Learning from the Past – Downsizing Lessons for Managers

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Abstract

Downsizing as a change management strategy has been adopted by companies and governmental agencies since the 1970s. While workforce reductions were utilized mainly in response to organizational and economic crises prior to the mid-1980s, downsizing developed into a proactive restructuring strategy of choice for a multitude of organizations in the mid- to late-1980s. Since then, downsizing has transformed the corporate landscape and changed the lives of hundreds of millions of individuals around the world. While downsizing has attracted a lot of attention in academic circles, the business community, and the popular media, many misconceptions and mysteries surrounding the phenomenon have remained. This research study presents an overview of the reported financial, organizational, and human consequences following the conduct of downsizing. More importantly, the paper draws out implications for practicing managers and showcases four downsizing lessons that need to be considered by executives contemplating the adoption of downsizing.

Keywords: Downsizing, strategy, consequences, lessons

Introduction

Corporate downsizing as a change management strategy has been adopted for more than two decades (Williams, 2004). Back 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 & 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 & Mavondo, 2004). Over the years, this strategy has generated a great deal of interest among business scholars, managers, and the popular press. While some suggest that the research-based body of knowledge is still relatively underdeveloped (Macky, 2004), others maintain that there continues to be a great deal of confusion and perplexity surrounding downsizing (Gandolfi, 2006). While the adoption of downsizing has remained popular (Maurer, 2005), there is significant empirical and anecdotal evidence suggesting that the overall consequences are negative at best and disastrous at worst.

The purpose of this article is to present an overview of the consequences of downsizing. At the very heart of the inquiry are the following questions: Does downsizing work? Have firms been able to reap the much anticipated benefits? Does downsizing produce unexpected 'after' effects? In other words, what do we know about the overall effects of downsizing? The paper then seeks to draw out implications for practicing managers and showcases four downsizing lessons that need to be considered by executives contemplating the adoption of downsizing.

Background of Downsizing

Charles Handy first predicted that the technological revolution, which was beginning to make its force

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felt back in the mid-1970s, would transform the lives of millions of individuals through a process he termed "down-sizing" (Appelbaum, Everard, & Hung, 1999). Clearly, while few understood and appreciated his prediction at the time, we now know that downsizing has been used widely as a managerial tool in corporations and governmental bodies around the world (Macky, 2004). The downsizing literature reveals that firms have adopted and implemented downsizing as a "reactive response to organizational bankruptcy or recession" (Ryan & Macky, 1998) and proactively as a human resource (HR) strategy (Chadwick, Hunter, & Walston, 2004). Reflecting upon the pervasiveness of the phenomenon, it is evident that downsizing has attained the status of a restructuring strategy (Cameron, 1994) with the firm intent of attaining a new level of competitiveness (Littler, Dunford, Bramble, & Hede, 1997).

Downsizing is not a new phenomenon. Downsizing came into prominence as a topic of both scholarly and practical concern in the 1980s. It became a management 'mantra' (Lecky, 1998) in the 1990s which subsequently became known as the "downsizing decade" (Dolan, Belout, & Balkin, 2000). Accordingly, downsizing has literally transformed hundreds of thousands of firms and governmental bodies and the lives of tens of millions of employees around the world (Amundson, Borgen, Jordan, & Erlebach, 2004). The concept 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 countries like the US, the UK, Canada, Europe, Australia, New Zealand, and Japan (Littler, 1998; Gandolfi & Neck, 2003; Farrell & Mavondo, 2004; Macky, 2004).

While a single definition of downsizing does not exist across studies, it is clear that downsizing means a contraction or shrinkage in the size of a firm's workforce. According to Cascio (1993), downsizing is "the planned eliminations of positions or jobs" whose primary purpose is to reduce the workforce. A myriad of terms have been used in reference to downsizing, including 'resizing' and 'rightsizing' (Gandolfi, 2006), which have further contributed to a general sense of mystification and suspicion about the motive of downsizing.

Downsizing has occurred across industries (Macky, 2004). While manufacturing, retail, and service have accounted for the highest levels of downsizing, it is evident that downsizing took place in both the private and public sectors (Dolan, Belout, & Balkin, 2000). Moreover, downsizing statistics show a sobering picture. For instance, the US Bureau of Labor Statistics (BLS) reported that more than 4.3 million US jobs were cut between 1985 and 1989 (Lee, 1992). The New York Times reported that more than 43 million jobs had been eliminated between 1979 and 1996 (Cascio, 2003). It was reported that 85 % of the *Fortune 500* firms downsized between 1989 and 1994 and 100 % were planning to do so in the following five years (Cameron, 1994). There is substantial evidence suggesting that downsizing has continued to be a popular strategy across industries (Sahdev, 2003) and around the world (Mirabal & DeYoung, 2005).

