Alternatives to Downsizing: An Organizational Innovation Approach

William Marty Martin, PsyD, MPH, MA, MS[1], Audrey C. Davis, M.A.[2]

ARTICLE INFO

Available online July 2013

Key Words
Downsizing alternatives
organizational change
organizational innovation
redundancy alternatives

ABSTRACT

Fifty alternatives to downsizing are offered. A brief literature review was conducted with specific emphasis on advantages and disadvantages of downsizing. Downsizing alternatives are divided into economic, institutional and socio-cognitive frameworks. Though many of the alternatives have been used in isolation, the writers provide a conceptual framework that challenges those involved in making the decision whether to downsize or not. The authors further challenge decision makers to resist the almost reflexive response to downsize when confronted with gaps in efficiency and effectiveness. Decision makers should consider alternatives to downsizing while keeping the two major goals of downsizing intact. Decision makers are charged to carefully identify the root cause of their challenges and to explore and create viable alternatives before downsizing becomes an option. Organizational leaders, human resource management and policy makers are given specific methods to conceptualize business decisions without the need for permanent employee layoffs.

1. Introduction

Downsizing has become an ugly reality in the life of all kinds of workers and organizations. There was a time when downsizing was limited to blue-collar workers as the manufacturing base declined. Then, with advancing technology and offshore outsourcing, white-collar and pink-collar workers, primarily in private companies, were downsized. Fast-forward to the 21st century, and highly educated gold-collar workers -- including attorneys, physicians, scientists and investment bankers -- suddenly found themselves among the ranks of the downsized. More recently, as governments of all sizes implement austerity and budget-cutting initiatives, teachers, police, fire, and healthcare employees have found that they are not safe from downsizing either. Downsizing "has become solidly entrenched in its corporate and public organization sectors (McKinley, Zhao & Rust, 2000, page 227)."

Are there alternatives to downsizing or must it be a permanent fixture of today's workplace? While downsizing may have advantages for employers, it has disadvantages as well. We will review the history of downsizing and describe a conceptual framework to address key business challenges without downsizing. We also will present 50 alternatives to downsizing, organized by categories. Finally, we will present the implications for future researchers, organizational leaders, and human resources managers. For the sake of conceptual clarity, downsizing is defined as follows:

> "as an organization's conscious use of permanent personnel reductions in an attempt to improve efficiency and/or effectiveness (Budros, 1999, page 70)."

This definition is aligned with the post-1980 era of downsizing and with the conceptual framework (McKinley et al., 2000), drawing upon a socio-cognitive interpretation of organizational downsizing. The term "conscious" is noteworthy because it implies a conscious decision rather than an unconscious, impulsive or reflexive act. In short, downsizing is "the planned elimination of positions and jobs (Cascio, 1993, page 96)."

Most organizations probably have implemented a few of the 50 alternatives either to avoid downsizing or for some other reason, such as organizational restructuring. In fact, previous research has identified some of

[1] Corresponding Author, Director & Associate Professor, De Paul University, Department of Management, 1 East Jackson Boulevard, Chicago, Illinois 60604-2201, E-mail: martym@depaul.edu
[2] Doctoral Student, Argosy University

the 50 alternatives to downsizing (Cascio, 2002; McCune, Sanchez, & Schick, 1995; Ulrich & Lake, 1991; Greenhalgh, Lawrence & Simon, 1988). However, most organizations have not systematically packaged, staged, and sequenced the 50 alternatives in a way that serves as an alternative to downsizing. These alternatives, if implemented, represent an innovation for most organizations.

1.1. History of Downsizing

Before 1980, downsizing was characterized as a temporary response to an economic downturn (Budros, 1999). After 1980, downsizing was permanent and independent of any specific downturn in the business cycle (Budros, 1999). Given this distinction, the alternatives to downsizing have a more profound effect today than in the past, because downsizing occurs today regardless of the specific phase of the business cycle.

1.2 Advantages and Disadvantages of Downsizing: A Succinct Review

On balance, we assert that organizational downsizing fails to achieve two major goals: increases in effectiveness and efficiency. As such, alternatives are warranted to achieve these two goals without resorting to organizational downsizing. The decision to downsize or use any combination of these 50 alternatives is not mutually exclusive.

