

DOWNSIZING, RIGHTSIZING OR SMART-SIZING A POTION FOR ORGANIZATIONAL PERFORMANCE

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PURPOSE

THE present research is an attempt to investigate the phenomenon of downsizing, rightsizing, smart-sizing or layoffs in IT organizations, which are longing for performance and sustainability in the changing business environment. It identifies the prevalent downsizing practices followed in Information Technology Industry in India and explores the impact of downsizing on organizational performance, mediated through organizational citizenship behavior.

Design/Methodology/Approach: *The research design of the present study is descriptive-cum diagnostic in nature. From 10 best performing Information Technology companies chosen as 'survey population' on the basis of revenue, profit, and market capitalization, 302 samples have been selected to collect primary data for assessing the impact and efficacy of these strategies. Statistical tools like correlation, regression, and path analysis have been used for hypotheses testing. Secondary data have also been used to find out the performance of the industry.*

Findings: *An extensive literature review made in this study reveals that downsizing has been used as an organizational strategy by the firms, which directly impacts their financial performance. Similarly, organizational citizenship behavior also influences the organizational performance. But the present research discovers the impact of downsizing on organizational performance, mediated through organizational citizenship behavior. It explores how the organizational citizenship behavior of employees, especially (OCBO) is getting influenced by this employee-oriented personnel policy, which in turn affects their in-role behavior and contextual performance in the organizations. The study concluded that concurrent turbulent business environment at global and domestic front, has created various technological, economic, political and legal reasons, which compelled IT organizations to adopt downsizing or rightsizing strategy as a quick fix solution for performance enhancement. It has been found that whenever firms laid-off employees, the organizational citizenship behavior gets influenced, which has further affected the organizational performance. OCB-O parameters, namely Civic virtue, Sportsmanship and Conscientiousness determine the productivity and performance of employees in organizations. The OCB-O has emerged as a mediator between downsizing and performance. Conscientiousness, the third dimension of OCB-O, was not significantly related with the performance, whereas the other two, civic virtue and sportsmanship were significantly related. In practice, layoffs created more uncertainty and risk of losing job amongst surviving employees in the organisations, which compelled employees to comply with rules and forced commitment. As a result, in spite of downsizing, the organisational performance has improved marginally.*

Research Limitations: *The present research focuses on Information Technology sector only. The*

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requisite secondary data for sample companies have been gathered from the information available on companies' websites, so occurrence of minor discrepancy cannot be overruled. Financial performance has been associated with downsizing strategy only and other macro-economic variables responsible for performance have not been taken into account. Moreover, the study has been conducted on the basis of self-report measures of the respondents for collecting primary data, so, authenticity of the responses cannot be assured. For measurement of organizational performance, only organizational citizenship behaviour (OCB-O) has been taken into account and (OCB-I) has not been considered.

Managerial Implications: *Downsizing is not a ready solution for 'cost rationalization', as it does not only reduce the burden of regular salaries of employees, but may create other costs to the organization, in form of overtime workers' payments, expensive lawsuits filed by laid off employees, and the 'severance packages' etc. It may demotivate survivors and their work-behaviour and thus, performance can decline. Watching a colleague leaving involuntarily, other employees may also opt to leave the organization causing a loss of talent. The organizations making frequent layoffs, lose the trust of their stake-holders; which obstructs winning more projects and business expansion prospects in future. But on the contrary downsizing reinforces OCB-O, because the surviving work-force gets message and a warning as well. This increases the compliance to organizational rules by workers, improving their regularity, obedience, punctuality, and commitment. Along with it, the workers may also find such situation as growth opportunity to perform better and scale up.*

Originality Value: *Downsizing may enhance organisational performance as it improves productivity and quality relations in the organisations.*

Key Words: *Downsizing, Rightsizing, Smart-Sizing, layoffs, Global Economic Downturn, Cost Rationalization, Technological Changes.*

Introduction

The changing business environment with whirlwind downturn in global economy has left modern organizations in a dilemma, yearning for sustainability in recent years. With intensifying competition, the rules of game in business are changing very fast. Organizational structures are dismantling, business strategies are being revised, and long-life employer-employee relationships are losing their significance.

