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S.A.M. Advanced Management Journal; Spring 2008; 73, 2; ABI/INFORM Global
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Introduction

Organizational downsizing as a change management strategy has been adopted for more than two decades (Gandolfi, 2007). In the 1980s and early 1990s, it was implemented primarily by firms experiencing difficult economic times (Gandolfi, 2006). However, since the mid-1990s, downsizing has become a leading strategy of choice for a multitude of firms around the world (Mirabal and DeYoung, 2005). The prime impetus of most downsizing efforts is the desire for an immediate reduction of costs and increased levels of efficiency, productivity, profitability, and competitiveness (Farrell and Mavondo, 2004). Over the years, this strategy has generated a great deal of interest among scholars, managers, and the popular press. Some authors suggest that the research-based body of knowledge is still relatively underdeveloped (Macky, 2004), while others stress the confusion surrounding downsizing (Williams, 2004; Gandolfi, 2008). The adoption of strategic downsizing has remained popular (Maurer, 2005), yet significant empirical and anecdotal evidence suggests that the overall consequences are negative (Zyglidopoulos, 2003).

The primary objective of this article is to review the consequences of downsizing, focusing on the following questions: Does downsizing work? Have firms reaped the much anticipated benefits? In other words, what do we know about the effects and after-effects of downsizing? This paper draws out implications for executives and showcases five downsizing lessons that managers should consider. Finally, the paper suggests future research for this topic.

Downsizing: Background

Back in the mid-1970s, Charles Handy first predicted that the technological revolution would transform the lives of millions of individuals through a process he aptly termed 'down-sizing' (Appelbaum, Everard, and Hung, 1999). While few understood his prediction at the time, we now know that downsizing has been adopted as a management technique on a global scale (Macky, 2004). Firms have implemented downsizing as a "reactive response to organizational bankruptcy or recession" (Ryan and Macky, 1998) and proactively as a human resource (HR) strategy (Chadwick, Hunter, and Walston, 2004). Reflecting upon its pervasiveness, it is evident that downsizing has attained the status of a fully-fledged restructuring strategy (Cameron, 1994) with the intent of attaining a new level of competitiveness (Littler, 1998).

Admittedly, downsizing is not new. It came into prominence as a topic of both academic and practical concern in the 1980s and became a management mantra (Lecky, 1998) in the 1990s. The latter period subsequently became the "downsizing decade" (Dolan, Belout, and Balkin, 2000). Downsizing has transformed hundreds of thousands of firms and governmental agencies and the lives of tens of millions of employees around the world (Amundson, Borgen, Jordan, and Erlebach, 2004). The notion of downsizing has emerged from a number of disciplines and draws upon a wide range of management and organizational theories. The body of literature is extensive reflecting its prevalence in the U.S., the U.K., Canada, Western Europe, Australia, New Zealand, and Japan (Littler, 1998; Gandolfi and Neck, 2003; Farrell and Mavondo, 2004; Macky, 2004).

A single definition of downsizing does not exist across studies and disciplines. Still, it is clear that it means a contraction in the size of a firm's workforce. Cascio (1993) posits that downsizing is the planned elimination of positions or jobs whose primary purpose is to reduce the workforce, while Gandolfi (2006) adds that a myriad of terms have been used euphemistically in reference to downsizing, including “brightsizing” and “rightsizing.”

Downsizing is ubiquitous. While manufacturing, retail, and service have accounted for the highest levels, downsizing has occurred in both the private and public sectors (Macky, 2004). Downsizing statistics show a sobering picture. The U.S. Bureau of Labor Statistics (BLS) reported that more than 4.3 million jobs were cut between 1985 and 1989 (Lee, 1992). The *New York Times* stated that more than 43 million jobs had been eliminated between 1979 and 1996 (Cascio, 2003). Cameron (1994) reported that 85% of the *Fortune 500* firms downsized between 1989 and 1994, and 100% had downsizing-related plans in the ensuing five years. Substantial evidence suggests that downsizing remains a popular restructuring strategy (Mirabal and DeYoung, 2005; Gandolfi, 2008).

