Employee Downsizing: A Company Cost – Benefit Analysis in Short and Long Term

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Abstract
In this project we introduce the subject of organizational downsizing by discussing its extent and potential for causing problems when mismanaged. Secondly, we review the methods by which downsizing occurs and consider a range of alternatives to its use demonstrating that downsizing only in conjunction with revenue refocusing (plant closing) improved firm financial performance. Thirdly, we examine the processes involved and focus in particular on consultation, redundancy selection and support for both those made redundant and the survivors of downsizing. Lastly, we conclude by asking whether the costs of downsizing, in both financial and human terms, are too high a price to pay for the organizational gains, and we try to prove that the short-term profit from the downsizing cannot compensate the total long-term cost for the company. Conclusively, the main research objectives are the investigation of downsizing connection with organizational and human performance, the demonstration of its negative impact on their performance resulting in higher cost in long term for the company, and the provision of suggestions for minimizing downsizing problems.

Keywords: organisation, downsizing, cost, labour, strategy

Introduction

Supposing that, we manage an enterprise with constant capital equipment and constant space. Then, we observe that placing all one and more workers we have successive increases in the production of total product. Beyond a limit, each successive increase of variable factor *workforce*, gives always smaller increases in the total product, that is to say the marginal product initially is increased and afterwards decreased.

Below (scheme 1) Marshall (as cited in Benet, 1991) formulated the following rank: The law of declining efficiency declares that in the short-term period of production, that is to say in the period where it exists at least constant factor, exists a point up to which the successive addition of equal units of variable factor (workforce), gives continuously bigger increases in total product, and beyond which each successive equal increase of variable factor, will give always smaller increases in the total produced product. That is to say the marginal product of variable factor initially is increased and afterwards decreased.

Scheme 1: The declining efficiency, Marshall

General Definitions

According to Hutton (1997), organizational downsizing, defined as a planned elimination of positions or jobs (Cascio, 1993), has become, in many cases, a part of HRM practices. HRM practice is largely associated with a positively virtuous image in the organization. Righteous HRM managers recruit, train, devise strategies, manage rewards and careers, involve employees, improve labor relations, solve problems, etc, for the mutual benefit of the organization and workforce (Torrington and Hall, 1998). Revitalizing change is an entirely positive process to do with *rooting out inertia*, promoting efficiency and fostering innovation (Fombrun, 1992). When managers do discuss downsizing it tends to be couched in very euphemistic terms. However, an examination of managerial practice over the last decade or so also finds a darker side to HRM in organizational downsizing.

Despite its importance and growing prominence, this aspect of HRM rarely merits treatment in the texts (Wright, 1994). It is the "most pervasive, yet understudied" phenomenon in the business world (Cameron, 1994, p.183 as cited in Cameron,1998, p.58). One possible explanation for the neglect of this issue lies in the view that workforce reduction is considered to be an isolated and unpleasant element of HRM practice and one that is best hurriedly carried out and quickly forgotten (Stebbins, 1989 as cited in Fombrun, 1992)). In the IRS survey of redundancy two-thirds of organizations had reduced their staff over the last two years with the number of jobs lost ranging from 4 to over 10,000 (IRS, 1998a; 1995a,d). The public sector has also suffered, with privatization and outsourcing leading to large-scale redundancies in the former privatized industries and in the public sector more generally (Deakin and Wilkinson, 1999).

In Europe, in the early 1990s the Cranfield surveys found that over 30 per cent of firms in all but two countries (Germany and the Netherlands - where the level was 20 per cent) reported reductions in the workforce (Papalexandris, 1996). There has also been little abatement in the levels of job loss in the USA, with record levels of announced job cuts being posted in 1998 (Vanderheiden et al., 1999 as cited in Doherty, 1998). Particularly worrying here is the numbers of organizations downsizing who are actually making healthy profits (Storey et al., 1999). Organizational size is no longer a measure of corporate success (Cameron, 1994 as cited in Cameron, 1998). Western managers, it seems, have a bent for sacking employees. Indeed, some have suggested that the role of HR professional has undergone a significant transformation during this period. The personnel role has undergone a radical re-alignment from finding, training and developing human beings to excluding, exiting and retiring them (Hunt, 1984).