Downsizing and rightsizing have become common news in corporate corridors these days. Media reports have been apprising with regular layoffs taking place in industries like aviation, banking, information technology, hospitality, manufacturing, FMCG, and automobile, since last decade, but the IT sector has experienced more blood-bath in comparison to any other industry. Information Technology Industry of India, which used to enjoy the stature of one of the largest global IT capitals, booking aggregated revenues of US\$ 167 billion approximately, engaging around 2.8 million employees, is in doldrums. Various organizations of this industry have adopted the practice of downsizing, which started with global recession, and the report of IT companies sacking employees keep on pouring every day. As per recent news, "seven of the biggest IT firms are planning to sack at least 56,000 engineers this year, which is a number almost twice the employees laid off by the companies last year. Executive search firm Head Hunters India, also predicts that the jobs cut in IT sector will be between 1.75 lakh and 2 lakh annually, for next three years." This makes the problem more alarming and an issue to be contemplated and studied.

The rudimentary types of downsizing can be mentioned as reactive downsizing and proactive downsizing. The organizations instigate reactive downsizing in response to financial crisis emerging from external environmental changes. This type of downsizing involves layoffs in several rounds. Whereas, the second kind of downsizing is proactive. It is applied to increase long-term competitive advantage by adopting new technologies, cultivating efficiencies, skill enhancement of the work force or organizational

restructuring. This type of change is called “right sizing” or “smart-sizing” and the management has primary strategic question “what is needed to thrive in the future?” Information technology organizations are using both types of downsizing strategies in this uncertain and ambiguous environment.

For the disruptive organizational structures of IT companies, business environment has played a crucial role in the following manner:

- Global economic downturn and sluggish demand are landing Indian IT companies with fewer big-ticket projects. Other emerging global players with cutting edge technology are giving neck to neck competition. In a situation of lesser work and projects, there is more pressure on the margins and balance sheets. Companies are forced to sit back and devise strategies to restructure and recuperate.
- Radical changes in traditional technology that is cloud computing artificial intelligence, machine learning, and robotics displaced people led models.
- The protectionist policies of American government as per U.S. President Trump’s dictates to go for more localization, has created havoc to Indian IT companies. It is making HI-B visa holder Indians bag-pack to return back home.
- The upcoming corporate governance issues in various IT companies and their repercussions are shaking the trust of stakeholders. It is causing capital out-flow, making it another reason of poor performance and less profitability.
- Cost rationalization or cost cutting measures are being explored and adopted by the IT organizations to maintain their existing state of affairs. Because the revenue cannot be increased substantially, the only viable option left is to reduce cost.
- Other miscellaneous factors like shifting the dynamics of the job market, which collectively cause a snowball effect. For instance, reduction in business opportunities leading to termination of projects, companies relocating to more cost-effective locations etc. impact the employees in the same way. Development in robotics and advanced research is a new frontier which is affecting the employment landscape because human intervention may be dismissed on several fronts

Downsizing embraces not just the act of employees’ termination by the employer, but also, creates a ripple effect. It affects the internal dynamics of organization and the citizenship behavior as well. The present research study focuses on how does the organizational citizenship behaviour of employees; especially (OCBO) gets influenced by this employee- oriented personnel policy and makes impact on organizational performance in relation to productivity, profitability, and quality relations leading organizational performance.

Literature Review

An organization opts for downsizing strategy to improve its internal dynamics (Bruton, Keels, & Shook, 1996). In a study of Fortune 100 firms (DeMeuse, Bergmann, Vanderheiden, & Roraff, 2004) observed that the act of slimming the organizations’ size by laying off 10% or more of their workforce, an adverse effect was visible on their financial health, as the financial variables like Profit margin and ROA have shown a declining trend.

