes in the future.

- Reactive downsizing applied in response to changes already occurring, related to market changes, poor corporate performance, downsizing, outdated technology in the company, discontinuation of lines and sectors.

Downsizing implementation approaches are shown in the block diagram in Figure 3.

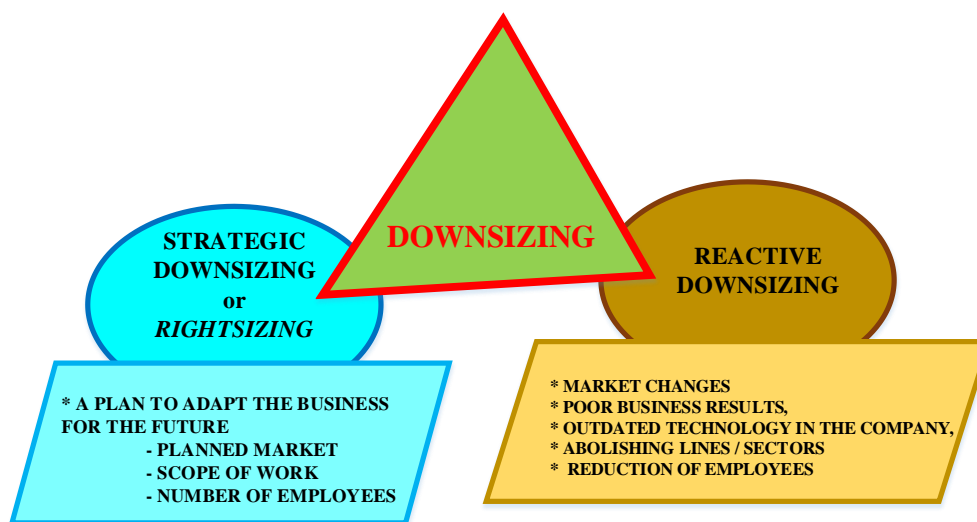


Figure 3: Approaches will implement downsizing in the company  
Source: Authors according to Kontić (2007) and Guthrie and Datta (2008)

The downsizing implementation is given in Figure 4, and takes place in five stages:

1. Explanation of organizational strategy: purpose and goals;
2. Assessment: strategy selection and key decisions;
3. Implementation: reduction of the number of employees;
4. Survivor Syndrome: Behavioural Changes on Remaining Employees;
5. Business Recovery and Growth: New or Modified Strategies.

There are several ways to implement downsizing in an enterprise, which are shown in the block diagram in Figure 5, namely:

- reducing the percentage of employees across all departments and sectors of the enterprise,
  - through internal transfers,
  - by dismissal / dismissal,
- abolition of one or more horizontal lines,
- abandoning activities that are not key to the business,
- restructuring part of the enterprise portfolio,
- abolition of entire departments and / or sectors, extinguishing or selling certain parts of the company.