Sennett (1998, p.18) notes: "Downsizings and reengineering impose on middle class people sudden disasters which were in an earlier capitalism much more confined to the working classes". Heckscher argues that it is because job reductions now transcend hierarchical levels and occupational types, including many professional workers that it will lead to greater interest than in the past. "The reduction of security, the threat to poor performers, and the general diminution in numbers have raised the stakes for those who remain". While there is great pressure for more work, higher productivity and beating out fellow workers, "for the first time managers are being treated as a variable cost rather than a part of the fixed base" (Heckscher, 1995, p.4).

Effectively managing workforce reduction is thus of increasing importance in HRM practice mainly because of the potentially serious negative effects of its mismanagement. The mismanagement of workforce reduction can clearly cause major damage to both the organization's employment and general business reputations. Damage to the former can seriously affect an organization's selection attractiveness with potential future employees by producing an uncaring, *hire and fire* image. Similarly, bad publicity over retrenchment can cause customers to worry that the firm may go out of business or give rise to problems in the continuity or quality of supplies and services, and so on (Hecksher, 1995).

There have also been increasing recent concerns about the organizational effectiveness of the post-downsized "anorexic organization". The benefits which organizations claim to be seeking from downsizing centre on savings in labour costs, speedier decision-making, better communication, reduced product development time, enhanced involvement of employees and greater responsiveness to customers (De Meuse et al., 1997, p.168). However, reports suggest that the results of downsizing are "illusory" and the long-term effects "terrifying" (Mason, 1997). Downsizing, it seems, can have a damaging effect on corporate performance. Cole, drawing from learning theory, points out that employee turnover hurts organizational memory in so far as individual organizational members have "a primary repository of an organization's operational knowledge and trust" which cannot be easily replaced as it is impossible to document. This is especially relevant in terms of customer contact as bonds are built with individuals (Cole, 1993, p.14-15).

Paradoxically, restructuring has also been seen as a sign of corporate virility and stock market prices boomed in the context of such plans (Garfield, 1999). However, there is some suggestion from the literature that, while shares of downsizing companies have outperformed the stock market for six months or so after downsizing, three years later they "lagged behind" (Mitchell et al*.* cited by Hardy, 1987, p.35). Equally, other studies have found downsizing has an adverse effect on innovation (Dougherty and Bowman, 1995) and on the bottom line (McKinley et al*.,* 1995). Empirical research has found that companies using layoffs as a strategy for financial improvements failed to achieve this, and profit margins, return on assets and return on equity continued to deteriorate but at an even faster rate than pre-downsizing (De Meuse et al*.,* 1994 as cited in De Meuse et al., 1997). Industrial conflict make redundancy now so commonplace and woven into the fabric of industrial life that it is seen as an inevitable consequence of work in hypercompetitive times (Dickson and Judge, 1987) whereas before wasn't really mentioned (Millward et al, 1992).

The potential negative impact of downsizing is not restricted to those who leave but it has also a major effect on the remaining employees. Such employees are, by their very nature, now much more important to the employer, but are often overlooked in downsizing situations. The impact of downsizing on the remaining employees is such that commentators now talk of the *survivor syndrome* (Brockner, 1992). This is the term given to the collection of behaviours such as decreased motivation, morale and loyalty to the organization, and increased stress levels and skepticism that are exhibited by those who are still in employment following restructuring (Doherty and Horstead, 1995).

However, organizations still seem so fond of downsizing and this is because of "at the margin a dividend pay-out is preferred to an additional pound of research and development, an extra profit now is preferred to higher profits in the future"(Hutton, 1997, p. 47).