What are the downsizing driving forces? Why do firms resort to downsizing in the first place? While downsizing is viewed as a complicated, multifaceted phenomenon (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 is likely to constitute a combination of company-specific, industry-specific, and macroeconomic factors (Drew, 1994). Firms frequently justify downsizing through the emergence of deregulation, globalization, merger and acquisition (M&A) activities, global competition, technological innovation, and a shift in business strategies in order to achieve and retain competitive advantages (Sahdev, 2003; Zyglidopoulos, 2003).

How do organizations implement downsizing? Three forms of implementation strategies have been identified; workforce reduction, organization

redesign, and systemic strategies (Farell & Mavondo, 2004). First, the workforce reduction strategy concentrates on the reduction of the overall number of employees, including layoffs, retrenchments, natural attritions, early retirements, hiring freezes, golden parachutes, and buyout packages. This strategy is commonly implemented in a reactive manner as a cost-cutting measure (Ryan & Macky, 1998), yet has shown to be rarely successful. Second, the organization redesign strategy focuses on eliminating work and includes activities, such as abolishing functions, eliminating hierarchical levels, redesigning tasks, and consolidating units (Farell & Mavondo, 2004). Third, the systemic strategy assumes a more holistic and macro view focusing on changing the organization's intrinsic culture and the attitudes and values of its employees (Luthans & Sommer, 1999). Studies have shown that most firms have resorted to workforce reduction strategies (Cameron, 1994; Gandolfi, 2005).

The Effects of Downsizing

The adoption of downsizing has profound financial and human consequences. This has been covered extensively in the literature. A closer analysis of the effects that have manifested in the wake of downsizing presents a complex picture with the following questions emerging:

- Is downsizing an effective strategy?
- Does downsizing lead to improved financial performance?
- Have downsized firms been able to reap the anticipated financial improvements?

Unequivocally, the overall picture of the reported financial effects of downsizing is bleak. While a few firms have reported some financial improvements, the majority of surveyed firms have been unable to report improved levels of efficiency, effectiveness, productivity, and profitability (Sahdev, 2003; Zyglidopoulos, 2003; Macky, 2004). Table 1 presents a non-exhaustive overview of some of the main studies carried out and their respective findings.

Unequivocally, cross-sectional and longitudinal evidence portray an overwhelmingly negative picture of the financial consequences following downsizing. Thus, the following conclusions can be made:

- Firms adopting downsizing strategies may not reap the widely anticipated 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 following downsizing, there is no empirical evidence to suggest that there is a correlation between downsizing and improved financial performance;
- Some firms have reported positive financial indicators in the short term, yet the long-term financial consequences of downsizing have shown to be consistently negative.

The execution of downsizing is not limited to financial consequences. There is a significant body of literature showcasing that downsizing has profound human consequences on the workforce, the so-called 'aftereffects' and 'side-effects' of downsizing (Zemke, 1990; Littler et al., 1997). There are three categories of people directly affected by downsizing, that is, survivors, victims, and executors. A downsizing survivor is an individual that remains with the firm, a victim is a person downsized out of a job involuntarily, while a downsizing executor is a person entrusted with the implementation of downsizing (Gandolfi, 2006). Table 2 showcases the three categories of affected people with some of the major research findings.

Intuitively, while it could be presumed that it is better to be a downsizing survivor rather than a victim, is there evidence to support that notion? Does downsizing practice show that it is better to be a victim than a survivor? Do survivors ultimately turn out to be the victims?

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 articulated 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, & Sharma (1991)	Examined the impact of downsizing announcements on stock returns for a sample of 194 firms that announced layoffs during the period of 1979-1987. They examined the stock returns of companies for the period 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 firms citing financial distress as the reason for downsizing, stock values declined an average of 5.6 % over the same period.	• Negative market reaction following downsizing announcements • Declining stock values post-downsizing
De Meuse, Vanderheiden, & 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 & Koonce (1995)	Carried out a US 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

(Contd. . .)

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, & Morris (1997)	Studied financial data from the Standard & 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 & Koonce (1995)	Reported that 68 % of all downsizing activities had shown to be financially unsuccessful in that firms that downsized and restructured specifically to become more profitable and efficient realized neither outcome. They concluded that downsizing outcomes were "tremendous disappointments" (Williams, 2004) that have fallen well short of expectations.	• 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 have shown a consistently negative financial picture in that six out of ten downsized firms have failed to cut overall costs or increase productivity.	• 60 % of firms failed to cut costs • 60 % of firms failed to increase productivity
Appelbaum, Everard, & 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, ten 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, & 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	• Firms with stable employment

(Contd. . .)