1.3 Advantages

There are a number of advantages. The major reported benefit is to cut costs during times of decreased business income (Tsai & Yen, 2008; Gandolfi, 2008; Gilson, Hurd, & Wagar, 2004; Roth, 1993). Other advantages include the belief that an increase in productivity can occur by eliminating functions identified as redundant (Cascio, 2002). These productivity improvements are based upon the belief that fewer levels of management result in an increase in feelings of ownership in achieving organizational goals (Gandolfi, 2008). A related advantage is that communication improves with fewer layers in the organization (Roth, 1993). By eliminating employees, it is believed that expenses decrease, resulting in permanent reductions in fixed costs (Gandolfi, 2008; Gilson et al., 2004; Cascio, 2002). Some firms have experienced other advantages such as altering the skill mix to implement new business strategies (Cascio, 2002). Another advantage is to reduce costs by replacing full time, permanent with temporary or contract workers (Cascio, 2002). Dating back to 1993, there have been notable failures of many downsizing initiatives to deliver these benefits (Cascio, 2002).

1.4 Disadvantages

Many of the assumed advantages to downsizing have not been empirically substantiated. The financial stability that is expected when organizations have downsized has not been realized (Tsai & Yen, 2008; Guthrie & Datta, 2008; Tsai, Yen, Huang & Huang, 2007; Gilson et al., 2004; Casio, 2002; Roth, 1993). Employees who remain with the company, termed survivors, have not been provided with the needed support to take on the additional work that comes from the reduced workforce. Several researchers found that there was a series of physical and mental health conditions that are referred to as the "survivor's syndrome." The condition includes anxiety, low morale, less productivity, high levels of distrust and excessive cautiousness (Schiro & Baker, 2009). At a time when there needs to have more open communication, employees move to "hoarding" information in the hopes that it will secure their position (Gandolfi, 2008). Furthermore, survivors of organizational downsizing also concern themselves with issues related to justice not to mention their own feelings of job insecurity (Chipunza & Samuel, 2013). In summary, organizational downsizing has not been unequivocally shown to achieve its intended outcomes. However, it has been argued that downsizing harms the organization (Guthrie & Datta, 2002).

Yet, many boards and senior leaders believe that downsizing will achieve its intended objectives. Downsizing has been framed as a set of decisions (Casio, 2002):

> "Management needs to be sure about the sources of future savings and carefully weigh those against all of the costs, including increased costs associated with subsequent employment expansions when economic conditions improve (page 41)."

The decision about whether and how to downsize involves tradeoffs ranging from balancing costs and forecasted benefits to ensuring short- versus long-term benefits. The decision to downsize is complex and multi-factorial. "The relationship between downsizing strategies and firm performance still remains mysterious (Tsai & Yen, 2008, page 380]. In the face of this mystery, our 50 alternatives may do more to achieve the intended outcomes of most downsizing initiatives -- to increase efficiency, effectiveness, cut costs and/or improve productivity.

2. Conceptual Framework of Organizational Downsizing Decision Making

Making decisions about organizational downsizing is not easy. Nor should it be. The primary decisions to be made are whether to downsize; how much to downsize; when to act; what approaches to use, ranging from attrition to across-the-board job cuts; and whether to frame downsizing as an ethical decision. The ethical aspects of the decision to downsize have been researched (Cascio, 2002). An ethical view of downsizing assumes that employees are assets not liabilities or cost targets. Others (Tsai & Yen, 2008) share in this view and even suggest that employees are long-term assets and that this view results in a responsible downsizing strategy.

Other researchers have examined downsizing decisions based upon industry context (Guthrie & Datta, 2008). The 50 alternatives proposed here cut across all industries. The research to date has even explored and whether the decision to downsize is a discriminate or an indiscriminate decision (Cascio, 2002). The 50 alternatives proposed here is a set of discriminate decisions. These alternatives draw upon the work of others who posited a decision-making model (Greenhalgh et al., 1988) to determine which type of downsizing strategy to employ, including, but not limited to, the attrition strategy or layoff strategy with or without outplacement.