Why do firms resort to downsizing? What are the driving forces? While downsizing is viewed as complicated and multifaceted (Gandolfi, 2006), it has generally been adopted either reactively or proactively (Macky, 2004). To put a single downsizing cause forward is problematic and underrates its inherent complexity. Each downsizing decision reflects a combination of company-specific, industry-specific, and macroeconomic factors (Drew, 1994). Downsizing firms frequently point to deregulation, globalization, mergers and acquisitions (M&A) activities, global competition, technological innovation, and a shift in business strategies to obtain and retain competitive advantages (Dolan, Belout, and Balkin, 2000; Sahdev, 2003; Gandolfi, 2008).

Downsizing Consequences

Downsizing has deep financial, organizational, and social consequences, covered extensively in the change management literature. A closer analysis of the overall effects presents a complex picture with the following questions emerging:

- Is downsizing an effective strategy?
- Does downsizing engender improved financial performance?
- Have firms reaped financial and organizational improvements?

The overall picture of the financial effects of downsizing is negative. While a few firms have reported financial improvements, the majority have failed to report increased levels of efficiency, effectiveness, productivity, and profitability (Cascio, 1993; Macky, 2004; Gandolfi, 2008). Table 1 presents a non-exhaustive overview of some of the findings.

In light of the available cross-sectional and longitudinal data, the following conclusions can be made:

- Most firms adopting downsizing strategies do not reap economic and organizational benefits;
- Non-downsized firms financially outperform downsized forms in the short-, medium-, and long-run;
- While some firms have shown positive financial outcomes, there is no empirical evidence to suggest a correlation between downsizing

Table 1. Financial Effects of Downsizing

Researcher	Findings	Bottom-line
Zemke (1990)	A study conducted in 1989 and repeated in 1990 by the Philadelphia outplacement firm Right Associates. HR executives from 500 downsized firms said that the implementation of downsizing did not generate financial gains, but had in fact negative economic effects on the firm – 25 % in 1989 and 28 % in 1990. Managers also reported significant “aftershocks” following downsizing.	•No financial gains reported •Negative economic effects •Significant “aftershocks”
Worrell, Davidson, and Sharma (1991)	Examined the impact of downsizing announcements on stock returns for a sample of 194 firms that announced layoffs during 1979-1987. They examined the stock returns of companies from 90 days prior to the announcement of the downsizing in the *Wall Street Journal* to 90 days after the announcement. There was a significantly negative market reaction to the announcements with the cumulative loss in stock value being about 2% of the value of the equity of the firms. For firms that provided restructuring and consolidation as the reason for the layoffs, there was a 3.6 % increase in stock value over the 180-day test period, while stocks of firms citing financial distress as the reason for downsizing declined an average of 5.6 % over the same period.	•Negative market reaction following downsizing announcements •Declining stock values post-downsizing

