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**DOWNSIZING - AN EXIT STRATEGY FROM THE CRISIS?**

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***Abstract:** In its managing functioning, the management of each company undertakes goes through a range of activities to improve organizational efficiency, productivity and competitiveness, depending on the current objectives. If a priority imposes to reduce costs and thus increases efficiency, it has been used frequently as a downsizing strategy for the last two decades. Downsizing is a decrease in the size of an organization, it usually goes through a reduction in the number of employees but it is not limited to this. As with any strategy, there are many pros and cons, and effects depend on the application. In order to be successful it has to be planned and actioned on time as a business part strategy and part of a specific company plan. However, even when the consequences of certain changes resulting of a market reduction and the poor results of the company, changes in technology and etc., with an adequate plan and its application, it can lead to positive results for a takeover. Otherwise, results can be negative for the employees as well as the company and to the entire economy.*

***Keywords:** Downsizing, efficient management, organization, organizational change, strategy.*

**1. Transformation of organizations in modern business conditions**

We are witnessing intensive, comprehensive and radical changes in all fields (economics, politics, technology, society, etc.) This affect all parts of nature, society and business. It changes, the dynamic in every way and transformations are visible everyday. In this context, any company that wants to be competitive on a global level must be capable of rapid and efficient transformation. It is a big challenge for the management of the company and its leaders. First of all it is necessary to create a new, different vision of the company and then form conviction for necessary changes that are in line with the new vision. It

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requires complete concentration and commitment to the company in order to achieve new goals.

Of course, the transformation of the organization can be initiated by the need for growth and development of the organization and may be a condition of recovery and survival of the company. A large number of companies, some competitive and less competitive are faced with the challenge of transformation. Each of these companies have found a different way to achieve their goals and to transform their organization accordingly.

So we can identify the following aspects of the transformation of the organization (Mašić, Vilmoš 2012):

- Business Process Reengineering;
- Restructuring companies through downsizing, downscoping etc.;
- Organizational change programs or corporate culture;
- Strategic turnaround programs;
- Programs knowledge management;
- Quality programs;
- Program acquisitions and mergers;
- E - commerce and e business applications in a broad sense and others.

Businesses often combine various forms of transformation, depending on the needs and goals of the company (increase of efficiency, effectiveness and competitiveness, etc.).

Before making a decision on the selection of transformation models, it is necessary to identify why the transformation are needed, to clearly identify where the position of the company (analysis of production, financial and market characteristics of enterprises) is, so we can determine what the new management will be able to carry out. Including all the necessary changes and then take the appropriate measures to transform the organization.

Companies most often choose to change the organizational culture, programs and strategic turnaround or choose restructuring the company through downsizing.

## **2. Origin and definition of downsizing**

Businesses are changing, transforming, adapting and constantly are looking for the most efficient methods to bring them to the desired goals. Changes can be proactive and reactive when initiated from pure innovation, this is when the company must react to positive or negative changes in the business environment. Most often, the companies are placed in a situation where they have to act reactively and thus condemning itself to bad result.

At the end of the 20th and at the beginning of the 21st century comes to specific types of organizational changes that lead to the reconstruction of the organization. These kinds of transformations have quite a precise definition, emerging from its use and referred to as downsizing. Most simply downsizing represents a reduction in the size of the

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organization. In order to increase efficiency, productivity, competitiveness, companies have taken a series of activities one of which is reducing the number of employees, which is different from the traditional way of release. Most often this is a last effort to avoid liquidation of the company.

It often happens that companies become unproductive and that their development does not go in line with market requirements, which is why it is necessary to complete the transformation. During the transformation, and the necessary changes in response to changes of environment, the company starts from a base to the employees. Managers have two options when it comes to the transformation of the organization starting from the employees. One of the better option is reorientation, when changing the number of organizational levels and organizational structure and culture. Another variation, resulting from the need to "overthrow" operating costs is staff reduction through redundancy. Unfortunately, this strategy of reconstruction of the organization resorted to numerous large companies leaving a lot of people out of work.

