A model to explore the mystery between organizations’ downsizing strategies and firm performance

Integrating the perspectives of organizational change, strategy and strategic human resource management

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Abstract

Purpose – Downsizing in organizations is a popular management strategy. However, in the field of organization change, the question of whether downsizing practices eventually improve performance is frequently asked and is never satisfactorily answered. The consequences have not always materialized over these years. On the negative side, downsizing harms employees, their families, and at the same time causes social chaos. The possible answers could be the ignorance of some important mechanisms between them. The paper aims to explain this issue.

Design/methodology/approach – The paper applies the dynamic strategy capabilities concept from the strategy research field and strategic human resource management (SHRM) practices concept from the SHRM research field.

Findings – A consolidated model is established to explain the relationships among these variables.

Originality/value – The model is expected to provide significant implications for thought leaders to reflect on the topics regarding organizations’ changes, firm’s strategies and SHRM system and social issues.

Keywords Downsizing, Human resource management, Organizational structures, Corporate strategy

Paper type Conceptual paper

Introduction

In order to survive and prosper in a rapidly changing environment, firms have to consistently use strategies of various types and levels to become more competitive and profitable. From the 1980s to the present, organizational downsizing has been one of the most popular radical management strategies in the world (Fisher and White, 2000; Mckee-Ryan and Kinicki, 2002; Cascio, 2002; Landry, 2004). Although researchers have focused on the field of organization change for years, the investigations concerning downsizing have not shown ample supportive proof that downsizing would improve firm performance. Consequently, organizational downsizing has become a contentious
issue among firms (Chadwick et al., 2004; Landry, 2004). No matter whether downsizing is a panacea or paradise lost (Lowe, 1998), it has harmed thousands of employees economically, physically, and psychologically. Additionally, it also brought negative impacts to numerous families, and even created social tension and chaos (Naumann et al., 1995; Naumann, 1998; Mckee-Ryan and Kinicki, 2002). Special attention should be paid to this social phenomenon. Possibly, some significant mysteries between downsizing strategies and performance have been frequently neglected in both academic and practical management fields. Christensen and Raynor (2003) used to give a warning in their writing: the mechanism between the cause and the effect was significant to the development of academic theories and the applications of firms. Once it was left out, explanations as to the cause and effect could be misleading. Therefore, after reviewing the literature on organizations’ change, strategy, and strategic human resource management (SHRM), this paper aims to establish a consolidated model of responsible downsizing strategy. It is expected to contribute to the future development of downsizing theory and its related topics as well as having practical applications in management.

After reviewing the literature on organizations’ change, strategy, and SHRM, this paper aims to establish a consolidated model of responsible downsizing strategy. In this model, not only dynamic strategic capabilities and SHRM system are introduced as the important interventional variables between responsible downsizing strategy and firm performance, but we also suggest that stakeholders’ influencing strategies and workforce performance (employee’s individual level) should be included as the considerable variables. It is expected to contribute to the future development of downsizing theory and other related topics as well as having practical applications in management.

**Responsible downsizing strategy**

**Definition of downsizing**

Since the beginning of the 1980s, quite a few scholars, such as Appelbaum et al. (1987), McKinley et al. (2000), and Cascio and Wynn (2004) have defined downsizing in slightly different ways. The term which various scholars used to describe organizations' downsizing has likewise been different. Some termed it downsizing, organization downsizing, business downsizing; others called it reorganization, right-sizing, de-layering, restructuring, redundancy, rationalization, redesigning, revitalization, etc.

We synthesize the key points and redefine downsizing as “a set of managerial actions taken by firms aiming to adjust to environmental changes, overcome management difficulties, improve efficiency increase productivity and competitiveness.” The means include cost reduction, restructuring and workforce reduction. Nevertheless, workforce reduction was the major way or even used as the last resort. This was because downsizing was intended to deliberately reduce the organizations’ workforce (Freeman and Cameron, 1993; Prahal and Hamel, 1990; McKinley et al., 1995; Freeman, 1999).