Methods of downsizing

Natural attrition/wastage

Natural wastage is often proffered as the most positive and humane method of workforce reduction. It is seen as giving individuals a free choice in whether to leave or stay and thus reduces the potential for conflict and employees' feelings of powerlessness. Evidence suggests that it is not the exact equivalent of normal labour turnover. It appears that in a redundancy situation both the rate and nature of labour turnover change. Early research reported that labour turnover increases in retrenchment situations but this may reflect more on the nature of the labour market, with alternative jobs easier to obtain during this period (Bulmer, 1971).

Voluntary redundancy

This method is increasingly most employers' preferred method of downsizing (Savery, el al., 1998). It is an expensive one and the best workers leave because there is demand for their skills whilst poorer workers stay because they are less marketable. It is sometimes seen by unions as *selling jobs* (Barrar and Sullivan, 1988). There is little evidence on which to base a judgment here but

Hardy’s (1987) research suggests the reverse actually occurs in practice. Marginal performers are more likely to take up voluntary redundancy packages because of either disillusionment with the job or the fear of dismissal without any financial cushion at a later date. Lewis suggests managers can “pressurize employees, reducing their morale in order to elicit more volunteers” (Lewis, 1993, p. 34). Research by Wass (1996) showed how extra-statutory redundancy payments were effective in obtaining the voluntary acceptance by targeted groups.

Compulsory redundancy

Compulsory redundancy - where no choice is presented to the departing employee - is normally a last resort strategy for employers and is usually seen as the least acceptable face of downsizing. Compulsory redundancy is also more common where downsizings are large-scale or involve complete plant closures. According to WERS data, compulsory redundancy is also much more common in the private sector than in the public sector (Cully et al*.*, 1999).

Early retirement

Early retirement schemes are usually utilized alongside other methods of workforce reduction, although it is often sufficient of itself to generate the required cuts (Casey, 1992). Employees opting for early retirement are less likely to seek to re-enter the workforce. The declining economic activity rates of older employees and Ill-health is the main causes for the increase in early retirement. At company level, the use of early retirement is considered as a method of workforce reduction (McGoldrick and Cooper, 1989).The view that older workers have critical experience is not widely shared (Clabaugh, 1997). The main exception here appears to be senior managers themselves and it is under question whether there should be a sell-by date for such a group (Weyer, 1994).
There are a number of advantages of early retirement (*downsizing with dignity* - Barbee, 1986). In particular, it is seen as carrying less stigma than other forms of redundancy. However, there are also a number of drawbacks. The decline of *last in first out* redundancy selection criteria, which protected older workers by virtue of seniority, has left them disproportionately vulnerable to enforced early retirement under employers’ labor-shedding policies. Early retirees when they leave work may find their absolute position deteriorating over time and thus become more dependent on means-tested public benefits (Casey, 1992).It is unclear whether current trends in early retirement will continue, not least because of uncertainty over the capacity of pension funds to sustain the costs. Unions, although they perceive a number of real benefits to early retirement, are also starting to question the appropriateness of using pension funds to reduce employers' redundancy costs via early retirement.

Ill-health retirement

A commonly voiced argument is that this is a consequence of intensification of work and associated increases in stress levels which result in more long-term sickness(Sinclair et al.,1995 cited in IRS, 1995a,d).

Alternatives to redundancy

Employers are often encouraged to consider alternatives to redundancies (De Meuse et al., 1997, p. 172). Example of this is Japan and Scandinavian countries, and on the opposite side, is UK where dividends and the bonus payments of senior managers are boosted by making workers redundant in the pursuit of short-term profit improvements. Reconversion is seen as a socially and economically more effective alternative to redundancy via the redirection of workers to more productive activities either within the firm or other industries. Such a change in emphasis requires more resources to be devoted to retraining rather than to compensate for job loss (Turnbull and Wass, 1997 as cited in De Meuse et al.,1997).