	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 a period of 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.	outperformed firms with downsizing • Firms that upsized outperformed firms with stable and downsizing workforces • No correlation between downsizing and improved financial performance
Griggs & Hyland (2003)	Washington DC-based 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 were able to cut overall costs, fewer than 33 % increased profitability, and only 21 % were able to report satisfactory improvements in shareholders' ROI.	• 54 % of firms failed to cut costs • 66 % failed to increase profitability • 79% failed to show satisfactory ROI
De Meuse, Bergmann, Vanderheiden, & 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 non-cutters up to 2 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 non-listed companies employing 50 or more people, showed that firms that had downsized between 1997 and 1999 financially under-performed 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-cutters outperformed downsized firms financially • No correlation between downsizing and improved financial performance

Source: Developed for this research

Table 2: Downsizing Categories of Affected People

Categories	Research 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, namely, 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 was in line with data from the US 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 themselves 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. Moreover, survivors expressed feelings of anger and disgust that their peers were downsized and felt a sense of guilt that they themselves were not directly involved in the downsizing. The survivors also believed that their co-workers performed at least as well	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 towards management Sickness #2: Survivor guilt • depression • fear • anger

(Contd. . .)

	or even better than the survivors did. 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 are able to obtain special retirement packages, financially lucrative incentives, and new jobs with more attractive compensation.	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 & 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 & 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).	Psychological effects • psychological stress • ill health • family and problems • reduced self-esteem • psychiatric morbidity • depression • helplessness and anxiety • feelings of social isolation Other effects • damage to career • loss of earning power • feelings of cynicism, uncertainty, decreased levels of commitment and loyalty in future employment
Downsizers	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. This constitutes a research gap. There is some evidence suggesting 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 & Dufresne, 2004).	Psychological effects • Similar effects as victims and survivors Emotional effects • Similar effects as victims and survivors

Source: Developed for this research

Determining and comparing the symptoms exhibited by victims and survivors, Devine, Reay, Stainton, and Collins-Nakai (2003) stress that surviving downsizing is difficult given the high levels of stress experienced by survivors compared to the victims. The argument partly rests on the disparity in resources available to victims compared to those available to survivors. Victims commonly receive transition packages and outplacement services, while survivors tend to receive very little if any resources and support (Gandolfi, 2006). Devine et al. (2003) compared the outcomes for displaced and continuing employees indicating that the victims who found employment post-downsizing reported considerably more positive outcomes than did employees 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, the so-called side or aftereffects of downsizing;
- Downsizing impacts the entire workforce, survivors, victims, and executors, 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 sicknesses during the process of downsizing;
- Executors suffer from similar effects as victims and survivors.

Downsizing lessons - What have we learned?

Given the cross-sectional and longitudinal evidence available, it is safe to say that firms and governmental agencies have failed to reap the widely anticipated financial gains following the conduct of downsizing. Additionally, downsized firms have encountered considerable human consequences. At the same time, there is sporadic evidence indicating that a few firms have engaged in practices that generated positive overall downsizing effects. What downsizing lessons can we deduce? Is it possible to determine 'good' or 'best' downsizing practice? What is the key to successful downsizing?

It is important to note that the reduction of workforces *per se* is not new. Firms have always encountered workforce fluctuations, particularly as reactive measures to economic crises, such as responses to recessions or organizational bankruptcy (Ryan & Macky, 1998). This was also the prevailing paradigm prior to the mid-1980s. However, the tide turned half way through the decade 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) for a multitude of organizational entities. Paradoxically, this unprecedented development took place despite the absence of downsizing successes.

An in-depth study of the literature reveals profound implications for the downsizing practice. The following are four downsizing lessons that need to be drawn out for practitioners based upon empirical evidence and case study research:

Downsizing Lesson # 1: Preparation

There is substantial evidence supporting the assertion that the majority of firms conducted downsizing without adequate HR plans, policies, and programs in place (Lee, 1992; Cascio, 1993; Appelbaum, Delage, Labibb, & Gault, 1997; Gandolfi, 2001). Firms were also inadequately

prepared for downsizing and severely neglected the survivors (Doherty & Horsted, 1995; Allen, 1997; Gandolfi & Neck, 2003). This apparent state of 'unpreparedness' is likely to explain, to some degree, why firms have not been able to implement downsizing successfully. This brings forth considerable implications for managers. Why and how should executives prepare their companies for downsizing? Cameron (1994) draws attention to a North American firm that introduced a new HR system (i.e., plans, policies, and programs) for all employees one year *prior to* the announcement of downsizing. As a result of this proactive measure, the firm reported positive financial and organizational outcomes following downsizing with minimal disruption and pain among the surviving and departing workforces. This example demonstrates that proactive preparation for downsizing is likely to positively contribute to the overall state of preparedness for the firm for any major change activity.