De Meuse, Vanderheiden, and Bergmann (1994).	Conducted a large downsizing study of *Fortune 100* companies measuring their financial performance over a five-year period, that is, two years prior to the announcement, the year of the announcement, and two years after the announcement. Statistical tests revealed no significant positive relationships for any of the financial variables. De Meuse et al. (1994) concluded that empirical evidence did not support the contention that downsizing leads to improved financial performance.	•No improved financial performance
Clark and Koonce (1995)	Carried out a U.S. study revealing that approximately 68% of all surveyed downsizing, restructuring, and reengineering efforts did not generate financial gains and benefits.	•68 % of firms failed to improve financial performance
Downs (1995)	Studied the financial implications following downsizing and reported that the severance pay expenses from downsizing, in particular, can be enormous. Downs (1995) cites Dow Chemical's experience with manager layoffs in the 1990s as "horribly expensive" and "destructive to shareholders' value" (Appelbaum et al., 1999).	•Severe negative financial implications following downsizing
Estok (1996)	Watson Wyatt Worldwide carried out a study of 148 major Canadian firms showing that 40% of downsizing efforts did not result in decreased expenses, and that more than 60% of firms did not experience an increase in profitability.	• 40 % of firms failed to decrease expenses • 60 % failed to increase profitability
Cascio, Young, and Morris (1997)	Studied data from the Standard and Poor (S&P) 500 between 1980 and 1994 examining 5,479 occurrences of changes in employment in terms of two dependent financial variables. They reported that firms engaging in downsizing did not show significantly higher returns than the average companies in their own industries.	•No higher financial returns after downsizing
Clark and Koonce (1995)	Reported that 68% of all downsizing activities were financially unsuccessful. Those that downsized and restructured specifically to become more profitable and efficient realized neither outcome. They concluded that downsizing outcomes were "tremendous disappointments" that fell well short of expectations (Williams, 2004).	•68 % of firms reported unsuccessful financial results after downsizing •Downsizing seen as disappointments
Cascio (1998)	Examined 311 S&P 500 firms that had downsized between 1981 and 1990 and concluded that downsizing *per se* did not lead to improved financial performance.	•Downsizing failed to produce positive financial results
Lecky (1998)	A major Australian study conducted by the Queensland University of Technology disclosed that a mere 40% of firms achieved an increase in productivity and only half accomplished a decrease in overall costs following downsizing	•60 % of firms failed to improve productivity •50 % failed to decrease costs
Kirby (1999)	Reported that several longitudinal studies in Australia showed a consistently negative financial picture in that six out of ten downsized firms failed to cut overall costs or increase productivity.	•60 % of firms failed to cut costs •60 % of firms failed to increase productivity
Appelbaum, Everard, and Hung (1999)	Cited a Mitchell & Co. study of 16 North American firms that had cut more than 10% of their respective workforces between 1982 and 1988. It was shown that two years after the initial stock price increase, 10 of the 16 stocks were quoting below market by 17-48% and 12 were below the comparable companies in their industries by 5-45%. Appelbaum et al. (1999) concluded that such results depicted the true financial impact of downsizing on firms.	•Firms cutting more than 10 % of workforce underperformed non-cutters in terms of stock price
Morris, Cascio, and Young (1999)	Studied the financial performance of the S&P 500 Index subsequent to changes in employment from 1981 to 1992. The key indicators constituted overall profitability and the stock market performance. The tabulation showed that firms with stable employment consistently outperformed companies with employment downsizing. Also, firms that "upsized" (i.e., employment increases exceeded 5%) generated stock returns that were 50% higher than those of stable and downsized firms in the year that they upsized, and cumulative stock returns that were 20% higher over three years. Morris et al. (1999) concluded that a consistently positive correlation between downsizing and improved financial performance could not be established. Rather, empirical evidence suggested that downsizing was unlikely to lead to improvements in a firm's financial performance.	•Firms with stable employment outperformed firms with downsizing •Firms that upsized outperformed firms with stable and downsizing workforces •No correlation between downsizing and improved financial performance

Gandolfi (2001)	Conducted an extensive analysis of financial performance of large downsized banks in Australia. Empirical evidence suggested that the majority of downsized firms were unable to cut overall costs and to improve profitability. Only few study cases reported satisfactory financial improvements.	•Majority of firms failed to cut costs •Majority of firms failed to increase profitability
Griggs and Hyland (2003)	Watson Wyatt Worldwide conducted a study of 1,005 firms in 1991 and reported that widely anticipated economic and organizational benefits for downsized companies failed to materialize. Empirical evidence suggested that a mere 46% of downsized firms cut overall costs, fewer than 33% increased profitability, and only 21% reported satisfactory improvements in ROI.	•54 % of firms failed to cut costs •66 % failed to increase profitability • 79% failed to show satisfactory ROI
De Meuse, Bergmann, Vanderheiden, and Roraff (2004)	Conducted one of the most systematic longitudinal analyses of financial performance of downsized firms. The study examined the long-term relationships of downsizing on five measures of financial performance from 1987 until 1998. It was found that downsized firms performed significantly poorer up to two years following the announcement. Beginning with the third year, none of the differences reached statistical significance. When analyzing the magnitude of downsizing, the data revealed that firms that had downsized a small number of employees (i.e., up to 3%) performed significantly better in the announcement year, while firms that downsized more than 10% of the workforce significantly underperformed firms laying off less.	•Downsized firms underperformed others up to two years after announcement •Firms cutting more than 10 % of workforce underperformed firms with less downsizing
Macky (2004)	Reported that a New Zealand study comprising 45 firms listed on the stock exchange and 110 nonlisted companies employing 50 or more people showed that firms that had downsized between 1997 and 1999 financially underperformed firms that had not engaged in downsizing. Macky (2004) concluded that despite the widespread use of downsizing, there was still little convincing research to show that downsizing produces the financial benefits expected by managers.	•Non-downsizers outperformed downsized firms financially •No correlation between downsizing and improved financial performance
Gandolfi (2008)	Conducted an extensive longitudinal study of financial performance of downsized firms in Australia and Switzerland. Empirical evidence suggested that the majority of downsized firms were unable to cut overall costs. Gandolfi (2008) concluded that downsizing *per se* did not lead to improved financial performance.	•Majority of firms failed to cut costs •Majority of firms failed to increase profitability