Wage reductions

Wage cuts as an alternative to job cuts tend to be sparingly used. Pay freezes or cuts, so the pain is shared, are not widespread (IRS, 1994). This phenomenon that wages are sticky downwards and labour markets respond to falls in demand by employment adjustments is well established in economic theory. Sullivan has researched the implications for HRM policy in such diverse situations as R&D and the wire industry (Sullivan and Hogge, 1987 as cited in Barrar and Sullivan, 1988). What Sullivan terms “wage fix/employment flex” (p.25) was found to operate widely, with managers faced by a recession seeking to control labour costs (via redundancies), improve productivity and maintain employment reputation and workers’ morale. The mechanisms that best achieved this were adjustments to employment rather than wage levels. Rowlinson (1996) also argues that rather than downsizing senior staff in an ageist way (because of the high cost), a policy of salary reduction may make more sense, both for the employer (keeping experienced staff) and the employee who is likely to have to accept a wage reduction if they go elsewhere. However, the implications for those in final-salary pension schemes may make such a prospect financially unattractive over the longer term (Rowlinson, 1996 as cited in Sennett, 1997).

Redeployment

In the USA redeployment -or *implacement* (Stuller, 1993) - is well established. The nature of redeployment makes it more readily applicable to lower-level grades of employees than higher-graded posts such as managers, not least because there tend to be more opportunities available at this level (Hill, 1989). Companies have resources at hand for a rapid expansion when there is a business turn up. Redeployment brings a number of often costly implications. A common need is for redeployed workers to be retrained and developed (Bamber, 1999). Relocation and/or travelling costs can be incurred. A key issue in supporting redeployment is the degree of pay protection given to such workers. The reality of redeployment is that most workers are redeployed to lower-graded posts. Many employers protect the existing income of redeployed workers for a specified period. Redeployment can also be problematic for the employee, and counselling - not least to help workers overcome a sense of loss - is recommended, as well as, changes in terms of conditions and location it can involve disruptive changes in the patterns of work (Guest and Peccei, 1992).

In terms of the redundancy process, findings demonstrate that it is often badly managed, with many negative consequences. In part this may stem from the rarity of formal redundancy procedures. The large majority of employers do not have an agreed and written redundancy procedure. The recent WERS data reported that 14 per cent of

workplaces had a guaranteed job security (Cully et al., 1999). In contrast, an IRS survey (1998a) of Japanese plants in the UK reported that 20 out of 23 provide some form of job guarantee. There is much to be gained from a humane, planned and strategic approach to downsizing.

According to Cameron (1998), the way downsizing is implemented is more important than the fact that it is implemented. He reports on three approaches to downsizing. *Workforce reduction strategies*: they are focused primarily on reducing headcount and are usually implemented in a top-down, speedy way. W*ork redesign strategies:* they aim to reduce work (in addition to or instead of reducing the number of workers) through redesigning tasks, reducing work hours, merging units, etc. However, these are difficult to implement swiftly and hence are seen as a medium-term strategy. S*ystemic strategies:* they focus more broadly on changing culture, attitude and values, not just changing workforce size. This involves redefining downsizing as an on-going process, as a basis for continuous improvement. Again, this strategy requires longer-term perspectives than that of workforce reduction.

Three types of downsizing strategies

Consultation

Employees need to understand the rationale for downsizing and also how the process will be managed. Breaks in communication are seen as sinister and lead to rumours (Kettley, 1995). There is, however, a concern that much consultation is often only a token effort, with many managers seeing it as a "time-wasting charade" (Fowler, 1993, p.6). Consultation with unions over redundancies can make a difference to the nature of the redundancy process used, and, occasionally, to the numbers of jobs lost (Edwards and Hall, 1999). There is some evidence that extensive consultation and employee involvement, although they do little to reduce the stress caused by job loss, can help in its smooth implementation. US studies indicate that increased communication and participation of employees in the downsizing process were associated with improvement (Cameron, 1994 as cited in Cameron 1998; Purcell and Hutchinson, 1996; Kennedy, 1996; Guest and Peccei, 1992).