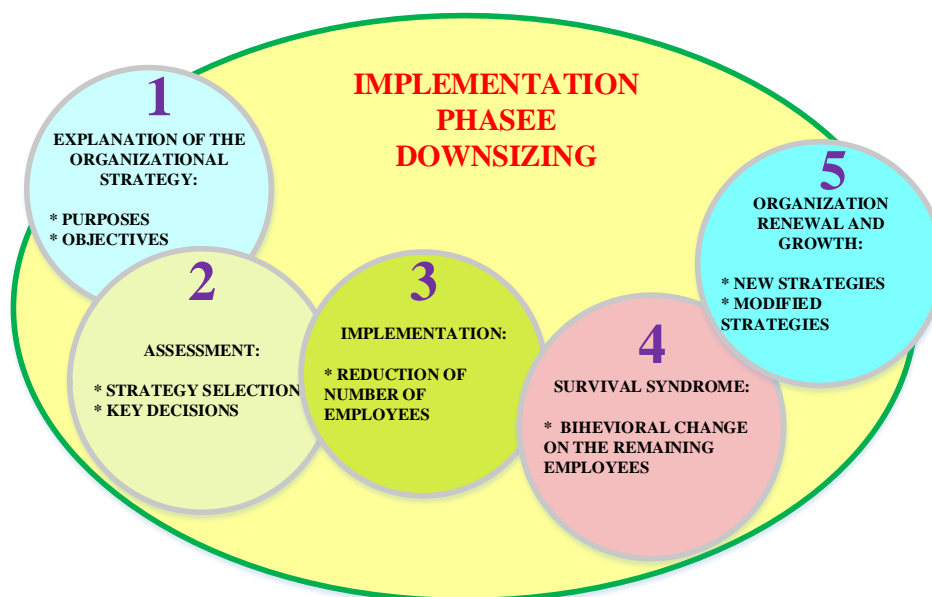


Figure 4: Downsizing implementation phases  
 Source: Authors according to Blumberg (1998) and Čupić and Stančić (2017)

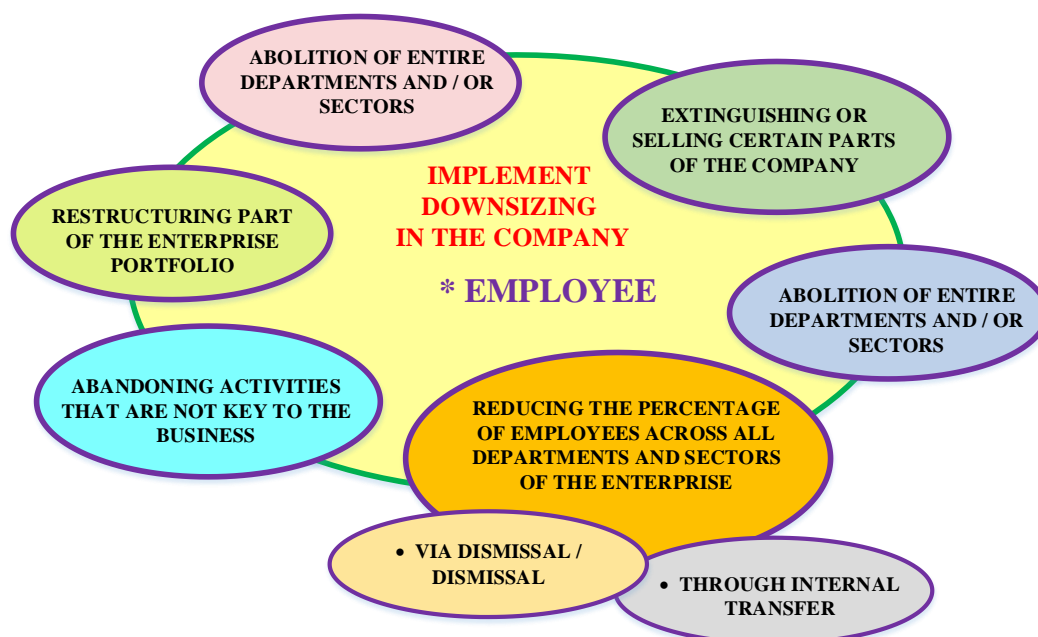


Figure 5: Ways to implement downsizing in a business  
 Source: Authors according to Lam and Reshef (1999) and Maertz, Wiley, LeRouge and Campion (2010)

In order for downsizing to be successful, it must be planned long before, during and after implementation. The plan of this process should include the strategic business plan of the company, whether implemented or not. In this way, the company would be prepared to start downsizing if needed. Top management is the author of the process and is most responsible for the results. The middle line of managers helps with implementation, but it is often

the victim itself as the downsizing of business hits that level the bridge.

Depending on the activities being implemented, there are several ways of approaching employees when conducting downsizing. The first is to decide who will stay and who will leave the company. The key criteria can be the years spent in the company, the competencies of the employees, the

skills to perform other tasks. The second way is the opposite of the first one, and it consists of combinations of various incentive programs for employees to choose to voluntarily leave the company. The downside is that companies can leave employees who have the key knowledge, skills and abilities needed for further development.