Downsizing as a strategy for change management has been adopted by companies and government agencies since the 1970s. The classical approach, of reducing the number of employees is mainly used as a response to organizational and economic crises since the mid-1980s. This approach of dealing with crisis situations must be accompanied by changes in other functions of the company and especially the segments dealing with finance, organizational design and human resources. This is a very "sensitive" strategy in order to overcome crisis situations and it must be given special attention in the implementation phase.

Downsizing as Survival a strategy for so many years despite the negative effects. If carried out on time, and thoughtfully, steadily the results can be very good. First of all it is meant to reduce costs in line with increase efficiency. costs can foresee a higher probability of income, so the downsizing is implemented to regulate costs, enhance organizational effectiveness and competitiveness. The fastest and most visible result is achieved through a reduction in staff. Of course, this strategy is not restricted to staff reductions, although it is the most common cause.

### **3. Basic characteristics of downsizing**

Companies over the years for various reasons resorted to downsizing and justified the application of the deregulation phenomenon, globalization, mergers and acquisitions, global competition, technological innovation and changes in business strategies aimed at achieving and maintaining a competitive advantage (Zyglidopoulos 2003).

Of course, that would benefit from downsizing as a strategy of business operations one must know the basic characteristics and the essence of this business model:

- Downsizing is a set of activities undertaken by the organization's management, with a precise purpose and with a clearly defined objective that is to improve organizational efficiency, productivity and competitiveness. It is a strategy that is being implemented by managers who have significant organizational implications and which affect the size of the company. On the surface it can be interpreted as the usual reduction of organizational size (Freeman, Cameron 1993).

- Downsizing involves reducing the number of employees, but it does not apply exclusively to that. Downsizing may lead to transfer and relocation of employees, creating benefits for pension and other aspects of the management staff which could affect the greater enterprise efficiency (Cascio 1993) .
- Downsizing appears to increase enterprise efficiency, reduced costs, increased revenues and a favorable impact on the competitiveness of business. Companies apply this strategy expecting that they will experience financial and organizational advantages. The starting point for this kind of thinking is that costs are easier to predict than income. Meanwhile managers in their quest to reduce costs and increase profits reduce the number of employees and labor costs. Thus, downsizing is often motivated by a desire to reduce operating costs to stop the decrease in profitability and increase future profitability.
- Downsizing affects workflows, elimination of hierarchical levels and their change. It affects the work processes and leads to redesigning of work (Gandolfi 2006).

#### **4. Types of downsizing strategy**

The number of employee can be reduced on the basis of three downsizing strategy:

1. The strategy of workforce reduction - it focuses on the reduction of the total number of employees, including dismissal, certain transfers, transfers, early retirement and is conducted in a reactive mode as a measure to reduce costs. Unfortunately, this strategy proved rarely to be successful. It is impossible to predict who will be released or transferred, and how the company will lose specific human resources, knowledge and skills to be a company. The aim is to show the company's seriousness of the situation they are in, and the impact on the cost. The disadvantage of this type of strategy is that the company does not adjust the long-term trends in the environment leading to inflexibility and inability to adapt (Bradarević, Omerhodžić 2009).

2. The strategy of organizational redesign - is focused on the elimination of work to do before the workers. This implies the elimination of hierarchical levels (reduction in the number of functions, connecting organizational units) or groups of products, redesign business tasks and allocation of certain parts of the company and leaving other companies to focus on core business - Outsourcing. The disadvantage of this strategy is the impossibility of rapid deployment. It Requires analysis linked to this part of the redesign and assigning employees to that part of the job. Therefore, the objective of the work processes and organizational arrangements in the structure of the company is a simpler business for a higher efficiency.

3. System Strategy - focuses on fundamental changes of organizational culture, attitudes and values its employees and is considered a lifestyle company (Filipowski 1993).. In this case it involves downsizing all aspects of the organization i.e. the entire system (suppliers, investors, process design, manufacturing methods, relationship with customers, marketing, sales, etc.). An example of this kind is downsizing: reducing waiting times, response times, information systems, the number of suppliers, rules, regulations, etc. Employees serve as an aid in downsizing, with their ideas and work to reduce costs.