Selection

Whatever methods are used to reach redundancy decisions the notions of fairness and organizational justice are key issues (IRS, 1998a). The criteria that are applied by some form of appraisal, in some cases interviews are used (Wood, 1995), selection committees, and even assessment centres. Despite the outwardly objective nature of many of these selection criteria and mechanisms, we can also find considerable evidence of subjective manipulation of a redundancy situation by managers. Often, it seems, a redundancy situation is used, or in some cases even engineered, to edge out "troublemakers" and periodically get rid of "dead wood" (Personnel director quoted in *The Guardian,* 6 September 1995, p. 19).

Employee support

A wide variety of post-redundancy assistance can be offered to dismissed workers. There is sound evidence to suggest that such help can have a very positive impact on the management of redundancy at a

relatively low cost (Guest and Peccei, 1992). The forms of support include redeployment centers, business startup advice, training and loans, retraining, outplacement support, pre-retirement education, financial advice, job search help, counseling, etc. (IDS, 1999).

Redundancy counseling and stress management are emphasized to help employees come to terms with some of the damage to self-esteem, loss of confidence. Redundancy counseling and assistance programs are valued positively by the recipients but somewhat are unproven in its actual benefits (Valencia, 1985 as cited in Wright, 1994).

Outplacement support is more often reserved for more senior grades and, where it is provided for all employees, senior managers usually receive external specialist services whilst lower-grade employees have in-house services (IRS, 1995d). Outplacement for lower-level employees can often mean little more than having a job centre on the premises(Doherty et al*.,* 1995). Consultants on it can also provide the time and resources that managers in the wake of downsizing are often unable to commit. A benefit is the public relations effect of appearing as a caring and concerned employer. However, outplacement is considered a *global panacea* for redundancy management, it is expensive, costing up to 15 per cent of the total cost of redundancy, and its success rate is difficult to assess (Doherty, 1998).

The most common support for operatives is the statutory-supported one of time off to look for work. Redundant workers suffer particularly in their search for a new job. Recruiters become concerned about hiring an employee who has been discarded by another employer (Gibbons and Katz, 1991 as cited in Newell and Dopson, 1996).

Severance pay

The acid test of support for redundant employees is the level of compensatory financial support or severance pay (Woodger, 1992). Severance is usually paid in the form of a lump sum, rather than staged payments, to facilitate a *clean break*. It is difficult to find accurate details of severance policies. Managers generally, especially senior managers, are treated more favourably(Flynn, 1995).

Survivors

The needs of those who remain post-downsizing often appear to be overlooked (Doherty and Horsted, 1995). Yet there are increasing evidence that such forgotten employees are often in need of support and counseling because they feel fearful about their future (Brockner et al*.,* 1985 as cited in Brockner, 1992; Sennett, 1997). Indeed, the threat of further downsizing may create difficulties in that the most able seek alternative employment. Moreover, employees may be asked to do jobs they are untrained or ill-qualified to do. Kettley (1995) suggests that there are a number of risk factors which indicate when downsizing is most likely to hit survivor morale. A number of downsized companies have recognized such problems, have set up training courses for managers in how to deal with downsizing effects, and have provided counselling programs and help lines. One study found that the response of survivors is closely linked to the treatment received by those laid off (Brockner et al., 1985 as cited in Brockner, 1992).

Downsizing strategies: Market reaction and post announcement financial performance

Empirical studies of employee downsizing have reported inconclusive results with respect to market reactions to downsizing and subsequent firm financial performance. Downsizing strategies are announced by firms in conjunction with employee dismissals. Evidence suggest that the market selectively reacts to downsizing announcement information. Changes in firm financial performance subsequent to lay offs generally corroborate but in many cases do not confirm market expectations. The improved financial performance of cost cutting firms in the absence of any market reaction to their initial downsizing announcements is such a case. "Revenue refocusing downsizing strategies are more successful than cost cutting and plant closing downsizing strategies" (Chalos and Chen, 2002, p. 867). These findings help to clarify the contradiction between ongoing corporate downsizing and the inconclusive empirical evidence regarding market reactions and subsequent financial performance (Ballester et al., 1999; Cascio et al., 1997, Lee, 1997; Mentzer, 1996;Worrell et al., 1991).