Marjorie, Martha, & Denise (2005) tried to pinpoint the perceived impact of organizational downsizing on quality management practices prevalent in the organizations. Downsizing separates relationships as well as tarnishes existing networks of firms (Bhattacharya, & Chatterjee, 2005) in their research. But positive reactions anticipating better opportunities for promotion and career within the organization due to lesser competitors are also another facet of layoffs. According to (Rama-Rao, 2010) in his study on the effects of dismissal and retrenchment on staff, stated that retrenchment is generally a procedure adopted by the employer to assess the business needs with an intention of limiting losses or increasing

profits via reduction in the number of its employees. According to Moss (2016) sportsmanship designates employees' willingness to tolerate difficulties at the workplace, refraining from unnecessary criticisms and complaints, conscientiousness talks about employees' adherence of workplace rules, genuine acceptance and compliance to the rules, regulations and procedures of the organization. Civic virtue denotes the active participation and constructive involvement in organizational life, such as meetings, events and functions etc. in the organization. These behavioral patterns are instrumental in exceeding mandatory attendance, housework, punctuality and productivity of employees (Paul, Bamel, & Garg, 2016).

It is difficult to make a cohesive depiction of rightsizing/downsizing and organizational performance association, because performance is the outcome of employees' behavior towards efficient and effective duty performance (Romle, Mohd Talib, & Sofian Shahuri, 2016). The attitude and behavior of workers at work place, i.e. organizational citizenship behavior reflects their commitment ensuring performance (Paul, et al., 2016).

Objective of the Study

Following objective has been set for the present study:

- To explore the impact of downsizing on organizational performance, mediated through organizational citizenship behaviour.

Hypotheses of the Study

To achieve the above-mentioned objectives following hypotheses have been formulated-

H1: Convergent downsizing would be positively related to organizational citizenship behavior (OCB-O)

H2: Organizational citizenship behavior (OCB-O) would be positively related to organizational performance.

H3: Convergent downsizing would be positively related to organizational performance.

H4: The relationship between convergent downsizing and organizational performance would be mediated through Organizational citizenship behaviour (OCB-O)

Research Design

For testing these hypotheses, an Ex Post Facto research has been conducted, followed by the correlational investigation. The research design of the present study is descriptive-cum diagnostic in nature

Universe and Survey Population

The universe of the study was 71 IT companies and 21 public listed software companies. From this universe, on the basis of revenue, profit, and market capitalization, 10 best performing Information Technology companies have been chosen as 'survey population'. These are TCS, Infosys, Wipro, Tech Mahindra, HCL, Lnt, Hexaware Technologies, Mindtree, Capegemini and Mphasis. Since, these firms possess all characteristics of the universe, these are true representative of the industry.

Sample and Sampling Techniques

Purposive non-random sampling technique has been used for the selection of the sample in the study. From 10 survey population organizations, 600 employees were identified and contacted to seek their consent for participation in the present study. Out of these, 302 extended their consent and were selected (as per inclusion criterion). Records speak, that downsizing is mainly taking place at junior level and middle level managers/ employees, whereas, senior level employees are not much affected. However, senior level managers were included for the consideration of their perception towards downsizing, and a ratio of 50:40:10 was taken up at different levels of hierarchy, respectively.

Efforts were made to include approximately 30 participants from each organization. Strict adherence to the inclusion criterion has been made for selection of sample.

Data Collection Procedure

Both the secondary data, as well as primary data have been taken into account in this study. The secondary data for the present investigation have been gathered from different sources like study books, journals, magazines, newspapers, published/ unpublished business reports, and internet. The primary data with respect to convergent downsizing, organizational citizenship behaviour (OCB-O), and organizational performance have been collected by using structured questionnaires, mailed electronically through Google docs. to the participants of the sampled organizations. For Primary data collection; convergent downsizing checklist; organizational citizenship behavior checklist (OCB-O) given by Fox, Spector, Goh, Bruursema, & Kessler (2009) and Performance checklist given by Williams, & Anderson (1991) have been used. The data have been statistically analyzed through the measures of central tendency, measures of variability, Pearson’s coefficient of correlation, regression analysis, and path analysis for testing the hypotheses and finally arriving at conclusion.