**Motivation of downsizing**

Since the end of 1980s, most of the literature concluded that organizations’ decline or loss in profit were the principal reasons for downsizing (Greenhalgh et al., 1988; McCune et al., 1988; Love and Nohria, 2005). As a matter of fact, an organization’s
decline was not necessarily the only reason for downsizing; for instance, firms hoped to increase competitive advantages and develop technologies. Under the business environment of global economy, the trends of mergers and acquisitions and the pursuit of scale economies urged firms to execute downsizing since the 1990s (Hirschman, 2001; Tsai, 2001). Since 1993, business process reengineering (BPR) was widely used and also caused the fad of organizations' downsizing. The new business processes developing from re-engineering would detect the redundant workforce (Champy, 1996). Meanwhile, the internal skills relocation targeting to meet environmental needs, out-sourcing strategy, and the increased frequency of hiring temporary employees has also enhanced the popularity of downsizing (Cascio, 2002). However, a group of researchers considered downsizing was driven by social factors.

Mckinley et al. (1995, 2000) proposed that downsizing was caused by three institutional external social forces: constraining (downsizing decision from top management), cloning (imitation), and learning (e.g. through MBA courses). Managers implement downsizing due to the influences of social factors. It is because downsizing has been perceived as an institutionalized norm with its legitimacy. The following research supports institutionalization as a reason for downsizing: Budros (1999), Lamertz and Baum (1998), Mentzer (1996). Budros (1999) pointed out that some irrational external factors, such as institutionalization, social network (e.g. certain practices have been commonly perceived as an effective method) and irrational internal factors such as organizational culture and the traits of leaders also affect the scale of downsizing.

In 2000, Mckinley et al. further mentioned the motivations for organizations' downsizing were the results from a socio-cognitive process. They asserted that managers usually agreed that downsizing was an effective and inevitable strategy via collective socialized process. Consequently, they could possibly end up ignoring the various backgrounds of the firms, conditions and the original concepts toward downsizing. The institutional theory of downsizing has divided the motivation into three categories, namely, economic, institutional, and socio-cognitive factors. Huang and Tsai (2005) established from downsizing research in Taiwan that stagnancy or a decline in profitability, new management models, and employees who did not offer competitive advantages were the radical reasons causing firms to downsize. In addition, with other institutional factors, such as decisions from top management; downsizing has become a widely recognized paradigm, and firms learn/imitate the actions of benchmark enterprises. An empirical research study by Tsai et al. (2006) demonstrated that the reasons for downsizing mingled with economic, institutional and socio-cognitive factors. Yet, the economic factor was the major one. On the other hand, the pursuit of efficiency and efficacy was the basic reason behind their downsizing strategies and actions. After all, the main purpose of firms' downsizing actions was the desire to improve performance.

**Downsizing strategies**

The present literature in the organization change field points out that the final results of organizations’ downsizing are strongly linked to the original downsizing strategies. Rigby (2002) marked that among the firms whose share price increased in the stock markets after downsizing, the firms which applied cost reduction as the downsizing strategy had the least satisfactory results (with only a 2 percent increase in share price).
On the one hand, the downsizing strategy of synergy creations led to a 9 percent increase; on the other hand, the strategy of organizations’ reorientation increased by 13 percent. In the following, we have summarized the significant types of downsizing strategies from the literature review.

Hierarchy of workforce reduction strategies. Greenhalgh et al. (1988) proposed a model of downsizing strategy’s decisive factors. It was a tool to analyze downsizing strategies. They proposed that firms would select strategies from different levels (i.e., strict to lenient) taking into account the characteristics of redundancy and the background factors. The levels of strategies included natural attribution strategy, induced redeployment strategy, involuntary redeployment strategy, layoff strategies with outplacement assistance, and layoff without outplacement assistance. Hence, downsizing research often uses the above strategies as the basis when exploring various downsizing strategies (Cameron, 1994; Freeman, 1999; Cascio, 2002).

