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# Hoist of Corporate Downsizing in India: A Theoretical Review

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***Abstract:***
*India has spread red carpet for the entry of Multi National Companies, to prolong in the global market and for economic stability. This has been way forwarded the employment prospects in India. Meanwhile the tactic called "Corporate Downsizing" gets in progress by MNC's. Many of the literatures reporting that "Downsizing" as a form of corporate reconstruction or restructuring. In the perspective of the employer "downsizing" is a tactic to cut-down the overweight of the size of their company but in the employee's perception "downsizing" is an unusual weight loss of the typical size of the company. Most of the social researchers suggesting the successful downsizing of corporate companies have to be considering a well planned, people oriented and long-term approach which it facilitates the organization and employees to deal effectively with the negative consequences of the implementation of "downsizing". This paper puts-forth the Reasons for the growth of downsizing, approaches for corporate downsizing, process, its effects and an outlook on recent corporate downsizing in India.*

***Keywords:*** *Downsizing, Employers, Employees, Profitability and Restructuring*

## 1. Introduction

India sparked with economic reforms since 1991which it carried several transformations in the existed environment. As an effect of liberalization, the entry of corporate sectors, ingress of foreign investors and freeing of capital market which brought competitiveness and raise of financing.

According to Gandolfi (2008) Downsizing became a strategy to streamline, tighten, and shrink the organizational structure with respect to the number of personnel employed by the firm. As downsizing became more prevalent, the term was applied to a broader range of managerial efforts to improve a firm's performance. Cameron (1994) defined downsizing is a set of activities undertaken on the part of the management of an organization and designed to improve organizational efficiency, productivity or competitiveness.

"Corporate Downsizing" picked up the pace at the earlier stage of 1960s and till now the tempo has been in the rising phase instead of tumbling of its escalation. During the period of the 1960s and 1970s the unskilled labourers were the prime target, but now top level and middle level managers including professionals becomes new targets for corporate downsizing. In the early 1980s, downsizing came into prominence as a topic of both scholarly and practical concerns. It became the management catch-cry of the 1990s, which subsequently became known as the downsizing decade (Dolan, Belout & Balkin, 2000).

Downsizing happens when an organization eternally trims down its labour force. Corporate downsizing is frequently the outcome of unfortunate economic conditions. The companies need to hack jobs in order to lower costs or sustain profitability. Downsizing may also take place when one company merges with another, a product or service is cut, or the economy hesitates. Downsizing also arises when employers wish to "streamline" an organization, this refers to corporate restructuring in order to enlarge profit and capitalize on efficiency. Downsizing consequences in layoffs that are frequently tracked by further restructuring changes, such as branch closings, departmental consolidation, and other structures of cutting pay expenses. In several cases, workers are not fired, however, as a substitute they become part-time or temporary workers, this is essential to trim costs.

### *1.1. Performance of Corporate Sectors in India*

Corporate sectors in India practicing a tremendous shift in its performance and growth over the past two decades, this is as an effect of financial liberalization. Rising of funds by corporate sectors takes place by financial institutions like mutual funds, private equity and venture capitals and Foreign Direct Investment which it also a major source of funds. The overall performances which are expected to up-lift our Indian economy. The foreign investment overseas by Indian businesses normally commenced following the liberalization of investment policies with the beginning of Foreign Exchange Management Act (FEMA) in June 2000. (P. L. Beena, 2011)

The corporate sector performance gives the impression to have bottomed out after the extensive crash observed over the fiscal years 2010-2014. In the course of diminishing inflation-related concerns, probably deduction in interest rates and improving business confidence, corporate earnings are possibly to bounce back powerfully. Analysis of the earnings of 159 companies that declared results for the July-September 2014 quarter shows that net income grew 37.4% year-on-year, almost twice compared to 19.7% year-on-year for the April-June 2014 quarter. (Aranca Research Analysis, 2014)