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Research has, however, revealed that most companies resorted to a strategy for the reduction of the workforce.

### **5. The effects of downsizing**

Downsizing as a managerial strategy of change management has been implemented at the global level for more than two decades. During the eighties and early nineties, this type of strategy used by companies which were facing difficult economic times since the mid-nineties became the leading strategy and the choice of many companies and government agencies worldwide (Mirabal, DeYoung 2005). Reducing the number of employees leads to redesigning work processes to improve productivity, efficiency and effectiveness of the company.

Downsizing transform hundreds of thousands of companies, government bodies and the lives of tens of millions of employees which is why, for years, this strategy engendered great interest of both managers and scientists in this field. The question arises as a result of downsizing, whether it comes to the expected effects and that in general the effects of downsizing. The greatest benefits are financial as well an organizational consequence and effects of this strategy.

Implementation of downsizing has deep financial and human consequences. Detailed analysis of the effects of downsizing is a complex image with the following issues (Gadolfi 2008):

- Whether it is an effective downsizing strategy?
- Whether downsizing will lead to improved financial performance?
- Whether firms that enforce the downsizing are able to take advantage of anticipated financial improvement?

In order to adequately respond to these questions it is necessary to consider the positive and negative effects of this strategy.

Downsizing as a strategy with adequate application leads to a number of positive effects:

- Decrease costs by reducing the number of company employees;
- Faster flow of information and faster decision-making;
- Better use a small number of human resources
- More efficient management and better control over the company, which is reduced to a right measure;
- Improved communication between managers and employees;
- Higher motivation of the remaining employees to help the company to survive and to keep their jobs;
- A more flexible approach to the market and new technologies;
- Higher productivity, flexibility and profitability.

However, in practice, it is possible a different situation. Costs are reduced and profitability and productivity do not increase. Also, the loss of skilled workers brings additional problems for the company when it finds itself again in a situation in which it starts to grow.

The financial consequences of downsizing have unfortunately devastating effects (Gadolfi 2008):

- Companies that have adopted the strategy of downsizing cannot be expected to take advantage of broad economic and organizational benefits;
- Non-downsizing company outperformed downsizing forms on the short, medium and long term;
- Only some companies have shown positive financial results decrease, while it has no empirical evidence to suggest that there is a correlation between the decrease in the number of workers and improve financial performance;
- Some companies reported positive financial indicators in the short term, but the long-term financial consequences, are unfortunately, negative.

This indicates the importance of the correct strategy and effective planning of human resources. Dismissal or reduction in the number of workers should be the last option for change in the company.

Of course, there are situations in which the only solution to reducing the number of workers in such a situation the company should take care of their workers so as to help them to find another job. A sort of training, counseling, and referrals to other companies and helps the employees who lost their jobs in this situation. It can also encourage the program for early retirement (early retirement incentive program - ERIP) by which it offers great benefits to employees to encourage them to early retirement (Chuck 2010). Both companies reduce or even eliminate the negative factors, acquired a reputation as socially responsible and stable companies and thus enhance their businesses.

All this suggests that the downsizing to be successful, must be planned well in advance and plan the process should be included in the strategic business plan of the company, regardless of whether the company is planning to implement or not. In this way, companies will be prepared to start downsizing if it is necessary.

## **6. Consequences and lessons of downsizing**

Reduction of the workforce is not a new phenomenon, since there are companies, always came to flow in the workforce, particularly in times of economic crisis, recession, bankruptcy (Ryan, Macky 1998). This time takes the form of proactive strategy, or the strategy of restructuring.

The consequences of downsizing are usually divided into financial, organizational and human. Empirical research shows that some companies publish financial improvements after the reduction, however, there were those that did not make the widely expected level of efficiency, productivity, profitability and competitiveness (Macky 2004).