Layoffs announcements that disclose strategic plans for refocusing lines of business result in significantly positive abnormal market returns. Positive returns though are relatively small. These results extend the findings of positive market reactions to operational restructuring related to voluntary divestitures (Hearth and Zaima, 1984)product refocusing (Markides, 1992),line of business write-offs (Bunsis, 1997), and new unit formations (Brickley and Van Drunen, 1990). Positive market expectations of downsizing in conjunction with revenue refocusing strategies are confirmed in subsequent financial performance. The three-year post announcement performance for revenue refocusing firms relative to the three-year period preceding the announcement indicates positive abnormal industry adjusted returns for OPCF (operating cash flow),SALES(sales) and ROA (return on assets) (Chalos and Chen, 2002). This corroborates theoretical speculation (DeWitt, 1998) and related empirical evidence (Bergh, 1996; Markides, 1992) that firms that engage in employee downsizing when refocusing revenues are successful. Excessive diversification serves as a catalyst for strategic restructuring. Contrary to previous layoffs findings (Cascio et al., 1997; and Mentzer, 1996), superior cash flows result from re-deployed assets. The largest contributor to these returns is revenue productivity. Layoffs related to revenue refocusing seem to be a proactively successful strategy (Chalos and Chen, 2002).

Cost cutting market evidence and subsequent financial performance results are mixed (Chan et al., 1995; Brickley and Van Drunen,1990). Chalos and Chen (2002) demonstrate that none of the CARs (cumulative abnormal returns) surrounding downsizing motivated by cost cutting was significant. Furthermore, although cost reduction was the primary reason advanced to justify layoffs for the cost cutting sample, COGS (cost of goods) did not improve significantly. "Contrary to market expectations, OPCF, SALES and ROA did improve for downsizing cost cutting firms" (p.868). The finding that ROA and OPCF were greater for revenue refocusing than cost cutting firms that downsized suggests that "revenue refocusing was a more successful strategic approach to downsizing than cost cutting"(p. 868). Post announcement analysis, consistent with the market

reaction, revealed that downsizing in conjunction with revenue refocusing (plant closing) improved (reduced) firm financial performance and that revenue refocusing firms significantly outperformed cost cutting and plant closing firms over the three-year post announcement period. The above provide a positive market reaction for layoff announcements related to revenue refocusing (Chalos and Chen, 2002). On the contrary, market reactions to plant closing related downsizing have been weakly negative (Chan et. al., 1995; Gambola and Tsetsekos, 1992; Blackwell et al., 1990). Pre and post announcement performance differences were uniformly insignificant across all financial measures of performance. Plant-closing layoffs resulted in significantly lower OPCF and higher DEBT than the cost-cutting layoffs, suggesting that the plant closing firms were less operationally profitable and more indebted than the cost cutting firms. Plant closing appears to be purely a reactive downsizing strategy where plant closing firms significantly under-performed both revenue refocusing and cost cutting firms (Chalos and Chen, 2002.

Shareholders: the impact of redundancies on stakeholders

Redundancies are a serious announcement for any company and a relatively rare event. If downsizing is a temporary measure to deal with a crisis, a company may recover financially and then increase employment as it grows. However, on average, employment numbers do not recover, but that for a small subsample they do. This subsample demonstrates increases in employment and strong gains for shareholders (Collett, 2004). For share holders, previous studies have given conflicting results (Greenley and Foxall, 1997; Omran et al., 2002). Collett's study (2004)indicates that shareholders do benefit from downsizing in the short and medium term. With a positive association between redundancy and shareholder returns, there is also evidence that directors can see how redundancy can help companies recover and that when they perceive strong benefits to shareholders, employees capture some of the benefits in the form of higher relative redundancy compensation. There is insufficient evidence, however, to attribute this firmly to a benign stakeholder orientation on the part of directors. There is, however, some evidence that companies which can be seen to have a stakeholder approach (taken to mean those that rehire labour quickly or give more generous redundancy settlements) outperform for shareholders as well. A stakeholder approach to management is quite beneficial for the two groups of stakeholder investigated in Collett's study.