## BEHAVIOR OF EMPLOYEES

According to Đorđević, Ivanović-Đukić, Lepojević, and Milanović (2019), „professional and committed employees have always been a desirable resource in the portfolio of human resources of each company because their expertise and engagement can significantly affect the overall performance of businesses”. Professionalism, commitment, and engagement can be disturbed during the process of downsizing. Top management plays an essential role in managing downsizing in an enterprise. It is necessary to invest the company in practical and psychological

assistance to employees. This applies to workers who have been declared redundant and workers who remain in the company. Numerous studies have shown the importance of management in overcoming the situation because it covers all categories of employees, as shown in Figure 6. Job loss is a very stressful event and is one of the ten most traumatic life experiences. It is therefore no wonder that businesses use a variety of outplacement programs to provide support for their former employees, show social sensitivity and fulfil their moral duty.

During downsizing implementation, we distinguish between three sets of employees:

- Surviving employees conducting the process;
- Staff leaving the company;
- Surviving employees, who remain in the company after the reorganization.

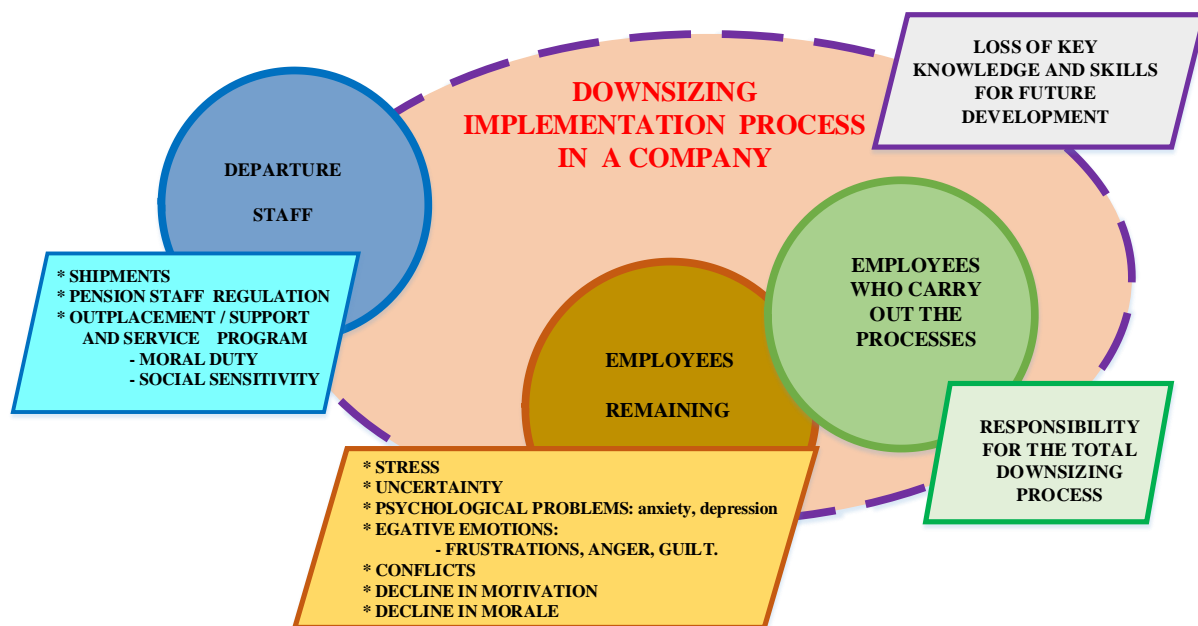


Figure 6: Division and status of employees after applying downsizing in the company  
Source: Authors according to Petrović (2006), Šojić (2012) and Đorđević, Petković and Đukić (2018)

There are numerous studies that have highlighted the risks that emerge as a result of the downsizing process, (Guthrie, & Datta, 2008; Hart, Thomson, & Huning, 2016; Maertz et al., 2010; Yu, & Park, 2006) when it comes to the employee behaviour. The negative effects may occur in the form of lower organizational performance, perceived job insecurity, and greater employee turnover, (Maertz et al., 2010), loss of skills, knowledge and opportunities for innovation, negative emotions,

including anger, frustration and guilt, (Sahdev, 2003). Hart, Thomson, and Huning (2016) also point to problems such as burnout, conflict, depression in morale and motivation and willingness to take risks. Also, a great deal of research has shown that after downsizing implementation, employees who remain in the company tend to leave the company, (Petrušević, & Vukmirović, 2016). At the same time they resist change, and they are less loyal and their work