Three strategies of downsizing based on organizations’ degree of change. Freeman and Cameron (1993) and Freeman (1994) suggested that downsizing not be misused to represent negative actions when facing an organization’s decline or environmental difficulties. Most importantly, the effectiveness of the downsizing process, and the situations of organizational change should be emphasized. They have proposed two kinds of downsizing strategy, convergence and reorientation strategy. Cameron et al. (1993) have further divided the strategies into three categories based on the degree of change caused by the downsizing actions. They were termed the workforce reduction strategy, work redesign strategy, and systematic strategy which eventually changed the organization to the largest extent. Cameron (1994) additionally suggested that firms could choose a sole strategy or more than one to execute downsizing; meanwhile, Huang and Tsai (2005) also verified that firms generally used more than two downsizing strategies. For example, they could reduce the workforce firstly, then redesign the work or change it dramatically and vice versa. Alternatively, they redesigned or changed dramatically firstly, then cut down the workforce, or did the three actions simultaneously.

Social institutional downsizing strategy. The institutional theory of downsizing (McKinley et al., 1995, 2000) has shown that due to social factors, many firms approve of downsizing as an effective management method. Gradually, managers adopted similar downsizing strategies, such as providing job-seeking consultation, notification to the laid-off prior to the release of the downsizing decision. From the perspective of the institutional theory of downsizing, the institutional factors not only affected the inner motivations of actions, but also the external behaviors. Conclusively, firms operated under the structure of social norms, values, appropriate structure and economic behaviors. The entire range of business practices, such as human resource management practices, would develop based on the reality of the social structure and would eventually gain legitimacy (Oliver, 1997). The institution was a process which formed a rule-like norm via a socialization process, obligations or the practical social mentality and actions (Meyer and Rowan, 1997). The more willing the individuals within organizations were to accept the shared norms, the more institutionalized they became (Scott, 1987). Meanwhile, firms would conform to social expectations when their isomorphism behaviors met the social norms. Thereby, the legitimacy of different behaviors, the increase in resources and survival capabilities would help organizations to survive and succeed (Carroll and Hanman, 1989; Oliver, 1997; Yeh, 2000). Inevitably, the firms'
downsizing behaviors would be constrained by external institutions and take similar approaches. Empirical research from Tsai et al. (2005a) done on Taiwanese firms showed the comparisons between firms’ downsizing strategies and found there was no significant differences between organizations’ downsizing strategies and other strategies aiming to cope with the influences from the stakeholders.

Alternative strategy. Some argued that an alternative strategy of downsizing could be more appropriate than downsizing and laying-off directly. The concept was mentioned since the end of 1980s (McCune et al., 1988; Ulrich and Lake, 1991). The strategy was more humane and included the terms previously discussed by Greenhalgh et al. (1988), such as reduction of promotional opportunities, demotions of supervisory positions to non-supervisory ones, salary freeze, curtailed working hours, two shared one job, no paid leave, early retirement with preference packages, etc. Cascio (2002) also took Cisco and Motorola as examples to illustrate that when the economy was stagnant; firms paid key employees a partial salary and re-allocated them to work for non-profitable organizations. In one way, they could continue to serve society, in another way, it was a mutually beneficial alternative strategy. Corporate Finance (2002) used the financial viewpoint to workout the results of the alternative strategy. He successfully to use alternative strategies to reduce costs other than downsizing, and eventually was able to keep valuable intellectual employees.

Comprehensive downsizing strategy. After studying the downsizing strategy of the car manufacturing industry in 1994, Cameron proposed a 30-itemed-prescription for successful downsizing. He suggested an across-the-board, quick-hit, grenade-type downsizing strategy would cause organizations to lose their abilities and performance would deteriorate. To sum it up, firms should analyze systematically before downsizing, encourage employee participation, communicate clearly and apply higher level quality management. These endeavors would lead to more positive final results. A successful downsizing should take every aspect into account, e.g. approaches, preparations, employees’ participations, leadership, taking good care of employees; reduce costs, performance measurements and the process of implementation.