Source: Developed for this research

and improved financial performance;

- Some firms have reported positive financial indicators in the short term, yet the long-term financial consequences of downsizing have been shown to be consistently negative.

Downsizing also transcends financial consequences. A significant body of literature reports that downsizing has profound consequences on the workforce, the so-called "after," "side," or "secondary" downsizing effects (Littler, Dunford, Bramble, and Hede, 1997; Macky, 2004). At least three categories of people are directly affected by downsizing: survivors, victims, and executioners. A survivor remains with the firm, a victim is downsized out of a job involuntarily, while an executioner is entrusted with the downsizing implementation (Gandolfi, 2006). Table 2 presents the three categories of affected individuals with some of the major research findings.

While it could be presumed that it is better to be a downsizing survivor rather than a victim, does evidence support this? Determining and comparing the symptoms exhibited by victims and survivors, Devine and colleagues (2003) assert that surviving downsizing is difficult given the high levels of stress experienced by survivors compared to the victims (Devine, Reay, Stainton, and Collins-Nakai, 2003). The argument rests partly on the disparity in resources available to victims compared with those available to survivors. Victims commonly receive transition packages and outplacement services, while survivors receive very little, if any, resources and support. Devine et al. (2003) compared the outcomes for displaced and continuing employees, finding that the victims who found employment post-downsizing reported considerably more positive outcomes than did those who remained in the downsized environment. The victims felt lower levels of stress on the job, reported higher levels of perceived job control, and experienced fewer negative effects than the survivors. In light of that, the following conclusions can be made:

- Downsizing produces considerable human consequences;
- Downsizing affects the entire workforce, survivors, victims, and executioners, in a most profound manner;
- Survivors generally find themselves with increased workloads and job responsibilities while frequently receiving few or no resources, training, and support;
- Victims commonly obtain outplacement services and financial packages when exiting the downsized firms;
- Survivors suffer from a range of downsizing-related sicknesses;
- Executioners suffer similar effects to those of victims and survivors.

Table 2. Downsizing Categories of Affected Individuals

Category	Findings	Bottom-Line
Survivors	Display a number of symptoms during and after downsizing. The *first* sickness, the survivor syndrome, is a set of emotions, behaviors, and attitudes exhibited by surviving employees (Littler et al., 1997). Brockner (1988) asserts that downsizing engenders a variety of psychological states in survivors: guilt, positive inequity, anger, relief, and job insecurity. These mental states influence the survivors' work behaviors and attitudes, such as motivation, commitment, satisfaction, and job performance. Kinnie, Hutchinson, and Purcell (1998) identified survivor symptoms, including increased levels of stress, absenteeism, and distrust, as well as decreased levels of work quality, morale, and productivity. Cascio (1993) argues that the survivor syndrome is characterized by decreased levels of morale, employee involvement, work productivity, and trust towards management. Lecky (1998) reports that the survivor syndrome manifests itself in negative morale, decreased employee commitment, and increased concern about job security. Gettler (1998) observed similar symptoms among survivors in New Zealand, Australia, and South Africa suggesting a drop in productivity in line with data from the U.S. and Europe. The *second* sickness, survivor guilt, is a feeling of responsibility or remorse for some offence and is often expressed in terms of depression, fear, and anger (Noer, 1993). The reality of survivor guilt is comparable to the concept of combat syndrome, which refers to the feelings experienced by a soldier in combat upon the death of a fellow soldier. Feelings of relief for his own survival are often followed by feelings of immense guilt for his own survival (Allen, 1997). Cameron, Freeman, and Mishra (1993) assert that survivor guilt may occur when survivors work overtime or receive paychecks. Additionally, survivors may perceive that traditional attributes, such as loyalty, individual competence, and diligence are no longer valued since their co-workers, who had displayed such traits, were victims of downsizing. Littler et al. (1997) point out that survivor guilt arises when survivors perceive that their own performance merited no better treatment than that accorded the downsized victims. Schweiger, Ivancevich, and Power (1987) contend that it is not the terminations *per se* that create hostility, anger, bitterness, and survivor guilt but the manner in which the terminations were handled. Survivors expressed feelings of anger and disgust that their peers were downsized and felt guilt that they were not directly involved in the downsizing. The survivors also believed that their co-workers performed at least as well or even better than the survivors. Thus, the survivors' perceived feelings of bitterness, anger and disgust regarding the layoffs of co-workers may potentially result in survivor guilt (Appelbaum et al., 1999). The *third* sickness, survivor envy, reflects a survivor's feelings of envy towards the victims (Kinnie et al., 1998). Survivors presume that victims obtain special retirement packages and new jobs with more attractive compensation.	Sickness 1: Survivor syndrome •guilt •positive inequity •anger •relief •job insecurity Mental states influence •motivation •commitment •satisfaction •work performance Symptoms include •higher levels of stress •higher levels of absenteeism •higher levels of distrust •higher levels of job insecurity •decreased work quality •decreased morale •decreased productivity •decreased employee involvement •decreased trust toward management Sickness 2: Survivor guilt •depression •fear •anger Sickness 3 Survivor envy •feelings of envy toward victims