Table No. 1: Sample Distribution of the Respondents

Gender	Male	88.41% (267)
	Female	11.58% (35)
Age	25 years -30 Years	49.03% (148)
	30 years -35 Years	28.80% (87)
	35 years & above	22.18% (67)
Designation	Junior Manager/ Engineer	58.94 % (178)
	Middle Manager/ Engineer	38.74% (117)
	Senior Manager/ Engineer	02.31% (7)

Source: Primary Data

Descriptive statistics related to mean and standard deviation have been indicated in table no. 2 given below-

Table No. 2: Descriptive Statistics

Variables	No. of Items	N	Mean	Std. Deviation
Convergent DS	7	302	3.33	0.61
Civic virtue	7	302	3.48	0.64
Sportsmanship	7	302	3.59	0.59
Conscientiousness	7	302	3.54	0.75
Employee’s Performance	5	302	3.58	0.63

Source: Primary Data

Correlation Analysis

It is evident that Pearson Correlation Analysis in research studies validates the correlation occurring between the variables. In fact, it measures the significance, direction and magnitude of the relationship between the variables.

Table No. 3: Correlation among Variables

Variables	Convergent DS	Civic Virtue	Sports-manship	Conscientiousness	Employee's Performance
Convergent DS	1				
Civic Virtue	0.693*	1			
Sportsmanship	0.514*	0.709**	1		
Conscientiousness	0.182	0.645*	0.598**	1	
Employee's Performance	0.291*	0.718**	0.631**	0.527**	1

Source: Primary Data

**P* value < 0.05

***P* value < 0.01

Number of Observations: 302

From the correlation table no. 3 following observations have been made:

- **H1: Convergent downsizing is positively related to organizational citizenship behavior (OCBO)**

Downsizing is correlated positively and significantly with two dimensions of “organizational citizenship behaviour (OCBO) namely civic virtue and sportsmanship. Although the effect of convergent downsizing on conscientiousness is insignificant, it shares small relationship. Therefore, H1 is supported partially.

- **H2: Organizational citizenship behavior (OCBO) is positively related to organizational performance**

“All the three dimensions of organizational citizenship behaviour (OCBO), i.e. civic virtue, sportsmanship and conscientiousness are significantly and positively correlated to organizational performance.” Thus, H2 is supported.

- **H3: Convergent downsizing is positively related to organizational performance**

Although there is significant correlation between convergent downsizing and organizational performance, the magnitude of correlation value is just 0.291, which indicates weak establishment of correlation with respect to H3.

In Regression table no. 4, these hypotheses have been indicated as Model 1, Model 2, Model 3 and Model 4 also.

Regression Analysis

Table no. 4 depicts the results of regression analysis, which indicates that convergent downsizing can influence the organizational citizenship behavior OCBO (i.e., sportsmanship, civic virtue, and conscientiousness) and the organizational performance (In-role behavior & relationships) as well.”

The R^2 coefficients indicate the percentage of the total variance explained by the independent variables. From F values, t values have been calculated and deliberated with table values to explore that which hypothesis can be accepted or not accepted in the study.

Table No. 4: Regression Analysis

	Model 1	Model 2	Model 3	Model 4 Mediation
Independent Variable	Dependent Variable			
	OCBO	PER	PER	PER
Constant	2.35	1.50	2.96	1.71
Convergent Downsizing	0.42**		0.16*	- 0.06
Organizational Citizenship Behaviour (OCBO)		0.53**		
P value	0.00	0.00	0.02	0.15
F value	44.29	80.04	5.76	1.12
R ²	0.18	0.28	0.03	0.19
Adjusted R ²	0.17	0.27	0.02	0.17
D-W	1.72	1.76	1.89	1.68
Number of observations = 302 * p value < 0.05 **p value < 0.01				

Source: Primary Data

The coefficient of Model 1 is significant overall, as it was found that the value of β_a is 0.42. Calculated t value is 6.65 which is less than table value and p value < 0.05. It supports hypothesis H1, meaning that convergent downsizing has significant and positive influence on organizational citizenship behaviour.”