Freeman (1999) and Appelbaum et al. (1999) have given a more precise definition of downsizing strategies. They proposed a wider definition of downsizing strategies. Freeman (1999, p. 1510) quoted the definition of strategy from Mintzberg (1978). She defined strategy as “a pattern of policies and activities with strategic consequences for the organization.” She additionally explained by referring to Mintzberg and Waters’ (1985) development of strategies. She added that it could be either deliberate or emergent. Therefore, Freeman proposed that organizations’ downsizing strategies included both behavioral and ideational aspects. Cascio (2002) published the research on 6,418 downsized cases between 1982 and 2000 in S&P surveys, and introduced the strategies for responsible restructuring. He summarized the strategies of successful downsizing cases including regarding downsizing as the last resort, continual investment in business development, a try to hold on to the best employees, providing outplacement assistance (i.e. training, consultancy, and job-seeking help), continual innovation and fostering the capability to change business models, and paying attention to business strategies, markets, the rapid changes of customers and economic environments. Cascio and Wynn (2004) stressed that downsizing was supposed to be viewed as part of a managerial plan. It could not be looked at from a purely economic viewpoint; therefore, the downsizing process could not be an indiscriminate one.
Firms had to formulate various downsizing strategies according to their external business environment, internal and external resources and strategies, rather than just following institutional downsizing strategies.

Stakeholders management and the concept of organizational support for the employees. The researchers who advocate comprehensive downsizing strategies also mentioned one rather important variable which was rarely emphasized by others. This was the effect on stakeholders when downsizing. The harmful and negative impacts on employees were serious, therefore they will take corresponding reactions when firms were planning and executing organizations’ downsizing. Employees tended to form strategies to influence firms’ downsizing strategy. They might possibly, for example, ally with other stakeholders to influence the firm. This would eventually affect downsizing performance; therefore, it should be managed with special care. Tsai et al. (2005a, b) empirical research pointed out that resource dependency factors and institutional factors would influence the strategies which also affect employees and the firms. Huang and Tsai (2005) further found that the strategies of direct negotiation with conditional terms, or alternative choices (i.e. outplacement services and job-seeking consultation) would easily be accepted by employees when firms were downsizing. The research looking at organizational support of remaining employees after downsizing (Naumann et al., 1995; Beam, 1997; Naumann, 1998; Gowing et al., 1998) revealed that once employees perceived they were tended, they would care more about the profitability of the firms; evaluate the characteristics of the business and the operations; adopt the business values and norms, and even believe in the long-term fairness to work harder to create extra performance. Chadwick et al. (2004) research on the medical industry supported the idea that firms providing employee-care-practices when downsizing would consequently generate better outcomes.

Summarizing the above discussions from the perspective of organization change field, we found that organizations’ downsizing must be beneficial to business competitive advantages and performance. The harm caused by downsizing should be lessened and limited as far as possible. In order to meet the goals mentioned previously, a comprehensive downsizing strategy was required. This strategy, we name it as responsible downsizing, should be considered from the viewpoint of long-term payoff, and should be cautiously evaluated beforehand (especially the ability to satisfy customers’ needs), the strategy and tactics then be selected to implement. Meanwhile, firms should treat employees well by implementing employee-care practices. They should also invite employees’ participation and not ignore process justice when selecting pay-off employees. In sum, the relationships among above-discussed variables in organization change field were figured as Figure 1.

Supposedly, there still should be some middle mechanisms in-between the proposed responsible downsizing strategy and firms’ performance. For example, although organizational capability has been mentioned in Cascio’s strategies, it still has not materialized and affected explanations and predictive capability. Besides, according to those comprehensive downsizing strategy advocates from organization change field, human resource management should be treated as a crucial predictor of firms’ performance. In addition to those employee-care HRM practices during downsizing, a firm’s whole human resource management system also needs to re-examine the suitability of the strategy and the changes in the business environments. Nevertheless, the concrete content of the human resource management system has not been clarified.
in organization change field. For that reason, this paper has reviewed the literature concerning strategies and SHRM system to explore these two important mysteries between downsizing strategies and firm performance.