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The consequences of downsizing related to employees are far reaching and categorize three types of people: perpetrators, victims and survivors. The perpetrator means the person entrusted with the performance of downsizing, the victim is a person who loses his job reluctantly spend a stay with the company.

During the years of practice and investigations and downsizing, there are many lessons to be learned and mastered in this field and, above all, clearly defined what should be done to this strategy, what is acceptable and highly effective. There are several methods, which, along with effective implementation provide exceptional results.

Most companies implement downsizing without appropriate plans, policies, programs, representing a logical explanation of the many failures of this type of strategy. For managers, this is an important lesson - to prepare their companies to reduce the number of employees. Numerous examples from practice quoting how the companies that have introduced a system of planning, policy and programs for all employees a year before the introduction of the reduction had positive financial and organizational outcomes with minimal effects on the workforce that it all survived. So, the first step for managers is to strategically plan and prepare the firm to reduce. Managers of the company will have to ensure that human resources companies are unwilling to accept any change successfully, it is a key condition for the successful reduction and an indispensable factor in most major organizational changes.

From this, it further follows that it is necessary to prepare the workforce to cope successfully with the reduced number of employees. The workforce that remains and takes the additional part of the job should get professional training and the opportunity to develop and learn new skills. Of course, this is an additional workload for the "survivors" because it reduced the number of workers must be compensated. Managers must ensure that the "survivors" get support, assistance and training during process of downsizing (Makawatsakul, Kleiner 2003) . Without a doubt a fundamentally prepared and adequately equipped workforce is more able to cope with change.

This points out to the fact that it takes a lot more attention to the "survivors" to successfully implement downsizing. This implies a clear strategy on how to take care of the survivors at all stages. "Survivors" need full support, counseling, assistance, retraining, as well as timely and unbiased information. All of this requires large financial costs, which unfortunately is often known to reduce or negate the increase in productivity. There are no reliable data from many countries to show that downsizing leads to additional costs and direct and indirect. Especially indirect (hidden) costs of the company mainly underestimated. According to some research, downsizing can lead to an increase in costs of 30% due to the cost of training and development. These unexpected costs more than offset the minimal savings in productivity achieved through downsizing.

Of course, a large number of companies that have achieved the goals set by using this strategy. Companies that have profitably implemented downsizing emphasize the importance of strategic motives, and that with well-designed and prepared downsizing strategy can achieve good results for the company.

## **7. Application of downsizing in the world and in our country**

Downsizing as a strategy of organizational decrease, is present as a feature of modern organizations, and there is evidence of implementation of this strategy worldwide. Almost all companies of one thousand largest US (which are also ranked according to US business magazine "Fortune") claim to have used the downsizing as a business strategy and many assume that the reduction be a way of life in the future.

The growth of global competition leads to a large number of restructuring the economy, leading to the usual practice of application of downsizing. The number of companies that have used downsizing is growing and their names are well known around the world: AT&T, General Electric, DuPont, Eastman Kodak, General Motors, Apple Computer, Data General, ITT, and Union Carbide and other big names. Recent pressure IBM to drastically reduce the workforce, may be an indication that the downsizing phenomenon which continually receives numerous followers (Freeman, Cameron 1993).

In increasingly competitive markets, downsizing has turned into one of the inevitable result of living in a global world where required continuous adjustment of products, services and labor costs to remain competitive (Guthrie, Deepak 2008).

Businesses in the Republic of Srpska constantly go through a crisis and the reasons are both internal and external. Of course, different companies have different strategies for overcoming the crisis. However, the largest number of companies that have joined the organizational restructuring in the form of downsizing, outsourcing, and business process reengineering. The most common reasons for the application of these strategies are: inefficient enterprise management, inefficient effects, larger or smaller number of employees.

Downsizing strategy in the Republic of Srpska was carried out without a clearly defined strategy, priorities, objectives and therefore in most cases cause adverse effects on employees, the company and the entire economy. The State and its institutions are not actively involved neither stimulate scheme restructuring companies through downsizing, in order to increase the efficiency of enterprises and the entire economy, which is why they feel the consequences on a daily basis. Of course, there is still a possibility for the timely planning and implementation of the strategy with regard to the Republic of Srpska companies still operating in a very unstable market conditions are very poor.