The institutional theory perspective of the decision to downsize has been advanced (McKinley, Zhao & Rust, 2000). This perspective embraces the notion of cognitive dissonance and how those responsible for designing and executing layoffs experience such dissonance. Furthermore, exploring the role of layoff agents (Parker & McKinley, 2008), who are defined as any employee who has to carry out the layoff, then the 50 alternatives proposed here may reduce this cognitive dissonance. Furthermore, the 50 alternatives may also lessen the risk experienced by leaders particularly after facing organizational decline. Carmeli and Sheaffer (2008) found that risk aversion and self-centeredness among leaders is associated with organizational decline which results in downsizing.

Our focus here is to address the first decision -- whether to downsize or not -- and to some extent, the second decision of how much to downsize. McKinley et al. (2000) recognized the almost reflexive response among managers in organizations to downsize to achieve corporate objectives, but financial objectives in particular, as described below:

> "Managers, thus, have begun to lose sight of their own agency
> in the downsizing process, and downsizing is being experienced
> as an inevitability (page 229)."

The 50 alternatives proposed here is designed to short circuit this reflexive response.

The theoretical underpinnings of these 50 alternatives are based upon a three-perspective model of organizational downsizing consisting of three perspectives: economic, institutional, and socio-cognitive (McKinley et al., 2000). It must be noted that the sociocognitive perspective which serves as the theoretical foundation of these 50 alternatives takes into consideration economic factors (McKinley et al., 2000) but not economic factors alone.

In Table 1, we organize the alternatives to downsizing within each of the three perspectives (McKinley et al., 2000). This table can be used by decision makers to frame the decision to consider a set of alternatives that may achieve the specific goals that organizational downsizing was intended to achieve.

Table 1

	Economic Perspective	Institutional Perspective	Socio-cognitive Perspective
Paradigmatic Foundations	Economic/rational paradigm	Sociological paradigm	Socio-cognitive paradigm
Major Arguments	Firms downsize in order to reduce costs and improve efficiency, effectiveness and profitability.	Firms downsize in order to gain legitimacy and reduce uncertainty.	Firms downsize based upon based on shared mental models that define downsizing as effective. These mental models are socially constructed through social interaction.
The path to adopting alternatives to downsizing	Use any single or combination of the 50 alternatives presented that has an impact on cost, efficiency, and profitability.	Confer with other managers within your industry and region to enhance the legitimacy of these 50 alternatives to downsizing. Identify best practices to achieving the goals inherent in a downsizing strategy without downsizing.	Challenge existing mental models and schemas by taking downsizing off the table as a solution and consider other alternatives before making a decision.

As noted in Table 1, combining these three perspectives addresses the major considerations regarding the decision to downsize. The economic perspective addresses the cost and productivity concerns. The institutional perspective focuses upon the legitimacy of using downsizing, given the challenges and opportunities facing the company. The socio-cognitive perspective emphasizes the actual decision-making process of boards, senior leaders, and layoff agents given the prevailing shared mental models and norms surrounding downsizing and alternatives to downsizing.

3. Fifty Alternatives to Downsizing

We are presenting 50 alternatives to downsizing to mitigate the risk of the disadvantages highlighted and achieve the intended outcomes of downsizing by other means. This approach is based, in part, upon a model of responsible restructuring (Cascio, 2002) described below:

> "Consider other alternatives first, and ensure that management at all levels shares the pain and participates in any sacrifices employees are asked to bear. Make downsizing truly a last resort, not a first resort (page 48)."

After framing the decision as illustrated in Table 1, the next decision is to select among the 50 alternatives to meet the underlying objectives initially driving the decision to downsize.

After the decision has been made not to downsize but to frame the underlying problems in a different way, then the decision must be made which of the 50 alternatives should be implemented. Table 2 presents the 50 alternatives to downsizing. The major domains include the following: compensation/benefits; business processes; operations' organizational structure; supply chain management; training/development; and talent management. Each of the domains will be briefly described with a listing of the alternatives that fall under each domain. Most of these domains fall under the realm of human resources management.