**Dynamic strategy capabilities**

*Dynamic strategy capabilities for sustained competitive advantage*

The concept of sustained competitive advantage as the foundation of firm performance is the major tenet in strategy fields. Scholars in this field keep on searching for the way in which firms can obtain sustained competitive advantage. Teece *et al.* (1997, p. 613) have proposed a dynamic capabilities concept, which evolved from Barney’s (1991) resource-based views (RBV) and defined it as “the firm’s ability to integrate, build, and reconfigure internal and external competence to address rapidly changing environments.” This ability also needs to acquire the external resource (e.g. strategic alliances), this is one of the significant differences with RBV. Besides, the resources are required to be reintegrated and reallocated via these business processes in order to be effective. After reviewing numerous research, empirical investigations and managerial practices concerning dynamic capabilities from 1990 to 2000, in the paper of “Dynamic capabilities: what are they?” Eisenhardt and Martin (2000, p. 1107) defined dynamic capabilities as “the firm’s specific processes to integrate, gain and release resources – to match and even create market change.” These processes are organizational, strategic routines. Winter (2000, 2003) considered that downsizing was an organizational level and collective practice which had to be achieved by the whole firm, Wright *et al.* (2001, p. 715) declared that these processes were embedded on intellectual capital which includes human capital, social capital, and organization capital. In the concept of the strategy map presented by Kaplan and Norton (2004), they were termed as internal processes and also embedded on organizational intangible assets (intellectual capital). They are also the pivotal mechanism relating to how to transfer the intangible assets between employees and organizational relationships into the shareholders’ sustained values. These processes are also similar to the concept of “execution” proposed by Bossidy and Charan (2003). Since these processes are the strategic ability at an organizational level, therefore in this paper, we term it as “dynamic strategic capabilities” should closely link to the context. The dynamic strategic capabilities include following characteristics.

The processes are the combination of efficient and effective actions from organizational level daily routines (Barney and Wright, 1998). They can create profit in
rapidly changing markets and environments; for example, developing new products and new business models which were needed by the markets. Wright et al. (2001) and Kaplan and Norton (2004) regard these processes as embedded on a firm’s intangible assets (Wright et al., 2001; Kaplan and Norton, 2004). The business network is employed effectively to gain external resources. In order to adjust to dynamic environmental changes and tense competition, the business network is employed effectively to gain internal and external resources which are also critical in implementing the processes (Teece et al., 1997).

Seeking appropriate strategic alliances is a typical example. Bartlett et al. (2003) point out that due to the increase in R&D expenses, shortened product life cycle, higher market entry barriers, expanded need for global economic scale, international standardization urging managers to realize the existing manpower, financial capital and technologies were not sufficient to respond to the challenges. Therefore, they had to cooperate with other capable firms. During the process of internal and external resource re-integration and re-allocation, the organizational capabilities which were generated from the specific cultural background and complicated relationships/behaviors are difficult to understand and imitate. Employees possess the behaviors for transformation to create values and execute strategies. Employees are the base of any organization. In order to respond to and execute organizations’ strategies, and then to create the expected benefits, employees’ behaviors are a key factor; such behaviors were similar to the behaviors for transformation proposed by Kaplan and Norton (2004).

Dynamic business strategic capabilities are the most critical mechanism between the business activities to performance and these would create benefits for employees. Blyler and Coff (2003) also suggested the enhancement of dynamic strategic capabilities would equally benefit shareholders, employees and other related stakeholders. Employees would gain more bargaining power from this. It implicates that dynamic strategic capabilities may help to mitigate the social issue which caused from business downsizing by reducing employee’s negative impact from downsizing. We deposited this and use a figure to show the relationship between dynamic strategic capabilities and firm performance as Figure 2.