The research (Collett, 2004) has shown that employees as a group are not automatically loosers from redundancy, at least, in the short term. Even in the crisis situation, many employees get other jobs as well as their redundancy pay. The positive association between levels of redundancy settlements and shareholder returns also suggests that directors recognize their responsibility to employees as well as shareholders and when the opportunity arises pass on some of the anticipated gains of downsizing to those who are affected by it.

Lessons from the firing line for revitalizing organizations

Individuals and their employing organizations can do a much better job in adapting to and changing downsizing realities. Organizations have a particularly critical role to play in averting the destructive patterns. The emphasis should be on rightsizing rather than downsizing. Organizations can re-energize tired workers, shift the organization's focus to future possibilities, strengthen the pay-for performance link, invest in training/development, encourage innovation, improve communication and produce a clearer mission. Revitalization efforts should take place within the framework of comprehensive organizational change (Burke,1997).Large-scale changes can be recast within the three-stage (Burke,1997) framework of:

• *initiation* (planning revitalization efforts), such as: integrate the change with long term strategy, begin with a goal in mind, communicate extensively and involve affected employees, consider alternatives to layoffs, determine the criteria if downsizing.

• *implementation* (smoothing the transition), such as: explain the criteria for layoffs, highlight the role of performance evaluations in layoff decisions, treat laid-off workers with dignity and respect, offer fair recommendations to potential new employers, provide outplacement services, work on boosting morale, the number of job changes for survivors should be kept to a minimum.

• *institutionalization* (healing and refocusing), such as: allow time for grieving, anticipate disruptions in productivity, implement support groups for survivors, give survivors a reason to stay, invest in retraining survivors, establish the new employment contract, evaluate the effectiveness of revitalization efforts.

Conclusions

The last decade or so has witnessed unmatched levels of workforce reduction in many industrialized countries. Few organizations have not undergone some form of downsizing (Lamb, 1999). A number of key questions remain about downsizing. They are mainly centered on whether organizations, and, in turn, whole economies, are now in better shape post-downsizing. In the UK, a survey of BT managers found surviving managers with low morale (Newell and Dopson, 1996) and it appears that the Japanese management systems seem now to be following American best practice in downsizing (Mrockzowski and Kanaoka, 1997).

There is thus mounting evidence that all is not well in the downsized organizational form. Downsizing may cut labour costs in the short run, but it can erode both employee and eventually customer loyalty in the long run (Pfeffer, 1998). An increasing number of case studies report that downsizing has failed to prevent declining performance and may even have exacerbated problems by getting rid of employees with key expertise, denuding firms of *organizational memory* and resulting in much unnecessary wheel reinventing, as well as the lowering of the loyalty, productivity and commitment of those who remain (Tomasko, 1993). After Eastman Kodak announced a lay-off of 4,500 employees in 1989, reported employee satisfaction dropped from 75 per cent to 35 per cent (De Meuse et al., 1997, p. 170). The reasons for this failure were in part self-evident: the morale and motivation of workers dropped sharply in the various squeeze stages of downsizing. "Surviving workers waited for the next blow of the axe rather than exulting in competitive victory over those who were fired" (Sennett, 1997, p. 50).

Employment security is often seen as a precondition for the practice of HRM (Pfeffer, 1998). Also, employment needs to be reasonably stable. Having constantly a stream of new workers coming, in being trained, and then leaving, the investment in learning is simply wasted. Additionally, the work systems in which these employees sit are disrupted and never perform well. Downsizings also disrupt these work systems and seem incompatible with them (Cappelli et al., 1997 as cited in Deakin and Wilkinson, 1999).