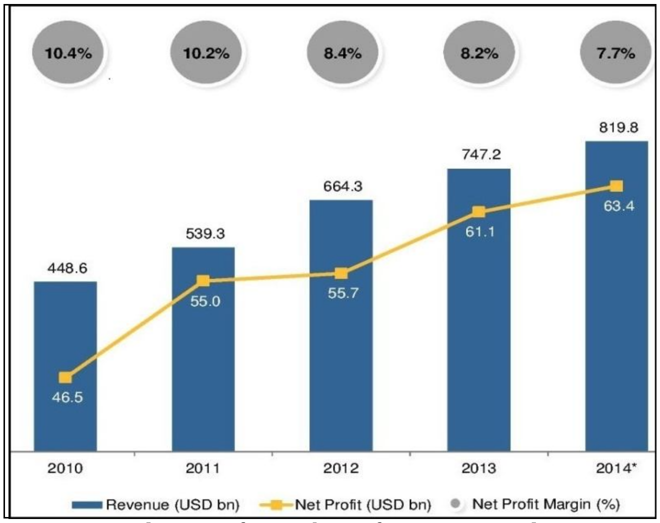


*Figure 1: Revenue and Net Profit Numbers of Top 500 Listed Companies in India*
*Source: Aranca Research Analysis, India: New Government & Economic Outlook, November 2014*

It could be evidenced from the above figure1 that the performance of corporate sectors in India have been accelerated with 448.6 (USD bn) Revenue in 2010 to 819.8 (USD bn) Revenue as on 2014 and also the profit has been accelerated with 46.5 (USD bn) in 2010 to 63.4 (USD bn) as on 2014.

**2. Reasons for the Growth of Corporate Downsizing**

Corporate Downsizing gets handled by corporate companies in several circumstances which it ultimately aims at the survival and profitability of the company. This deed leads to unemployment and lack of job security to the employees. The following explanations are the major reasons for corporate downsizing,

- Merger and Acquisition: It is a consolidation of two or more companies which are preparing for Merger or Acquisition. Merger takes place when two or more companies combine in to one. Meanwhile acquisition is a form of takeover. A purchase of a whole entity or a part of it by a acquiring company and no longer exist of acquired company as a separate entity. M&A leads to corporate downsizing in recent trends, for example: TATA Jaguar – Land Deal.
- When company goes at loss: Drew (1994) compartmentalized the factors into three main categories; macroeconomic, industry specific and company specific. Empirical evidence revealed that declines in sales (industry specific) declines in profit (industry specific), poor financial results (company specific), greater responsiveness to customer needs (industry specific), and increased international competition (macroeconomic) were the main downsizing driving forces for the surveyed firms. For example Motorola downsizing due to loss in 2012.
- Change in Organization: Due to changes in the products or services or administrative systems to reside competitive, an organization probably decides to make changes in the structure of the organization. Downsizing is a major process of reconstruction or reorganizing, this meant to reduce the number of employees for effective and profitable operation.
- Economic Crisis: Employment downsizing is most frequently executed at the time of economic crisis as a tactic. Many successful corporate companies are accepting such tactics to improve their workforce.
- Strategy Changes: Changes adopted by the corporate companies in their strategic planning might also leads them to decide for downsizing. For example, General Electronic has adopted a strategy called “strategy for maintaining excellence” for which they laid off more than 100, 000 employees in seven years by stating them as underperforming employees.
- Outsourcing: Commonly the consequence of outsourcing will be a downsizing in any organization which majorly reduces the labor cost.

**3. Approaches for Corporate Downsizing**

An overall simplification of corporate downsizing may be compared with cost cutting with head count reduction. Scholars have found that organizations that downsized most effectively in terms of organizational performance (viz., performance against goals, perceived customer expectations and comparison with competitor’s performance) employed some common strategies:

1. Implementation by command from the top with recommendations from lower-level employees based on job and task analyses of how work is currently organized.

2. Using of both short-term (workforce reduction) and long-term (organization redesign and systematic change in the organization's culture) approaches along with across the board and targeted downsizing.
3. Paying attention to the needs of both survivors and victims
4. Using internal resources to identify areas of redundancy and inefficiency and then targeting those areas for downsizing.
5. Viewing downsizing as a means to an end (a strategy to enhance competitiveness) as well as the targeted end. (Cameron, 1994).