The coefficient of Model 2 i.e. β_b is 0.53 and p value < 0.05, which means that OCBO & performance are significantly and positively related. Calculated t value, which is 8.95 has been found to be less than its table value justifies and accepts hypothesis H2.

The coefficient Model 3 reflected through the values of β_c , which is again 0.16. It has been observed that p value < 0.05, which is significant. Calculated t value is 2.40 was again found to be greater than its table value. This means that convergent downsizing & performance both are significantly and positively related, but relationship is weak as value of β_c is very small.

H4: The relationship between convergent downsizing and organizational performance is mediated by organizational citizenship behaviour (OCBO)

Model 4 of the table is an expression of Hypothesis 4. The coefficients of Model 4 are negative and insignificant as β_d is -0.06 and p value > 0.05. This indicates mediating effect of OCBO on performance. The t value is 1.06 again greater than its table value and we fail to reject hypothesis 4. This analysis indicates that the convergent downsizing significantly and positively influences the performance. In other words, when the firms downsize, the degree of their performance increases. Thus, it lends support to Hypothesis 4 that the layoffs in an industry influence organizational performance. The variables of OCBO, sportsmanship, civic virtue and conscientiousness create an influence on In-role behaviour and contextual performance of the firms.

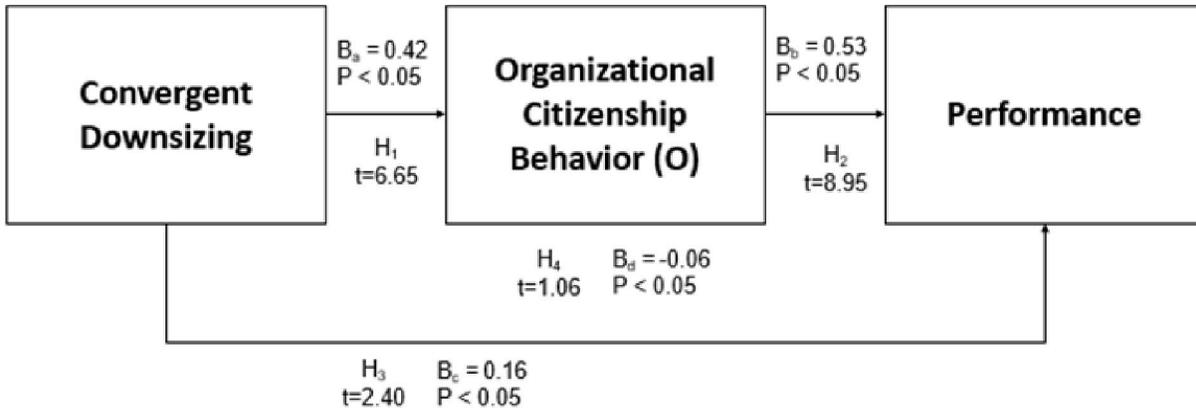


Figure No. 1: Path Analysis indicating the Mediating effect of OCBO

Source: Primary Data

Whether downsizing influences organisational performance through OCBO or not, can be determined by studying figure no. 1.” Taking the four conditions of hypotheses as the basis (Barron, & Kenny, 1986), figure no. 1 indicates the results of mediator-path-analysis. According to figure no. 1, the regression analysis includes correlation coefficients in path diagram ($\hat{\alpha}$ $\hat{\beta}$ $\hat{\gamma}$ $\hat{\delta}$). The effects of downsizing on OCBO is ($\beta_a = 0.42$, $t = 6.66$ and p value < 0.05). The effects of OCBO on organizational performance is ($\beta_b = 0.53$, $t = 8.95$ and p value < 0.05). The effect of downsizing on organizational performance is ($\beta_c = 0.16$, $t = 2.40$ and p value < 0.05). All of these are significant. Moreover, the indirect effect of downsizing on performance is insignificant, as it is being observed that ($\beta_d = -0.06$, $t = -1.55$ and p value > 0.05). Therefore, the originally significant direct effect path becomes insignificant after including the mediator which matches conditions 1 to 4 from (Barron and Kenny, 1986), indicating the possible existence of mediating effects in the model. This demonstrates downsizing is affecting OCBO, which again can improve the organisational performance. Therefore, these results support the hypothesis 4.

Major Findings

The key findings of this research study are:

1. When firms lay-off manpower, the citizenship behaviour in the organisation gets affected as per hypothesis H1.
2. With the introduction of downsizing, the dimensions of OCB-O, that is civic virtue, sportsmanship and conscientiousness, get affected and so these can influence the contextual performance or in-role behaviour of workforce. This reinforces and supports Hypothesis H2.
3. Due to retrenchment and downsizing, firms directly influence organisational performance with positive and significant effects through cost rationalizing and effectively utilising the existing resources. They can easily get more productivity and profitability by effective and efficient utilization of human resource. This is reflected by significant positive effects of downsizing on contextual performance or organisational performance, supporting hypothesis H3.