Organizations’ downsizing strategies and the dynamic strategy capability
According to the literature review, inappropriate downsizing strategies would damage firm’s dynamic strategic capabilities. Cameron (1994) argued that downsizing would influence the firms’ daily routines. Fisher and White (2000) thought that downsizing and job re-arrangement would change the memory base of a firm, even the existing working habits, and possibly put the firm at risk. McKinley et al. (1995) found out that due to the employees’ dissatisfaction after downsizing, their overall organization commitment and performance would decrease, also, employees would take the chance to leave because the lack of future for the remaining workforce. Coff (1997) mentioned
especially the loss of employees with firm-specific competencies could not be controlled by firms. However, the social network would be blocked during downsizing and eventually cause the disappearance of the ties. The damage to the memory of operation would further influence the firms’ innovation and learning abilities (Amabile and Conti, 1999; Fisher and White, 2000; Cascio, 2002). Fisher and White (2000) pointed out that this was especially true in some industries which were not stable or had to rely on the learning methods among close relationships. In other words, they had to maintain high density and close connections with the organizations’ networks. Hence, the social network was extremely important to the learning capacity. When the learning network was destroyed by downsizing, the learning capacity would decrease. The philosopher Handy (2004) stressed that downsizing would lead to the sacrifice of employees’ non-substitutable knowledge and skills, such as being responsible for their own careers, being able to collaborate with others, solve problems, communicate, innovate, and even bear risks. In short, inappropriate downsizing strategies not only harmed firms’ human capital, social capital, organizational capital and the business process which embedded on intellectual capital, but also caused a decline in performance. It seemed that a comprehensive downsizing strategy could reduce the damage and even enhance dynamic strategic capabilities. Enhancing and strengthening the dynamic strategic capabilities would possibly meet the target proposed by Hamel and Prahalad (1994) in the book of *Competing for the Future*. The contention of this work was that organizational restructuring and BPR were not necessarily the only means to successfully transform firms. The establishment and application of new strategies and concepts would assist firms to compete in the dynamic changing environment and finally create premium performance in the future. As the evidence of empirical research by Tsai (2006) proved that responsible downsizing strategy should progress through developing and enhancing firm’s dynamic capabilities, thus improving firm performance.

*Downsizing strategy, dynamic strategic capabilities and human resource management practices*

There was an important covariance between a responsible downsizing strategy and dynamic strategy capabilities. Cascio (2002), Cameron (1994) and Freeman (1999) proposed that the human resource management system was the key to ensure firm performance after downsizing. After reviewing both strategy and SHRM related literature, Wright *et al.* (2001) stated that HRM systems influenced both employees’ skills/behaviors and firm’s dynamic strategy capabilities. Ulrich (1987) has argued that HRM systems were the key practices in establishing organizational capabilities. Ulrich and Lake (1991) have further suggested firms gained competitive advantages via the management to employees, internal organizational structures and processes. Ulrich and Smallwood (2004) pointed out that organizational capabilities came from the investment in HRM systems. After involving these two covariant variables, the Figure 2 was evolved to Figure 3 to show the relationships of responsible downsizing strategies, dynamic strategic capabilities and human resource management practices.

Furthermore, we found that the HRM practices here should be specifically designed to enhance dynamic strategy capabilities rather than just sets of ordinary HRM practices. So, we then continue to review literature in the field of strategic HRM.
Strategic human resources management practices

SHRM is the fastest growing research field among HRM subjects. It was conceived after linking HRM practices and performance (Delery and Shaw, 2001). In the last 20 years, many researchers believed that HR differed from other business resources (e.g. financial and technologies) purely because of the distinct characteristics of human resources (Barney, 1991). Namely, they were valuable, rare, inimitable and non-substitutable. Ferris et al. (1999) identify three theoretical views on HRM were discussed:

1. best practices (or universalistic);
2. responding to specific strategies and executing certain HRM practices (contingency); and
3. only selecting the HRM practices which fitted the strategy and emphasizing the horizontal and vertical fits of HRM practices (configuration).

However, almost all of the SHRM theoretical researches similarly focus on how firms strategically manage their HRM practices to create optimal organizational level performance. In addition, Wright et al. (2001) asserted that HRM practices would change firm’s dynamic capabilities and further renew its business core competencies and then improve the existing competitive advantages. The empirical research of Tsai (2006) also supported this concept. He found out that specific HRM practices enhanced dynamic strategic capacities and eventually improved firm performance.

