# Modern Downsizing

**Grzegorz Wojtkowiak**
https://orcid.org/0000-0001-8467-0260
*The Poznan University of Economics and Business, Poland*

## INTRODUCTION

The turbulent character and dynamics of modern business environment is nowadays indisputable, leading to the paradox of 'constant change' to be a widely accepted also in practice. Companies are forced to operate not only in the world of continuous progress, incessant new technological solutions and process enhancements but also in the reality of unpredictable behavior of their competitors. The automotive industry, as a sector that evokes a lot of emotions, may serve as an interesting example here. Its future is no longer shaped exclusively by automotive companies but also by technological companies such as Google and Uber, which base their strength on the model of sharing economy. Additionally, the dynamic environment has an impact on industry cooperation, including international cooperation, and is further supported by improved logistics, economic infrastructure, advanced legal solutions, and organizational experience of the enterprises themselves.

Merely embracing these phenomena, including a more efficient collaboration as part of a business network, faster pace of work and a growing specialization of the organization's profile, may not always be sufficient to draw the right conclusions and adapt to constant changes. This applies particularly to organizations focused on achieving a linear, one-way growth, which insist on emphasizing the value of size and primacy of possession, and which are at the same time driven by the fear to admit defeat and their general reluctance to withdraw from a certain course of action.

Yet modern organizational solutions and coherent business models provide for multiple dynamic solutions. Accelerated flow of money, goods and information, growing automation and increased use of external resources – while all of them contribute to a greater flexibility, they also have an effect on the organizational structure pushing it more towards project work. However, in such conditions it is just as important to grow accustomed to constant growth, direction changes, new projects piling on and to seizing every opportunity as soon as it arises, as it is to learn how to withdraw, change course of action and resign. This seems to confirm the need to modernize many current restructuring solutions such as downsizing. Even more so that if one is to take full advantage of emerging opportunities and implement yet another paradox of 'creative destruction' in practice, one needs to develop a set of competences that will cover the both possible directions (competence of growth and withdrawal).

The chapter discusses the concept of downsizing as a strategic option and a management tool. **There are three detailed goals: to present nowadays definition of downsizing, to show the importance of the problem (showing the scale and effect of downsizing) and to present basic implementation challenges**. It starts with presenting the evolution of the term and its definitions, showing it from the point of view of an organization's strategy, capital and HR, or treating it as a phenomenon. A basic classification of downsizing is offered (voluntary vs. forced, short-term vs. long-term). Its scale and possible outcomes are described and discussed based on literature review and author's research. While pointing

DOI: 10.4018/978-1-7998-3473-1.ch135

to a wide range of tools that may be used during its implementation, the paper raises also the issue of good practices that need to be developed in this field[1].

## BACKGROUND

When analyzing the origins and evolution of downsizing, one should step beyond the original narrow definition and extend one's view to accommodate for such related solutions and methods as restructuring, exit strategies and strategic renewal.

Downsizing originated in the 1980s in the US, where most major American companies opted for downsizing activities when struggling with over-employment, inefficiency, low flexibility (Cameron, Freeman and Mishra, 1993, pp. 20, 22), growing competition (also at the international level) and rising debts (Appelbaum, Everard and Hung, 1999, p. 537; Mishra and Mishra, 1994).

Originally, it denoted a type of activities focused on reducing the scale of employment; hence (even today), it mainly refers to human resources and is defined as a deliberate practice of job-cutting aimed at increasing efficiency (Nixon, Hitt, Lee and Jeong, 2004, p. 1121; Freeman and Cameron, 1993; Krupski 1998, p. 263). However, nowadays it is more often believed that reducing employment should no longer be perceived as a goal in itself but as a way of adapting the company to changes imposed by the environment. As it attracted increasingly more interest, downsizing turned out to enforce organizational (Budros, 1999, p. 71) and management changes (Cameron, Freeman and Mishra, 1993, p. 24). With the gradual extension of the scope of changes, downsizing was redefined as a strategy to reduce costs of core business activity in order to minimize inefficiency (Appelbaum, Delage, Labibb and Gault 1997, p. 4; Wilkinson, 2005, p. 1080), or as a strategic option (De Egaña Espinosa De Los Monteros and Bravo, 2012, p. 75), connected with a wide set of interrelated organizational tools and solutions.

Thus, one can easily notice how downsizing has evolved from a mere reaction to an economic downturn or protecting the company against bankruptcy in the 1980s to a coherent strategy covering all resources of the organization. It was implemented in response to overstaffing, technological changes, the need to reduce the company's size and due to changes related to mergers (see Gandolfi, 2014, p. 4).

As more knowledge was available on downsizing, many researchers began to distinguish different types of downsizing activities (DeWitt, 1998, pp. 59-60, Freeman and Cameron 1993, pp. 13-15; Lim, Celly, Morse and Rowe, 2013, p. 43):

- Retrenchment strategy – reducing the scale of employment by means of temporary job-cutting in certain departments; optionally, withdrawing from certain markets, products or services, and focusing on savings;
- Downscaling – reducing the company's scale, mainly for the purposes of permanent reduction of resources (including human and physical), but without diminishing entirely the company's position in the market (changes aimed at matching the company's offer to the actual demand and ensuring a greater flexibility);
- Downscoping – eliminating some of the company's resources to reduce its assets and human resources, and to simplify its structure, resulting in its less significant market or technological position, implemented with respect to either the entire company or its parts (corporate refocusing);
- Decline (organizational decline, non-adoption) – the company's fading and downfall due to market decline, budget cuts, lack of adaptation, change in the market niche, economic stagnation, loss of permits, licences, etc.;

## Related Content

An Improved Monkey Search Algorithm to Solve the Flexible Job Shop Scheduling Problems With Makespan Objective
Mariappan Kadarkarainadar Marichelvamand Geetha M. (2021). *Encyclopedia of Organizational Knowledge, Administration, and Technology (pp. 728-741).*
www.irma-international.org/chapter/an-improved-monkey-search-algorithm-to-solve-the-flexible-job-shop-scheduling-problems-with-makespan-objective/263577

Augmentative and Alternative Communication Systems for the Motor Disabled
Alexandros Pino (2016). *Leadership and Personnel Management: Concepts, Methodologies, Tools, and Applications (pp. 680-727).*
www.irma-international.org/chapter/augmentative-and-alternative-communication-systems-for-the-motor-disabled/146414

A Comparison Between Inbound and Outbound Marketing
Mohammad Izzuddin Mohammed Jamiland Mohammad Nabil Almunawar (2021). *Encyclopedia of Organizational Knowledge, Administration, and Technology (pp. 2129-2139).*
www.irma-international.org/chapter/a-comparison-between-inbound-and-outbound-marketing/263680

Physician Perspectives Regarding the Use of Electronic Health Records in Public Health Disease Reporting: COVID-19 Reflections
Michelle Stewart (2022). *Business Models to Promote Technology, Culture, and Leadership in Post-COVID-19 Organizations (pp. 242-269).*
www.irma-international.org/chapter/physician-perspectives-regarding-the-use-of-electronic-health-records-in-public-health-disease-reporting/309483

Big Data, Data Management, and Business Intelligence
Richard T. Herschel (2021). *Encyclopedia of Organizational Knowledge, Administration, and Technology (pp. 509-519).*
www.irma-international.org/chapter/big-data-data-management-and-business-intelligence/263561