3.1 Compensation/Benefits

The design and redesign of compensation/benefits is aligned with the economic perspective of organizational downsizing. These 17 compensation alternatives can result in the same cost reduction outcomes as downsizing itself. These nine benefits alternatives can result in the same cost reduction outcomes. Some of the cost reduction may be achieved with increasing the efficiency of the administration of benefits without resorting to a reduction in the benefits staff headcount of the benefits staff or outsourcing the benefits function.

3.2 Talent Management
The design and delivery of talent management programs are aligned with all three perspectives: economic, institutional and socio-cognitive. From an economic perspective, the outcomes to reduce costs can be met with these alternatives as well as increasing profitability, assuming that performance is improved at the individual and group level. From an institutional perspective, using a stakeholder approach, legitimacy is defined differently, depending upon the stakeholder. Some stakeholders view downsizing as legitimate and others do not. Lastly, from a socio-cognitive perspective, these six alternatives challenge the shared mental model that the de facto solution of reducing costs, increasing efficiency, and improving profitability is to extract cost out of the organization by reducing headcount.

3.4 Training/Development
Similar to talent management, training and development are aligned with all three perspectives, although for different reasons. Economically, a focus on training and development can be expected to increase the knowledge and skills of individual employees to find ways to cut costs, improve efficiency, and enhance profitability. From a socio-cognitive perspective, these two alternatives are almost counter-intuitive, as they invest resources at a time of cost reduction. However, if the outcomes of the downsizing also include improved efficiency and greater profits, then these can be wise investments.

3.5 Business Process/Operations
It is almost axiomatic in quality management that solutions to business problems can often be found in the system, not the individual. These four alternatives fit with that notion. As such, a systems approach to efficiency and performance improvement assumes that labor is only one factor leading to planned outcomes. These alternatives consider the other factors that can have positive impact on both cost reduction and increased profitability. As such, these alternatives are aligned with the economic perspective.

3.6 Organizational Structure
Complex organizational structures are more costly than streamlined structures. Streamlined does not necessarily mean reduced headcount. The structure of an organization focuses upon the ideal design given the mission and strategic goals of the organization. These six alternatives clearly fit with the economic perspective with respect to generating greater cost reductions, improving efficiency, and perhaps greater profitability. These alternatives are also aligned with the institutional perspective due to the relatively common confusion regarding downsizing and organizational restructuring. Lastly, the socio-cognitive perspective is aligned with these alternatives because one of the shared mental models is to restructure the organization primarily as a way to reduce headcount and the costs associated with these reductions rather than restructuring to increase efficiency and improve profitability.

3.7 Supply Chain Management
Supply chain management alternatives to downsizing differ from the other alternatives in that they look at reducing costs and improving efficiency by looking outside the organization. These two alternatives are clearly aligned with the economic perspective, but are not the same as outsourcing, which can be domestic or offshored. The institutional and socio-cognitive perspective to these alternatives would view them as legitimate to certain stakeholders and as a distinct mental model from outsourcing.

3.8 Revenue Enhancement
Revenue enhancement is notably aligned with the economic perspective primarily through increasing profitability in ways that promote top-line growth rather than bottom-line growth. These four alternatives are seldom seen as legitimate using the institutional perspective by stakeholders and challenge the shared mental model of cutting your way to growth as viewed by the socio-cognitive perspective.

Ten mistakes to avoid when downsizing have been identified (Cascio, 2002). These 50 alternatives represent an attempt to avoid many of these mistakes, such as the use of downsizing as a first choice, rather than as a last resort.