## **8. Conclusion**

Constant changes are an integral part of modern business. In order to grow and develop enterprises need to adapt to all the changes and to quickly and efficiently respond to changes in the environment. So in an effort to grow, develop, increase productivity and competitiveness of enterprises often restructure or reorganize.

Transformation of the enterprise may be initiated by the need for change and a better way of doing business but can also be a reaction to current changes in the environment and condition for the survival or recovery of the company. There are several methods of transformation of the organization: business process reengineering, restructuring through downsizing, quality programs, knowledge management, strategic



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shift, changes of organizational or corporate culture, etc. Often numerous international or domestic companies apply the downsizing strategy of enterprise transformation.

The term downsizing has no precise theoretical formulation and there are a number of definitions. In general downsizing represents a set of actions taken by management to improve organizational efficiency, effectiveness, productivity and competitiveness of enterprises. Most often under the downsizing thought to reduce the number of employees which differs from the classical release. It can still be defined as a reduction of hierarchical levels in order to achieve the set goals or measures the reaction to the new situation. In addition to the notion of downsizing often be heard: improving productivity, reducing costs, rightsizing, restructuring, re-engineering of business processes, the universal growth and the like.

This strategy is used for many reasons but mostly to increase enterprise efficiency, reduce costs, increase revenue and greater competitiveness in business. It is implemented in three ways: reduction of the workforce or dismissal, elimination of hierarchical levels and changes in organizational culture.

Downsizing strategies leading to increased productivity, cost reduction by reducing the number of company employees, which further leads to a faster flow of information, decisions faster returns, teamwork is on a better level, the greater the flexibility and profitability of the company. However, it happens and the situation that costs are reduced and seamlessly profitability and productivity do not increase.

It all points out to a number of deficiencies in the application of this type of strategy. Businesses access implementation without any plan, it still affects how people who lose their jobs and those who remain in the company and must provide your take on extra work for which must be trained and perfected. Training and support to employees and those who have lost their job entails additional costs for the company, which can often reset all the positive effects of this strategy. This leads to the conclusion that the positive effects of downsizing strategy can come into play only if the downsizing carried out in time, thoughtfully.

There are numerous worldwide as well as local companies that apply this strategy and their number is growing. Of course, a big difference in the application of this strategy is in the large and competitive global enterprises in domestic and as for underdeveloped businesses. In these conditions, only the negative effects of these strategies come to the foreground, increase in unemployment, a lack of financial resources for the training of personnel who assume additional tasks, decay of the enterprises and poor financial situation for the whole country.

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## DOWNSIZING – STRATEGIJA IZLASKA IZ KRIZE

*Apstrakt: U svom upravljanju, menadžment svakog preduzeća preduzima niz aktivnosti kako bi poboljšao organizacionu učinkovitost, produktivnost i konkurentnost, zavisno od trenutnih ciljeva. Ako se kao prioritet nameće smanjenje troškova i na taj način povećanje efikasnosti, kao često korištena strategija posljednje dvije decenije pojavljuje se downsizing. Downsizing predstavlja smanjenje u veličini organizacije, najčešće kroz smanjenje broja zaposlenih ali nije ograničen samo na to. Kao i kod svake strategije postoje brojne pozitivne i negativne strane, i efekti su u zavisnosti od primjene. Da bi bio uspješan mora biti na vrijeme isplaniran, dio poslovne strategije i plana određenog preduzeća. Međutim, čak i kada je posljedica određenih promjena koji su posljedica smanjenja tržišta, loših rezultata firme, promjene tehnologije i dr., sa adekvatnim planom i primjenom, može dovesti do pozitivnih rezultata za preuzeće. U suprotnom, rezultati bivaju negativni za zaposlene, preduzeće pa i privredu cijelu.*

*Ključne riječi: Downsizing, efikasno upravljanje, organizacija, organizacione promjene, strategija.*