Victims	Strong evidence of adverse psychological effects resulting from job loss, including psychological stress, ill health, family problems, marital problems, reduced self-esteem, depression, psychiatric morbidity, helplessness, anxiety, and feelings of social isolation (Greenglass and Burke, 2001). There is some evidence suggesting that job loss caused by downsizing may generate permanent damage to the victims' careers (Dolan et al., 2000). Victims have reported a loss of earning power upon reemployment (Konovsky and Brockner, 1993). Studies suggest that victims have encountered feelings of cynicism, uncertainty, and decreased levels of commitment and loyalty that carry over to the next job (Macky, 2004). The focus in most downsized firms is on the victimized employees (Amundson et al., 2004) who are considered the primary victims of a downsizing and who need counseling, support, help, and re-training. Victims often receive generous outplacement services and financially attractive incentive packages (Gandolfi, 2006). These benefits generally include outplacement support, personal and family counseling, relocation expenses, retraining, and a variety of lucrative incentive packages, such as severance pay and benefits packages (Allen, 1997).	<u>Psychological effects</u> •psychological stress •ill health •family and problems •reduced self-esteem •psychiatric morbidity •depression •helplessness and anxiety •feelings of social isolation <u>Other effects</u> •damage to career •loss of earning power •feelings of cynicism, uncertainty, decreased levels of commitment and loyalty in future employment
Executioners	Likely to be an employee, manager, or consultant entrusted with the planning, execution, and evaluation of a downsizing activity (Downs, 1995). Little research has been documented on the emotional responses and reactions of the subjects implementing downsizing. Some evidence suggests that the implementers of downsizing suffer from similar psychological and emotional effects as the victims and survivors (Gandolfi, 2007) in that carrying downsizing responsibilities is emotionally taxing and professionally challenging (Clair and Dufresne, 2004).	<u>Psychological effects</u> •Similar effects as victims and survivors <u>Emotional effects</u> •Similar effects as victims and survivors

Source: Developed for this research

Learning from the Past: What Have Executives Learned?

It is not presumptuous to state that organizations have failed to reap widely anticipated downsizing gains. Additionally, firms have been forced to contend with considerable human consequences. Still, there is sporadic evidence that a few firms have engaged in practices that generated positive effects. Considering the current findings, what have executives learned? What downsizing lessons can be deduced? Is it possible to determine best downsizing practice?