engagement is very low. For example, Frone (2018) explored the association between exposure to organizational downsizing and alcohol use during the recession in 2008-2011 period. "The results revealed that exposure to organizational downsizing was positively associated with usual frequency of drinking, number of drinks consumed per usual drinking occasion, and both the frequency of binge drinking and drinking to intoxication", (Frone, 2018, p. 107). Knudsen, Aaron Johnson, Martin, and Roman (2003) compared downsizing survivors and workers unaffected by downsizing in relation to the levels of organizational commitment. They found that employees who survived downsizing reported less commitment than unaffected workers. Also, downsizing survivors were positively associated with stress on the job and negatively associated with perceived organizational support by organization.

It also turns out that surviving employees are more committed to the job if they perceive the process as fair and just. Yen (2019) investigated the effects of downsizing on employees in the high-tech industry in Taiwan. The results pointed to the conclusion that employees, who perceive the downsizing strategy as responsible, will develop their organizational citizenship behaviour to a greater extent in the future. In this sense, if they are offered assistance as part of a company's survival program. Such programs are implemented for surviving employees by finding reasons for productivity gains after downsizing. In 2018, Susskind, Moore and Kacmar, investigated the role of communication in creating high performing business culture. According to them, management should "foster development of restored communication networks following a downsizing, because workers who feel they receive adequate job related information are also stronger performers, and that high performers before the downsizing continued to be high performers even after a staff reduction", (Susskind, Moore, & Kacmar, 2018, p. 3).

Also, there is an extraordinary problem, how to retain *key workers*. This refers to the necessary professionals who need to improve the performance of the restructured enterprise. In modern business conditions, it is very important that organizations have employees with a wider scale of knowledge, that is, a larger number of individuals who are experts in some specific fields, (Hebibi, Raimi, & Milićević, 2019, p. 120). With

the downsizing, the required knowledge will be decreased and this is one of the most important issues for renewed company. According to Brauer and Zimmermann (2019), "larger downsizings are likely to be associated with greater losses in intellectual capital and greater disruptions of internal networks and routines", while Đorđević and Đukić (2008) found that downsizing can even decrease the corporate reputation, which will be important problem in future staffing process (recruitment and selection) of new employees.

Based on the abovementioned, the authors made several conclusions and recommendations for further research.

## CONCLUSION

Based on the available literature and the results of the research conducted, the following can be concluded:

- An organizational downsizing strategy has been shown to have different effects on the performance of the enterprise itself. On the one hand, it can reduce business costs, increase productivity and profitability.
- At the same time, there are often negative consequences for employees. It has to do with employee morale, attitudes and behaviour. In the future, it reflects on employee satisfaction and their loyalty and desire to leave the company.
- The results of the research point to a set of negative consequences after downsizing implementation in the company. This includes on-the-job stress, insecurity, conflict, decline in motivation and morale, lower commitment, lower organizational citizenship behaviour, higher alcohol usage, and it usually covers all employees to a greater or lesser extent.
- Ultimately, the quality of the product or service provided by the company has a significant negative effect. All this is reflected in the reduced level of growth and development of the company. By reducing the number of employees, a great loss of key knowledge and skills essential for the further development of the company will also be made, and that will make new risks for new projects and business in the future.

Since there are ambiguous results of the effects downsizing strategies on firm performance and employees' behaviour in developed countries, it

will be important to investigate these relations in developing economies, especially in Serbia, where downsizing strategies were implemented from the start of transition process and are still present in some companies, public organizations in terms of pay and employment freeze. Future empirical research should encompass various downsizing approaches that companies can implement, not just a reduction in number of employees, and levels of organizational performances (profitability, productivity, service quality) and behaviour of employees (turnover, absenteeism, engagement, commitment, etc.). Potential mediators should be considered, too, in terms of the nature and type of communication, style of leadership in organization, organizational culture, etc. Also, potential for further research in Serbia lies in investigation of the relation between employees who suffered downsizing (lost their jobs) and their entrepreneurial intentions.