| Strategies | Workforce Reduction | Organization Redesign | Systematic |
|---|---|---|---|
| Focus | Workers | Jobs and Units | Culture |
| Target | People | Work | Status quo processes |
| Implementation Time | Quick | Moderate | Extended |
| Temporal target | Short-term payoff | Moderate-term payoff | Long-term payoff |
| Inhibits | Long-term adaptability | Quick payback | Short-term cost savings |
| Examples | Natural Attrition<br>Hiring Freeze<br>Early Retirement<br>Buyout packages Layoffs<br>Retrenchments | Abolition of functions<br>Merging of units<br>Job Redesign<br>De-layering<br>Reducing overall work hours | Staff involvement<br>Bottom-up change<br>Continuous improvement<br>Process Simplification |

*Figure 2: Strategies for Implementation of Downsizing*
*Source: Cameron, Strategies for Successful Downsizing, Human Resource Management, summer 1994*

Chatterjee and Bhattacharyya (2001) have explored the issue of implementation of downsizing in India through their empirical study of the downsizing process in an electrical and electronics appliances company. While the small sample size hinders the generalizability of the findings, the study's main contribution lies in highlighting some major issues that downsizers, and specially implementers, in India need to keep in mind while carrying out downsizing. It is also one of the few studies which have attempted to look at downsizing from the implementer's point of view. The findings support or illustrate implementation issues discussed in existing literature in terms of the importance of:

1. Clear and consistent communication strategies and management actions
2. Information sharing with implementers
3. Helping employees to deal with the trauma associated with the trauma associated with the downsizing experience
4. Choosing implementers with care and suitably motivating them through sufficient and organizational support to help them deal with their own psychological issues.

Wayne F. Cascio (Right Management) stated that an organization that decides for downsizing of employees by adopting the following broad strategies,

1. Attrition
2. Voluntary termination
3. Early Retirement incentives (ERI),
4. Compulsory termination and
5. Across-the-board cuts

## 4. Process of Corporate Downsizing

| STAGE 1<br>**Decision to Downsize** | STAGE 2<br>**Planning the Downsize** | STAGE 3<br>**Making the Announcement** | STAGE 4<br>**Implementing the Downsizing** |
|---|---|---|---|
| • Use downsizing as a last resort<br>• Craft a credible vision | • Form a cross functional team<br>• Identify all constituents<br>• Use experts to smooth the transition<br>• Provide training to managers<br>• Supply information the state of the business | • Form a cross functional team<br>• Identify all constituents<br>• Use experts to smooth the transition<br>• Provide training to managers<br>• Supply information the state of the business | • Communicate<br>• Help employees to find other jobs<br>• Implementing separation and generous to laid off workers<br>• Involve employees in the implementation of downsizing<br>• Provide career counseling<br>• Train survivors |

*Figure 3: Stages in Implementation of Downsizing*
*Source: Mishra et al., Preserving Employees Morale during downsizing, Sloan Management Review, 1998*

**5. Effects of Corporate Downsizing**

For every action there would be an equal and opposite reaction which might be a positive or negative one. Most identified positive and negative effects are as follows

**POSITIVE EFFECTS**

- Cut-cost
- Increased Productivity
- Better Competency
- Less Bureaucracy
- Faster Decision Making
- Increase in stock price

**NEGATIVE EFFECTS**

- Psychological effects on employees – anxiety, stress, tension, depression
- Social effects on employees – Losing a job, breaking of social as well as personal life, difficulty in finding other job
- Social effects on organization – loss of goodwill, low rating of company, failing to retain talent and to attract good candidates

*Figure 4: Effects of Corporate Downsizing*
*Source: Dr. Abhishek Tripathi, Globalization and Downsizing in India, IJMCR, September 2014*

**6. An Outlook on Recent Corporate Downsizing in India**

Gayathri (2006) have stated that in several situations downsizing is unavoidable. There was an article "Downsizing with Dignity" by Ann E Feyerherm, which gives guideline based on the first hand familiarity of a manager concerned in downsizing attempt in a company in south California. Since, the axe had to fall, the best approach adopted was to downsizing with dignity and to make sure those who were let to go were prepared with new skills to increase their career prospects.