It must be understood that the reduction of workforces *per se* is not new. Workforces have always fluctuated, particularly in response to economic crises. This was the prevailing paradigm prior to the mid-1980s. However, the tide turned half way through the 1980s in that downsizing became decoupled from the business cycle (Gandolfi, 2005) and manifested itself as a fully-fledged, proactive HR strategy (Chadwick et al., 2004). As a result, downsizing attained the status of a restructuring strategy (Cameron, 1994). In the following decade, downsizing became a way of life (Filipowski, 1993) and a corporate panacea (Nelson, 1997). Paradoxically, this unprecedented development took place despite downsizing successes. The following are five downsizing lessons for executives contemplating a downsizing strategy:

Lesson 1: Downsizing preparation

Research shows that organizations conduct downsizing without adequate HR plans, policies, and programs (Appelbaum, Delage, Labibb, and Gault, 1997; Gandolfi, 2001). Firms are also inadequately prepared for downsizing and severely neglect the survivors (Doherty and Horsted, 1995; Allen, 1997; Gandolfi and Neck, 2003). To some degree, this unpreparedness explains why firms have not been able to implement downsizing successfully. Why and how should managers prepare their firms for downsizing? Cameron (1994) draws attention to a U.S. firm that introduced a new HR system for all employees one year *prior to* the downsizing announcement. As a result of this proactive measure, the firm reported positive financial and organizational outcomes with minimal disruption and pain among the surviving and departing workforces. Similar findings were reported in a cross-sectional study in the Australian banking industry (Gandolfi, 2001). These examples demonstrate that proactive preparation for downsizing can positively contribute to a firm's preparedness for any major change. Therefore,

Table 3. Categories of Personal Development and Growth

Physical lifestyle	Mental capacity	Emotional growth
Sports	Change management skills	Emotional reactions to change
Sauna	Stress management skills	The nature of change
Aerobics	Communication skills	The purpose of change
Massages	Interpersonal skills	The stages of change
Yoga classes	Presentation skills	Preparation for change
Fitness classes	Leadership skills	Self-awareness
Weightlifting classes	Teamwork skills	Counseling
Rock climbing	Mentoring and coaching skills	On-line emotional support
Table tennis	Conflict resolution skills	Emotional intelligence

Source: Adapted from Gandolfi (2006b)

the first implication for managers is to plan strategically and prepare proactively for downsizing. Executives will need to ensure that the firm's culture can and will embrace major change successfully. This will contribute to an organization's attaining change readiness (Gandolfi, 2006), which is a key requirement for successful downsizing and an indispensable factor of most change endeavors.

Lesson 2: Specific downsizing training

Firms are frequently ill-prepared for downsizing and fail to provide adequate training, support, and assistance to survivors. Gandolfi (2006) contends that while the workforce generally receives job-specific professional training and development, attention to personal development and growth during downsizing is confined to managers. Gandolfi (2006b) found that enhancing an employee's physical lifestyle, mental capacity, and emotional growth had the potential to proactively prepare the workforce for change and help individuals cape successfully with downsizing. Table 3 showcases the three categories of personal growth and development.

There is an increased awareness and understanding that survivors lack training, support, and assistance during and after the implementation of downsizing (Appelbaum et al., 1997; Macky, 2004; Gandolfi, 2006). This is remarkable given that survivors commonly face new job responsibilities (Mitchell, 1998), experience increased workloads (Dolan et al., 2000), and are driven to work harder after downsizing (Makawatsakul and Kleiner, 2003). Would it not make sense for the survivors to receive much needed training, support, and assistance in the wake of this new-found reality? Executives should ensure that firms invest in their workforces proactively and provide training, support, and assistance throughout the downsizing process. Without a doubt, a thoroughly prepared and adequately equipped workforce is more likely to be able to cope with and thrive in the wake of downsizing.

Lesson 3: Downsizing and the survivor syndrome

Downsizing survivor sicknesses have been referred to as "aftershocks" (Zemke, 1990) and the "aftermath" (Clark and Koonce, 1995) of downsizing. Clearly, the remaining employees play a significant role during downsizing in the sense that they either facilitate or impede the outcomes (Mishra and Spreitzer, 1998). This is a profound insight. Studies have shown that the lack of financial success following downsizing is frequently accompanied by the emergence of survivor illnesses. Scholars remain puzzled as to why firms ignore the survivors. Are those individuals not supposed to be the *cream of the crop* and, ultimately, the linchpins of future profitability? Did the survivors not endure because they are part of the solution rather than part of the problem? Downsizing experts have studied the survivor syndrome and the exhibited behaviors at the workplace extensively. To sum up the findings, many survivors exhibit work behaviors and attitudes that are dysfunctional to the firm and their own work performance (Beylerian and Kleiner, 2003). As a result, the impact of downsizing on the survivors is believed to be one of the major reasons for the failure of downsizing efforts and resulting long-term problems (Devine et al., 2003). Without a doubt, executives must pay considerable attention to survivors if they are serious about executing downsizing successfully. This includes a clear strategy on how to take care of the survivors during all downsizing phases (Gandolfi, 2001).