## REFERENCES

- Amsden, A., Kochanovitz, J., & Teylor, L. (1995). *The Market in Match: Restructuring the Economies of Eastern Europe*. Harvard University Press.
- Arnal, E., Ok, W., & Torres, R. (2003). *Knowledge, work organisation and economic growth*. In Internet, economic growth and globalization (pp. 327-376). Springer, Berlin, Heidelberg.
- Blumberg, D. F. (1998). Strategic assessment of outsourcing and downsizing in the service market. *Managing Service Quality: An International Journal*, 8(1), 5-18.
- Bracanović, Z. (2008). The influence of users on the organization of production in the transition period. *Business Policy*, 37(6), 56-59.
- Brauer, M., & Zimmermann, M. (2019). Investor response to workforce downsizing: The influence of industry waves, macroeconomic outlook, and firm performance. *Journal of Management*, 45(5), 1775-1801.
- Cascio, W. F. (1993). Downsizing: What do we know? What have we learned?. *Academy of Management Perspectives*, 7(1), 95-104.
- Cerović, B. (2009). *Serbia in transition and - the transition crisis in Serbia and the global economic crisis*. Belgrade: Faculty of Economics.
- Chowdhury, S. D., & Lang, J.R. (1996). Turnaround in small firms: An assessment of efficiency strategies. *Journal of Business Research*, 36(2), 169-178.
- Čupić, M., & Stančić, P. (2017). *Finansijski efekti restrukturiranja preduzeća u Šumadiji i Pomoravlju. Uticaj globalizacije na poslovno upravljanje i ekonomski razvoj*. Kragujevac: Eknomski fakultet.
- Dougherty, D., & Bowman, E. H. (1995). The effects of organizational downsizing on product innovation. *California Management Review*, 37(4), 28-44.
- Dorđević, B., & Đukić, S. (2008). The impact of downsizing on the corporate reputation. *Facta universitatis - series: Economics and Organization*, 5(1), 51-62.
- Dorđević, B., Ivanović-Đukić, M., Lepojević, V., & Milanović, S. (2019). The influence of organizational justice on corporate performances. *Strategic Management*, 24(3), 14-23.
- Dorđević, B., Petković, M., & Đukić, S. (2018). Organizational Justice – Tool for Managing the Remaining Employees in the Process of Downsizing. *Teme*, 42(1), 143-165.
- Elmuti D., Kathewala Y. & Monippallil M. (2005). *Outsourcing to Gain a Competitive Advantage*, Industrial.
- Frone, M. R. (2018). Organizational downsizing and alcohol use: A national study of US workers during the Great Recession. *Addictive Behaviors*, 77, 107-113.
- Guthrie, J. P., & Datta, D. K. (2008). Dumb and dumber: The impact of downsizing on firm performance as moderated by industry conditions. *Organization Science*, 19(1), 108-123.
- Habel, J., & Klarmann, M. (2015). Customer reactions to downsizing: when and how is satisfaction affected?. *Journal of the Academy of Marketing Science*, 43(6), 768-789.
- Hart, A. L., Thomson, N. F., & Huning, T. M. (2016). The mediating role of distributive, procedural, and interactional justice on the relationship between downsizing and organizational citizenship behavior. *Academy of Educational Leadership Journal*, 20(1), 132-142.
- Hebibi, L., Raimi, N., & Miličićević, R. (2019). Knowledge management and the importance of knowledge management for the organization's performance. *Ekonomika*, 65(1), 117-126.
- Homburg, C., Klarmann, M., & Staritz, S. (2012). Customer uncertainty following downsizing: The effects of extent of downsizing and open communication. *Journal of Marketing*, 76(3), 112-130.
- Jaško, O., Čudanov, M., Jevtić, M. & Krivokapić, J. (2013). *Fundamentals of Organization and Management*, University of Belgrade, Faculty of Organizational Sciences
- Jednak, S., Kragulj, D., & Parežanin, M. (2018). Knowledge and industry clusters as drivers of economic development and competitiveness. *Anali Ekonomskog fakulteta u Subotici*, (39), 3-17.
- Knudsen, H. K., Aaron Johnson, J., Martin, J. K., & Roman, P. M. (2003). Downsizing survival: The experience of work and organizational commitment. *Sociological Inquiry*, 73(2), 265-283.
- Kontiće, Lj. (2007). *Restruktuiranje i privatizacija velikih društvenih preduzeća u Srbiji*. Beograd: Institut za evropske studije.
- Lam, H., & Reshef, Y. (1999). Are quality improvement and downsizing compatible? A human resources perspective. *Relations Industrielles*, 54, 727 – 744.