In some cases headcount may have gone down but labour costs have increased as companies were forced to rehire, often ex-employees, as consultants, temps and interims. A survey of downsizing in the USA reported that less than half of firms which had downsized as part of a cost reduction strategy actually achieved their targets (Bennet, 1991). Cameron et al. study of the US motor industry's downsizing programs found few firms improving productivity relative to pre-downsizing levels. Cascio's (1993) study of downsizing finds a considerable discrepancy between the anticipated and actual economic benefits. Corporate goals of downsizing are rarely achieved, with share prices of downsized firms tending to decline over time. There is thus little evidence that downsizing improves long-run profitability and financial performance (De Meuse et al., 1997).

A possible explanation for this increasingly reported negative relationship between downsizing and economic performance can be found in Hamel and Prahalad's analysis (Hamel and Prahalad, 1993 as cited in Carlin, 1996) of competitive advantage via resource productivity, both capital and human. They suggest that there are two ways to achieve this. Firstly, via downsizing and secondly by the strategic discipline of stretch and leverage. This latter approach seeks to get the most from existing resources. Their view is that leveraging is mostly energizing, while downsizing is essentially the reverse, resulting in demoralized managers and workforces. It appears that to achieve economic effectiveness, downsizing is far from always *rightsizing*. Strategic decision-makers seem to have forgotten the benefits of growth strategies. Many economists have now disowned the practice of *slash and burn* restructuring. It is believed that, if someone competes by building he has a future ... if he competes by cutting he doesn't (Carlin, 1996).Why, then, do managers continue with downsizing? Firstly, it is increasingly argued that managers have simply become addicted to downsizing because being lean and mean is now fashionable in itself (Brunning 1996; McKinley et al., 1995). To this we would add the profit improvement strategies promoted by the large management consultancy groups. The use of management consultants by an organization leads employees to associate them with imminent job losses (Preedy, 1987). De Meuse et al. (1997) argue that downsizing is not a quick, one-off fix. Also, nobody believes the Great War syndrome - the downsizing to end all downsizing - any more (Kennedy, 1996).

Secondly, because firms are now more productive or too overstaffed, managers are often forced to resort to it by the market's demands for short-term boosts in profits. Even if downsizing does not deliver on profitability over the long term, it can give short-term stock gains as investors and market makers respond favourably to downsizing announcements (Worrell et al., 1991). Consistent with the market reaction, post announcement analysis revealed that downsizing

in conjunction with revenue refocusing (plant closing) improved firm financial performance and that revenue refocusing firms significantly outperformed cost cutting and plant closing firms (Chalos and Chen, 2002). Also, shareholders, in short term, do benefit from redundancies (Collett, 2004). Depressingly, it seems that downsizing acts as a reassuring signal to markets that managers are in control and acting to put things right. Thirdly, it is suggested that (Hitt et al. 1994 as cited in De Meuse et al. 1997), the current rage for mindless downsizing is linked to the merger and acquisitions mania as managers attempt to solve the problems associated with acquisitive rather than organic growth. Acquisition strategies are argued to promote conservative short-term perspectives amongst managers - hence downsizing as a solution rather than investing in human capital. Indeed, there is a case that with greater internal flexibility (e.g. wider jobs), there may be less necessity for external flexibility (e.g. via downsizing) as workers can cope more ably with adjustments and changes. It is important to see security in the context of other policies. Workers are more likely to contribute ideas if they do not feel they are endangering their own colleagues' jobs, and both employer and employee are more likely to see investments in training as worthwhile. Thus, despite the real sufferings of many workers in an era of redundancy there have been precious few long-term benefits to justify its level and severity, nor an overwhelming economic justification for its continuing blanket use. The redundant find meaningful, well-paid and stable work difficult to come by, whilst those who remain in employment are stretched thin, worried about their security and subject to considerable work stress in anorexic organizations (De Meuse et al.,1997). Lastly, it seems that the claim of HRM that people are an organization's most valuable resource is difficult to sustain in the light of how such resources are so wantonly discarded and underutilized. In the era of widespread downsizing there is an "unplanned, haphazard management of the employment relationship" (Pfeffer, 1998, p. 164). However, downsizing problems can be minimized when revitalization efforts should take place within the framework of a comprehensive organizational change.

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