In fact, Jackson and Schuler (1989), Wright and Snell (1991) and Wright et al. (2001) have mentioned that firms’ HRM systems required certain practices to respond to the corporate strategies. The scholars who supported contingency and configuration also proposed that in order to execute the strategies, only specific HRM practices would be selected. Scarbrough and Carter (2000) clarified that if firms aimed to improve knowledge management performance, the downsizing contents and practices should be designed to meet this particular goal. Colbert (2004) similarly suggested currently SHRM should focus on creativity and adaptability to the environment. Practically, some empirical research has verified such viewpoints. Collins and Clark (2003) proved that after applying some HRM practices focusing on establishing a top management team network, the internal/external network was strengthened and performance improved. Chadwick et al. (2004) also showed the application of HR practices concerning employees’ morale and benefits would positively affect perceived and actual financial performance after downsizing. HRM systems were created to reach

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**Figure 3.**
Dynamic strategic capabilities perspective
vertical fit between strategies and the horizontal fit between consistency and synergy. The HRM systems implemented after downsizing were necessarily a set of HRM practices targeting an increase in the firms’ dynamic strategy capabilities; we suggest calling it dynamic strategy capabilities human resource management (DSCHRM) practices.

**SHRM practices and employee individual-level performance**

SHRM was defined to explore organizational level performance rather than individual-level performance (Delery and Shaw, 2001). Nevertheless, individual-level performance aggregates to organizational level performance. Delery and Shaw (2001) and Becker and Huselid (1998) argued that the complicated interactions among HRM practices would strengthen the workforce characteristics, eventually improving workforce performance and giving more value to the core competencies. The inimitable advantages were developed via the processes and hence performance was improved. The workforce characteristics included employees’ knowledge and skills, as well as motivations and empowerment. Workforce performance was defined as the performance at an individual level, such as productivity, the behaviors meeting business needs, organizational commitments. Yet, employees’ individual performance (e.g. behaviors, commitments, and job satisfaction) could also be the mystery between downsizing strategies and performance. The job satisfaction among individual-level performance and continuance commitment revealed an intersectional influential relationship. Tsai et al. (2005a, b) researched employees’ job satisfaction and continuance commitments in the post-downsizing era. They verified that some specific items in job satisfaction would significantly influence the remaining employees’ willingness to remain at the downsizing firm. This may influence firm’s competitive advantage and performance after downsizing.

Therefore, by integrating above literature review from SHRM field, we could conclude that HRM practices should enhance both organizational level capabilities and employee individual-level workforce performance, and firm performance could be then increased via renew firm’s core competencies. Figure 4 shows the relationships among these related variables.

After reviewing and exploring the literature on strategy and SHRM, two important mechanisms were found. These two mechanisms including dynamic strategic capabilities and the strategic HRM practices for specifically enhancing dynamic

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**Figure 4.**

**Strategic HRM perspective**

- **Organizations’ downsizing strategies**

- **Workforce performance**
  - Productivity
  - Behaviors fit organizational needs
  - Organizational commitments & job satisfaction (Individual level)

- **Competitive advantages**

- **Firm Performance**

- **SHRM system**
  Specific HRM practices for enhancing firm’s dynamic strategic capability (DSCHRM practices)

- **Dynamic Strategic capabilities (Organizational level)**

- **Core competencies**

- **Firm Performance**
strategic capabilities will be great helpful for solving the controversy in organizational change field why the relationship between downsizing strategies and firm performance cannot be always materialized. Therefore, we need to establish a comprehensive model to include all related variables. Take all variables into account in order to depict a comprehensive model of downsizing strategies. This comprehensive model of the downsizing strategy will stand on a broader, systematic viewpoint to look at the whole downsizing strategies which includes the cause, the process and the effect.