- László, G., Sipos, N., & Slavić, A. (2018). The role of trade unions in the HRM of Hungarian and Serbian organizations. *Anali Ekonomskog fakulteta u Subotici*, (40), 67-79.
- Maertz Jr, C. P., Wiley, J. W., LeRouge, C., & Campion, M. A. (2010). Downsizing effects on survivors: Layoffs, offshoring, and outsourcing. *Industrial Relations: A Journal of Economy and Society*, 49(2), 275-285.
- Nuti, D. M. (2009). *A Counter-Factual Alternative for Russia's Post-socialist Transition*. International Conference: *The Great Transformation: 1989-2029*. TIGER Institute at Kozminski University. Warsaw. mimeo.
- Petrović, P. (2006). *Privatizing the Experience of Serbia and Countries in Transition*, Belgrade: Čigoja Pres
- Petrušević, M., & Vukmirović, A. (2016), *Secondary analyzes of data obtained through research; Survey on Income and Living Conditions (SILC)-Program for Supporting the Development of Research Staff in the Social Sciences*, Belgrade: Team for Social Inclusion and Poverty Reduction, Government of the Republic of Serbia
- Reinert, S. E. (2004). *Global economy*. Spartacus Forlag.
- Sahdev, K. (2003). Survivors' reactions to downsizing: The importance of contextual factors. *Human Resource Management Journal*, 13(4), 56-74.
- Savović, S. (2017). Waves of mergers and acquisitions: Causes and effects. *Anali Ekonomskog fakulteta u Subotici*, (37), 129-142.
- Stošić, I. (2014). Izazovi definisanja i sprovođenja programa restrukturiranja preduzeća. *Ekonomске teme*, 52(2)147-161.
- Stošić, I., (2015). *Restrukturiranje preduzeća kao pretpostavka ekonomskog razvoja Srbije*. In: Strukturne promene u Srbiji-dosadašnji rezultati i perspektive. Beograd: Institut ekonomskih nauka. 247-265.
- Susskind, A. M., Moore, O. A., & Kacmar, K. M. (2018). Organizational downsizing: How communication networks connect with employee performance. *Cornell Hospitality Report*, 18(4), 3-12.
- Šojić, M. (2012). *Liberalizam i tranzicija-iskustva Srbije i okolnih zemalja*. Beograd: Institut za društvene nauke. 242-252.
- Yen, Y. F. (2019). *The influence of responsible downsizing strategy on employee organizational citizenship behavior*. In Proceedings of International Academic Conferences (No. 8711120). International Institute of Social and Economic Sciences.
- Yu, G. C., & Park, J. S. (2006). The effect of downsizing on the financial performance and employee productivity of Korean firms. *International Journal of Manpower*, 27(3), 230-250

## EFEKTI STRATEGIJE SMANJENJA NA PONAŠANJE ZAPOSLENIH

Glavni cilj ovog rada je objasniti efekte strategije smanjenja i način primene u preduzećima. Takođe, cilj je da ukaže na neizbežne negativne posledice koje se javljaju u preduzećima, a koje se odnose na zaposlene i njihovo ponašanje. Pod pritiskom globalne ekonomije, preduzeća su u stalnoj trci za visoko pozicioniranu konkurentnost i profitabilnost. U većini razvijenih kao i zemalja u razvoju procesi restrukturiranja su intenzivni i često prisutni u preduzećima. Smanjivanje troškova, kao jedna od mogućih strategija organizacijskog restrukturiranja, može se sprovesti na više načina. Ideja se uglavnom odnosi na smanjenje broja zaposlenih, što bi smanjilo troškove poslovanja, ali istovremeno, nekoliko negativnih posledica uticalo je na ponašanje zaposlenih.

**Ključne reči:** Ponašanje zaposlenih; Smanjivanje broja zaposlenih; Zaposleni; Upravljanje ljudskim resursima.