Table 2

Type of Alternative
A. Compensation
1. Eliminate overtime
2. Freeze salaries
3. Delay raises/merit Increases
4. Reduce hours/work week
5. Furlough days – stratified based upon salary
6. Salary reductions – lower wages but develop ESOP
7. Volunteer retirements
8. Retirement incentives/buy employees out
9. Eliminate all open positions
10. Employee incentives for identification of cost savings
11. Eliminate temporary and part-time employees
12. Postpone/eliminate bonuses
13. Offer sabbatical/leave of absence - provide some income and/or benefits, not full salary
14. Eliminate high salary positions that do not generate income
15. Cut hours of non-revenue generating employees
16. Extend payroll cycles over a specific period of time – pay monthly instead of biweekly or twice a month
17. Hire contractors rather than regular employees
B. Benefits
1. Reduce benefits
2. Pay for employee benefits only
3. Reduce overall amount organization pays for benefits
4. Eliminate expense accounts/mileage payments
5. Invest in employee health and wellness to increase performance and productivity
6. Lengthen vacations by offering time off without pay, along with normal vacation time
9. Close business over holidays like Christmas and Fourth of July
C. Talent Management
1. Freeze hiring
2. Job sharing
3. Creation of new workflows/teams
4. Identify placement of high skilled employees
5. Remove under-performing employees
6. Lend employees to other companies
D. Training & Development
1. Assist employees in launching their own business.
2. Retrain employee for new products or services
E. Business Processes & Operations
1. Ask employees for ways to decrease cost and increase business
2. Identify dollar amount of reductions needed ask employees to identify ways to meet the goal
3. Review all business process to remove excess costs
4. Leverage technology
F. Organizational Structure
1. Offer employees opportunity to buy company
2. Offer employees opportunity to share ownership of company
3. Sell company
4. Make arrangements with other employers to hire displaced workers
5. Flatten organization
6. Consolidate multiple physical locations/
G. Supply Chain Management
1. Ask your customers and suppliers how to reduce costs and improve performance and productivity
2. Make arrangements with supply vendors to hire displaced workers

H. Revenue Enhancement
1. Sell any assets
2. Move employees to revenue generating positions
3. Identify ways to increase revenue
4. Identify services that could be offered to external customers by potentially effected staff members

4. Implications

These 50 alternatives to downsizing have implications for researchers, legislators, boards/senior executives, and human resources managers. The implications for each of these groups will be presented below, beginning with researchers.

Researchers seeking to further understand organizational downsizing theoretically and empirically can enlarge the body of knowledge by incorporating alternatives to downsizing in the design of their investigations. This line of research fits with existing studies in human resources management, managerial psychology, and organizational innovation. Future researchers could explore whether organizations engaged in organizational downsizing as a last resort rather than as a first choice and whether organizations used a variety of approaches, including but not limited to downsizing, and any combination of the 50 alternatives presented here.

By creating legislation that supports training and development to meet changing business needs, legislators can help organizations to keep employees and enhance their skills and knowledge. Legislators can also design legislation that offers disincentives for downsizing or tax incentives for selecting alternatives.

As described by others McKinley and colleagues (2000), boards and senior executives are prone to mimic what other organizations do with regard to downsizing. It's a way of seeking or maintaining legitimacy by drawing upon and enacting a narrow, shared mental model. Carmeli and Sheaffer (2008) describe the limits of this type of leadership mimicry as follows, "Much like other ill-conceived and haphazardly executed strategies, this strategy is liable to prove more detrimental than helpful (page 372)." Downsizing has become the reflexive solution without much consideration to alternatives. The 50 alternatives presented here should serve to stimulate board members and senior executives to mimic these alternatives and to offer them another mental model that is more expansive than the narrow, shared mental model to downsize.

Human resources managers function as layoff agents (Parker & McKinley, 2008) must develop policies and procedures to help organizational leaders understand the alternatives to downsizing. They must challenge leadership to identify the goals and objectives of the organization so that criteria for hiring new employees include the potential to acquire new skills and the flexibility to move into alternative career paths.

When downsizing must occur, the HR manager is the one who works closely with all managers to make sure that there are plans in place to provide information, support and training to all employees – those who leave and those who remain. Any plans must reflect the core values of the organization addressing both the needs of employees who are leaving and remaining employees. A plan is created so that key information does not walk out the door due to poor selection of those who are laid off or by those who "speak with their feet" by not providing the necessary supports to those employees who are viewed as valuable to growth of the "new" organization.