Table 4. Costs of Downsizing

Direct costs	Indirect (hidden) costs
•Severance pay, in lieu of notice	•Recruiting and employment costs of new hires
•Accrued holiday and sick pay	•Training and retraining
•Administrative processing costs	•Potential charges of discrimination
	•Survivor syndromes

Source: Adapted from Littler et al. (1997), Gettler (1998), Gandolfi (2001)

Therefore, managers need to make sure that the survivors receive full access to counseling, support, help, and retraining (Allen, 1997) as well timely, honest, and unbiased information (Dolan et al., 2000).

Lesson 4: Counting the downsizing costs

Downsizing entails considerable financial cost. Research conducted by the University of Colorado reveals that the direct and indirect, or hidden, costs of downsizing are frequently underestimated (Gandolfi, 2001). There is even evidence suggesting that downsizing costs can minimize or negate any productivity gains (Littler et al., 1997). Longitudinal data from Australian, South African, and New Zealand firms show that no gain would result if the extra costs associated with downsizing were factored in (Gettler, 1998). Table 4 presents the direct and indirect costs.

In 2006, the H. J. Heinz Company, one of the world's largest food producers, reported that earnings had slumped due to high costs related to downsizing (The Associated Press, 2007). A European firm reported an increase of 40% in recruitment and a 30% increase in training and development costs for new employees following its controversial downsizing. These unexpected expenses more than off-set the minimal productivity savings achieved through downsizing (Gandolfi, 2001).

Lesson 5: Downsizing as a last resort

A firm must carefully consider its options and assess the feasibility and applicability of cost reduction alternatives before deciding to downsize. Downsizing must be a last resort. While a substantial number of articles discussing the alternatives to downsizing have emerged, there is a lack of understanding of downsizing-related layoffs as they pertain to the actual cost-reduction stages. It is vital for an organization to recognize the cost-reduction stage that characterizes the firm's current business position and environment. Thus, a firm needs to determine the expected duration of the business downturn. Several HR practices are available as alternatives to downsizing to reduce costs. Some popular approaches include natural attrition, hiring freezes, mandatory vacations, reduced workweeks, limited overtime pay, salary reductions, facility shutdowns, and employee sabbaticals. Each technique has its own applicability, advantages, and disadvantages.

Future Research and Concluding Comments

Downsizing remains complex. While the body of literature is extensive and many valuable lessons have been learned over the past 30 years, the reactive and proactive practice of downsizing has continued unabated despite its dubious track record. In the 1990s, downsizing was declared the most understudied business phenomenon (Cameron, 1994; Freeman, 1994; Luthans and Sommer, 1999). The author of this paper would like to add that downsizing is probably also one of the most misunderstood and misinterpreted contemporary business phenomena. More research and, more important, a greater depth of understanding is required to establish and continue a meaningful dialogue between the business and academic communities. Some of the more pressing issues that need to be addressed and empirically examined include the following:

- What is the significance of the survivor syndrome?
- Is there a correlation between the survivor syndrome and the outcome of downsizing?
- What is the specific role of executioners during downsizing?
- What are the medium- and long-term personal and professional consequences for downsizing victims, survivors, and executioners?
- How and why should firms be prepared for downsizing? What is the best practice?
- What are the long-term financial consequences of downsizing?
- How do the frequency and magnitude of downsizing affect financial performance?

- How do alternatives to downsizing fare compared with downsizing-related layoffs?

This article reviewed the consequences of downsizing. While ample evidence suggests that downsizing produces negative outcomes, it is clear that downsizing-related permanent layoffs must be avoided at all costs. The paper presented five downsizing lessons that managers should consider before deciding to downsize.

Dr. Gandolfi, currently director of the MBA/EMBA programs at Regent University, specializes in human resource management and change management and regularly advises corporations in Australia and Switzerland. His published books include Corporate Downsizing Demystified: A Scholarly Analysis of a Business Phenomenon.

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