Comprehensive model of responsible downsizing strategy
We use the linkages of three key variables, responsible downsizing strategy, dynamic strategic capabilities and SHRM practices to integrate Figures 1, 3, and 4 as a whole model as Figure 5. And add some supplementary concepts to make the model more comprehensive.
Supplementary concepts

First of all, in strategic HRM field, Wright and Snell (1998) advocated that employee participation and communication are the infrastructure for all human resources management practices to enhance firm's performance. Here, we suggested that the whole model would be more solid by including the factors of the starting point of setting business strategies, downsizing motivation, DSCHRM practices, dynamic strategic capabilities, employee workforce performance, core competencies, and competitive advantage. Secondly, according to the empirical research from Tsai (2006) has proved that responsible downsizing strategies would positively affect DSCHRM practices after downsizing. Third, regarding firm performance, Carpenter et al. (2004) proposed that in addition to financial and market performances, social and innovative performance were equally important. The downsizing strategies might cause social problems; therefore the stakeholders should pay attention to and take actions to influence firm’s downsizing implementation. Thus, firm must carefully manage this to ensure the social reputation. When faced with a rapidly changing environment, new product/service innovations seem to be critical (Subramaniam and Younldt, 2005), that is the reason why Cascio’s responsible downsizing strategies also aimed to invest in employees in the long term, continually innovate, and cultivate the ability of changing business models.

Implications and future research

Implications

This paper identifies several implications which might be useful for both academic research and practical business management.

Firstly, the model is similar to a map. It will be a useful tool to predict and lead the developments of mediating or moderating variables between downsizing strategies and firm performance. The research concerning responsible downsizing strategy, strategic HRM practices, dynamic strategic capabilities and performance could act as the base of this model. Besides, it would clarify the contextual mysteries between responsible downsizing strategy and firm performance and strengthen the development of downsizing and its relevant theories.

Owing to the continual emphases on the acquisition and application of external resources, the importance of intellectual capital and the concern about corporate social responsibility, more concepts relating to social capital, social issues and public policy would be introduced to the research in building responsible organization downsizing strategy.

The model reminds managers to focus on the mediating mechanism between downsizing strategies and the expected performance. It also encourages firms to manage business with appropriate ability of execution and responsiveness (Bossidy and Charan, 2003). It also contributes to the vitalization of organizations’ downsizing (especially firms’ dynamic strategic capabilities), to SHRM practices and the performance at the individual employee level. Most importantly, employees must transform their behaviors to meet firm’s requirements for enhancing organizations' dynamic strategic capabilities. Then, employees would be stable within firms, and the social problems caused by downsizing could be avoided.

Dynamic business strategic capabilities are not only the most critical mechanism between the business activities to performance but also would create benefits
to employees. Blyler and Coff (2003) suggest that enhancement of dynamic strategic capabilities would equally benefit shareholders, employees and other related stakeholders. Employees would gain more bargaining power from this. It brings the implication that dynamic strategic capabilities may also help to mitigate the social issue which caused from business downsizing due to reducing employee’s negative impact from downsizing.

Future research challenges

Research designs and analytical issues. The model included performance on both individual and organizational levels and the aggregation individual-level performance was the foundation of organizational level performance. Therefore, the design of the analytical level must be particularly carefully treated in order to provide better explanations and reasonable results. Besides, Delery and Shaw (2001) pointed out an illogical phenomenon, that a lot of empirical research merely measured HRM practices to performance by the only new indicator. It missed the mutual interactions and even ignored many important aspects among HRM practices.

Empirical issues. The downsizing strategies have been regarded by firms as extremely sensitive and confidential issues. Apart from the already open secondary data, they were reluctant to provide critical data of downsizing. This would be the biggest barrier when conducting an in-depth research.

Conclusion

Downsizing strategies have become common and popular practices for firms and they are also deemed as natural processes within an organization's life cycle. However, the relationship between downsizing strategies and firm performance still remains mysterious. These mechanisms between the cause and the effect are significant to the development of academic theories and the applications of firms. That is why the consequences of downsizing strategies to firm performance have not been materialized over these years. This paper applies dynamic strategic capacities concept from the strategy field, and SHRM practices in the SHRM field to explore the issue. It also established a comprehensive model to explain the relationships among these variables. Especially, for those newly brought in variables such as stakeholders’ influence strategies, dynamic strategic capabilities and SHRM practices. The final purpose is to guide academic research and managers to discover more responsible and comprehensive downsizing strategies which would improve both organizations performance and employees’ welfare, and also reduce the social tensions caused by downsizing.

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Organizations’ downsizing strategies


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