Thus, the first implication for managers is to strategically plan and proactively prepare the firm for downsizing. Executives will need to ensure that the firm's culture is capable and willing to embrace major change successfully. Proactive preparation and changes in a firm's HR system will contribute to an organization's attaining 'change readiness'. Clearly, this is a key requirement for successful downsizing and likely to represent an indispensable factor of most major organizational change endeavors.

Downsizing Lesson # 2: Specific training

Confirming and expanding Cameron's (1994) work, Gandolfi (2006b) found that Australian banks were ill-prepared for downsizing and failed to provide adequate training, support, and assistance to survivors. He reported that while the workforce generally received job-specific professional training and development (T&D), the provision of personal development and growth (PEDG) during downsizing was limited to managerial employees. Gandolfi (2006b) demonstrated that PEDG, which consists of physical lifestyle, mental capacity, and emotional growth, was found to have the potential to proactively prepare the workforce for change, to positively impact individuals during downsizing, and to enable the workforce to cope with downsizing successfully. Table 3 shows an overview of the three categories of PEDG based on Australian firms' current PEDG practices:

There are a number of studies reporting that survivors lack training, support, and assistance during and after the implementation of downsizing (Appelbaum et al., 1997; Gandolfi, 2006). This is remarkable given the empirical findings that survivors commonly face new and increased job responsibilities (Mitchell, 1998), experience increased overall workloads (Dolan et al., 2000), and are driven to work harder after downsizing (Makawatsakul & Kleiner, 2003). Would it not make sense for the survivors to receive the much needed and deserved specific training, support, and assistance in the wake of this newly-found reality?

Thus, the second implication for managers is to ensure that firms invest in their workforces proactively and to provide training, support, and assistance during the whole downsizing process. Without a doubt, a thoroughly prepared and adequately equipped workforce is more likely to be able to cope with and thrive after downsizing.

Downsizing Lesson # 3: The survivor syndrome

The emergence of survivor sicknesses is often referred to as 'aftershocks' (Zemke, 1990), 'aftermath' (Clark & Koonce, 1995), or the 'downside' (Cascio, 1993) of downsizing. The remaining employees play a significant role during downsizing in the sense that they either facilitate or impede the outcomes (Mishra & Spreitzer, 1998). This is a profound insight. Studies have shown that the absence of financial success following downsizing is frequently accompanied by the emergence of survivor illnesses. Scholars remain puzzled as to why firms have continued to 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 were seen as part of the solution rather than part of the problem? Downsizing scholars have studied the survivor syndrome and the individuals' exhibited behaviors at the workplace. To sum up the findings, many survivors exhibit work behaviors and attitudes that are "dysfunctional" (Beylerian & Kleiner, 2003) to the firm and to the individuals' work performance. 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 their ensuring long-term problems (Devine et al., 2003).

Clearly, executives need to pay considerably more 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 phases (Gandolfi, 2001). Thus, the third implication for managers is 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).

Downsizing Lesson # 4: Counting the costs

Empirical studies have long shown that there are considerable financial costs associated with the conduct of downsizing. Research conducted by the University of Colorado reveals that the direct and indirect (i.e., hidden) costs of downsizing are frequently underestimated (Gandolfi, 2001). In fact, there is some evidence suggesting that downsizing costs can minimize or even negate any productivity gains (Littler et al., 1997). Longitudinal data from Australian, South African, and New Zealand firms show that "no gain" would translate when the extra costs associated with the downsizing were factored in (Gettler, 1998). Table 4 presents an overview of the direct and indirect costs in relations to the execution of downsizing.

The planning and implementation of downsizing produces considerable costs for the firm. In 2006, for example, 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). Thus, the fourth implication for managers is to be fully

Table 3: Firms providing Personal Development and Growth (PEDG)

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 (EI)

Source: adapted from Gandolfi (2006b)

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)

aware that downsizing is 'costly' (Cascio, 1993) in that it generates direct and indirect costs. It is the indirect (hidden) costs that firms generally underestimate. A European-based 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 offset the minimal productivity savings achieved through downsizing (Gandolfi, 2001).

Conclusive Remarks

Downsizing remains a complex, multifaceted phenomenon. While many valuable lessons have been learned over the past three decades, the active adoption and practice of downsizing has continued despite the absence of financial and organizational successes. This paper has presented a review of the overall consequences of downsizing. Unequivocally, the practice of downsizing has profound negative consequences for all constituencies. The paper showcased four key downsizing lessons that need to be considered in a quest to successfully plan and execute downsizing.

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