5. Conclusion

Organizational downsizing is a reality in organizations of all types today and will continue to be so in the future. There are times when downsizing is necessary and appropriate. There are also times when downsizing is not the best solution. These differences should be squarely addressed by the key decision makers within organizations to lay out a decision-making model that includes alternatives to organizational downsizing.

A key contribution hopefully made here is that key decision makers have options that they can exercise if they choose. Moreover, there are a variety of options. This offers key decision makers the opportunity to begin with the 50 options presented here realizing that there are other alternatives and combinations of the 50 presented here. This also offers researchers the opportunity to empirically test the effectiveness of any of these 50 alternatives presented here.

In the end, organizational downsizing is an organizational process enacted by key decision makers who are challenged to make a complex, multi-factorial decision in the face of uncertainty. They must realize that there is a human face on organizational downsizing. The downsizing experience affects not only its targets, but also employees who survive the downsizing, and ultimately, the reputation, finances and future of the organization.

References

Budros A, 1999. A conceptual framework for analyzing why organizations downsize. Organization Science, 10 (1): 69-82.

Carmeli A, Sheaffer Z, 2008. How leadership characteristics affect organizational decline and downsizing? Journal of Business Ethics, 86: 363-378.

Cascio WF, 1993. Downsizing: What do we know? Academy of Management Executive, 7 (1): 95-104.

Cascio WF, 2002. Strategies for responsible restructuring. Academy of Management Executive, 19 (4): 39-50.

Chipunza C, Sameul MO, 2013. Effect of role clarity and work overload on perceptions of justice and job insecurity after downsizing. Journal of Social Science, 32 (3): 243-253.

Dolan S, Belout A, Balkin D, 2000. Downsizing without downgrading: learning how firms manage their survivors. International Journal of Manpower, *21 (1)*: *36-46.*

Freeman SJ, Cameron KS, 1993. Organizational downsizing: A convergence and reorientation framework. Organization Science, 4: 10-29.

Gandolfi F, 2008. Reflecting on downsizing; what have managers learned? SAM Advanced Management Journal, 73 (2):46-56.

Gandolfi F, Oster G, 2009. Sustaining innovation during corporate downsizing, SAM Advanced Management Journal, *74 (2)*: *42-53.*

Gilson C, Hurd F, Wagar T, (2004. Creating a concession climate: the case of the serial downsizers. International Journal of Human Resource Management*,* 15 (6): 1056-1068.

Greenhalgh L, Lawrence AT, Simon, 1988. Determinants of work force reduction strategies in declining organizations. Academy of Management Review, 13 (1): 241-254.

Guthrie JP, Datta DK, 2008. Dumb and dumber: The impact of downsizing on firm performance as moderated by industry conditions. Organization Science, 19 (1): 108-123.

McKinley W, Zhao Y, Rust KG, 2000. A sociocognitive interpretation of organizational downsizing. Academy of Management Review, 25 (1): 227-243.

McCune W, Sanchez CM, Schick AG, 1995. Organizational downsizing: constraining, cloning, learning. Academy of Management Executive, 9 (3): 32-44.

Parker T, McKinley, W. 2008. Layoff agency: A theoretical framework, Journal of Leadership & Organizational Studies, 15 (1): 46-58.

Tsai C, Yen Y, Huang L, Huang I, 2007. A study on motivating employees' learning commitment in the post-downsizing era: Job satisfaction perspective, Journal of World Business. 42: 157-169.

Schiro J, Baker R, 2009. Downsizing and organizational change survivors and victims: Mental health issues. International Journal of Applied Management and Technology. 7 (1): 91-121.

Roth W, 1993. The dangerous ploy of downsizing. Business Forum, 5-7.

Sronce R, McKinley W, 2006. Perceptions of organizational downsizing. Journal of Leadership & Organizational Studies, 12 (4): 89-108.

Tsai C, Yen Y, 2008. A model to explore the mystery between organization's downsizing strategies and firm performance, Journal of Organizational Change Management, 21 (3): 367-384.

Ulrich D, Lake D, 1991. Organizational capability: creating competitive advantage. Academy of Management Executive, 5 (1): 77-92.