- Dell Downsizing The SAS Nagar Dell centre for international services was launched in 2005 and provides services like consumer tech support and customer care for the United States. Dell International Services is the support and services division of Dell and has operations in India, Europe, Latin America, Africa and the Philippines. Showing clear signs of cutting costs by curtailing staff strength, information technology giant Dell has offered its employees to quit the company in exchange of forward salary for several months. As such, 350 of the nearly 1,000 of its staff at the SAS Nagar unit have opted for the "voluntary separation programme" (Hindustan Times, 13 February 2014).
- IBM Downsizing The official site for IBM employees' union said, "In 2013, IBM spent $1 billion on what it called 'workforce rebalancing', which means nothing else than a giant job cut. In 2014, the company is set to spend another $1 billion to eliminate an estimated 15,000 jobs worldwide." "For about a year, the company has put a freeze on hiring in its software and services units in India. We have been told it is restructuring the organization and, therefore, there will be no new hires," said an IBM India software and solutions group employee (Business Standard, 13 February 2014).
- Yahoo Downsizing For years, Yahoo had been building up its Bangalore operations as one of its global technology centerpieces. Now, in a radical restructuring, the internet company is pulling back work to its Sunnyvale, California, headquarters, and laying off large numbers of its employees in Bangalore. The laid-off employees have been offered a six-month severance package. Those asked to relocate to the US but unwilling to do so have been offered a 12-month severance package, sources in the company said. Yahoo declined to talk about the numbers being retrenched, but sources in the company and others close to the company said some 300 out of the 800-odd developers were being asked to go. Some have been asked to relocate to Sunnyvale (Times of India, 8 October 2014)
- Nokia Downsizing It was recently announced that Nokia would be stopping the production of handsets at its manufacturing facility at Sriperumbudur from the 1$^{st}$ of November 2014. When Microsoft acquired Nokia earlier, this factory wasn't part of the deal because of an assets freeze order due to a tax dispute with authorities. A statement has been issued that 1,100 employees will continue to receive remuneration until the closure of the plant is officially declared (Economic Times, 8 October 2014)
- TCS Downsizing As part of cost cutting measures it is learnt that TCS is going to sack up to 25,000 to 30,000 employees in the next few months, mainly senior professionals and hire fresher's. The company has not issued any notice before this lay off and they are yet inform it to the Labor Department or the government. As per Industrial Disputes Act 1947, the company should inform the government before any layoff and the Ernakulum DLO has confirmed that TCS has informed neither them nor the government regarding the layoff," (The New Indian Express, 31 December 2014)

| Date | Company | Cuts |
|---|---|---|
| 5/24/2014 | Hewlett-Packard Co. | 16,000 |
| 1/20/2014 | Intel Corp. | 5,350 |
| 2/27/2014 | Maximus Inc. (Affordable Care Act call center) | 1,600 |
| 5/19/2014 | LivingSocial | 1,500 |
| 1/23/2014 | Texas Instruments Inc. | 1,100 |
| 3/1/2014 | Verizon Wireless Irvine | 1,092 |
| 5/30/2014 | Dell Inc. (India plant) | 1,000 |
| 1/29/2014 | EMC Corp. | 1,000 |
| 4/9/2014 | Intel (Costa Rica plant) | 1,000 |
| 2/27/2014 | Sony Electronics | 1,000 |
| 2/13/2014 | Verizon call center | 600 |
| 1/26/2014 | Center Partners call center | 500 |
| 2/28/2014 | Cox Communications (call centers) | 500 |

*Figure 5: Mass Layoffs in the Tech Industry Are Up 68% (2014)*
*Source: Challenger, Gray & Christmas Inc., Tech cuts Report 2014*

| | Q1 | Q2 | Q3 | Q4 | Total |
|---|---|---|---|---|---|
| Computer | 9,133 | 20,869 | | | **30,002** |
| Electronics | 3,051 | 2,305 | | | **5,356** |
| Telecom | 11,277 | 1,767 | | | **13,044** |
| TOTAL | **23,461** | **24,941** | **-** | **-** | **48,402** |

*Figure 6: 2014 Technology Job Cuts*
*Source: Challenger, Gray & Christmas Inc., Tech cuts Report 2014*

## 7. Conclusion

An execution of downsizing strategy in an organization should be planned sound with dignity and employees morale. It is evident that in several states "Downsizing" is inevitable but the management needs to bother about the future of their valuable employees who are all about to lose their jobs. To minimize the negative effects towards the employees and an organization, the management should take up the downsizing process appropriately and also need to consider other alternatives. Strictly regulated hiring and firing policy brings transparency in social security benefits to aid workers. Interruption of Indian government in the issues of employees downsizing might create vigilant proceedings of corporate sectors in India.

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