4. The firms engaged in downsizing reflect better performance due to improved OCBO. In practice, layoffs create more uncertainty and risk of losing job amongst surviving employees in the organisation, which leads to better adherence to rules and forced commitment. As a result, the citizenship behaviour improves, and in spite of layoffs, the organisational performance improves.

Thus, OCBO indirectly influences the contextual performance of employees and organizational performance in general. This observation supports Hypothesis H4.

Discussion

The finding of the study reflects positive relationship between downsizing and performance; which does not match with the opinions of (Cameron, Kim, & Whetten, 1987). But, results of this study fall in line with (Weitzel, & Jonsson, 1989) considering downsizing as a strategic change for determining organizational performance and downsizing may not necessarily negatively affect the survival and performance an organization. The uncertainty and insecurity about keeping their positions intact has created anxiety among employees and it might have affected their performance. Both the 'core' and 'discretionary' behaviors of employees (Van Scotter, & Motowidlo, 1996) have undergone changes to improve their performance.

As per the study of (Marjorie, et. al, 2005) the employees in downsized organizations generally display significantly lower employee level quality management practices of employee commitment, empowerment and job security, which result in poor performance. But, the results of present study do not go along with these approaches, rather it is revealed that the affective commitment guided by organizational citizenship behavior OCBO influences the in-role behavior of employees in organizations But, (Podsakoff, Whiting, Podsakoff, & Blume, 2009) hold a view that the diligent employees, who go 'beyond the minimum requirements of their job description', decrease inter-group conflicts, increase commitment, reduce inconsistencies and display efficiency, help in increasing organizational performance. The behavioral patterns reflected through OCBO facilitate the required levels of attendance, punctuality and productivity of employees; (Paul, et al., 2016), which stimulates smooth functioning of work flows in modern organizations leading to better performance. In spite of the fact that it is difficult to represent a single, integrated picture of downsizing and organizational performance relationship, because performance is the consequence of employees' behavior towards efficient and effective duty performance within and outside the organization (Romle, et al., 2016); it has been noticed the employee performance has definitely been affected positively, by improved OCBO in the organizations. Perhaps it is due to "fear of losing job", because it is said "*fear is the best motivator*".

Scope for Future Research

Organizational downsizing is becoming a universal characteristic of modern organizations with recessionary trends creeping in many more industries like Aviation, Manufacturing, Infrastructure and Automobile etc. But little scholarly literature has addressed the processes and outcomes associated with this phenomenon at the organizational level. Therefore, future researchers are suggested to investigate other unexplored facets of the strategy of Downsizing or Rightsizing, to boost the performance and growth of organizations.

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