Phases of Cost Cutting: Downsizing is Dead; Long Live the Downsizing Phenomenon

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Abstract

This downsizing research article presents a phase typology of job cutting which includes three distinct phases and three levels of argument. Conceptually, the paper draws heavily upon the seminal work of Littler and Gandolfi (2008) seeking to expand and update their 2008 Academy of Management (AOM) Conference paper. The paper culminates with a contemporary discussion of current downsizing practices showcasing that the strategy of downsizing has remained a popular restructuring method on a global scale.

Keywords: *downsizing, cost cutting, phase, strategy*

JEL classification: D24, D61

Introduction

Employee downsizing as a change management strategy has been adopted for more than three decades. Back in the 1980s and early 1990s, it was implemented primarily by firms experiencing difficult economic times (Gandolfi, 2009). However, since the early to mid-1990s, downsizing has become a leading strategy of choice for a multitude of companies around the world (Littler & Gandolfi, 2008). Over the years, the phenomenon of downsizing has generated a great deal of interest among business scholars, HR professionals, and the popular press. The prime impetus of most downsizing activities is the desire for an immediate reduction of costs and increased levels of efficiency, productivity, profitability, and competitiveness (Farrell & Mavondo, 2004). While some scholars claim that the research-based body of knowledge is still underdeveloped (Macky, 2004), others suggest that there continues to be a great deal of confusion surrounding the multi-faceted nature of downsizing (Gandolfi, 2006).

The purpose of this research article is to present a phase typology of job cutting which includes three distinct phases and three levels of argument. The paper draws heavily upon the work of Littler and Gandolfi (2008) extending their 2008 Academy of Management (AOM) Conference paper. The paper culminates with a discussion of contemporary downsizing practices showcasing that downsizing has remained a popular restructuring strategy on a global scale (Gandolfi, 2009).

Phases of Job Cutting

In their most recent work, Littler and Gandolfi (2008) placed the emergence and development of downsizing in a historical context and established a phase typology of job cutting resulting in three downsizing phases (or periods) – from the mid-1970s to the mid-1980s, from the mid-1980s to the early 2000s, and from the early 2000s until the present time. This is depicted in Table 1. The justification for the periodization was a combination of a survey of the downsizing literature, empirical evidence based upon Compustat data, and assertions of downsizing scholars. In discussing the various job cutting phases, three distinct levels of argument were identified and discussed – the level of practice, level of discourse, and level of strategizing (Littler & Gandolfi, 2008). The level of *practice* refers to the level of labor inputs as well as the foci and magnitude of job cuts per organizational entity; while the level of *discourse* refers to the language and rhetoric of downsizing used by executives in their downsizing communication. The level of strategizing refers to the efficacy of downsizing practices as signals to capital markets (Littler & Gandolfi, 2008).

Phase typology of job cutting

Table 1

Phase (Period) Level of argument	1976 - Mid-1980s	Mid-1980s – Early 2000s	Early-2000s - Present
Level of practice	Variations in labor inputs involving job cuts, plant closures, and others.	Variations in labor inputs involving job cuts, plant closures, outsourcing, and increased use of contingent labor.	Variations in labor inputs involving job cuts, attrition, plant closures, outsourcing, and increased use of contingent labor.
	Smaller cuts per firm.	Larger job cuts per firm.	Smaller job cuts per firm.
Level of discourse	No language of downsizing.	Language of downsizing creating a focus and a signal to capital markets.	No language of downsizing. Language signals become confused – "*as [the firm] transitions to a smaller company.*"
Level of strategizing	No strategizing of job cuts.	Strategizing of job cuts.	Strategizing of job cuts not effective as a signal to capital markets.

Source: adapted from Littler & Gandolfi (2008)

Phase 1: 1976 – Mid-1980s

The first phase (period) of job cutting refers to the years from 1976 until approximately the mid- 1980s. What took place during that timeframe? In order to shed light on this, the various levels of argument need to be outlined and discussed. This is depicted in Table 1:

Level of practice: Variations in labor input from 1976 to the mid-1980s generally comprised temporary and permanent job cuts (Beaumont & Harris, 2002), plant closings (Allen, Freeman, Russell, Reizenstein, & Rentz, 2001), site closures (Root, 1984), and layoffs (Sharone, 2007). It is noteworthy though that during the years between 1976 and the mid-1980s, the actual size and magnitude of job cutting in the U.S. was relatively small in absolute numbers (Littler & Gandolfi, 2008). Despite the fact that there were regular layoffs during those years, it was very rare for a firm to announce and cut more than a few hundred of positions at any given time. Still, the *Fortune 500* companies alone managed to remove 2.8 million employees from their payrolls between 1977 and 1982 (Anthony, Perrewe, & Kacmaar, 1996). In the 1960s and 1970s, the primary targets of job cutting initiatives were the unskilled blue-collar workers earning an hourly wage (Touby, 1993) as well as the lower-level white-collar workers (Cameron, 1994; Freeman, 1994). The shift from the target of blue-collar workers to predominantly white-collar workers, especially higher-level white-collar workers, professionals, and middle managers occurred in the 1980s (Littler, 1998; Orlando, 1999; Dolan, Belout, & Balkin, 2000). This has been identified as the second phase in the typology of job cutting (see Table 1).

Level of discourse: Prior to the mid-1980s, the term downsizing appeared very infrequently in both the popular business press and academic literature. Thus, there was no downsizing language. This does not mean that variations in labor inputs did not happen, but rather that no specific label existed for the practice (Littler & Gandolfi, 2008). In fact, prior to 1985, downsizing was perceived as "an aberration from normal organizational functioning" and "a last ditch effort to thwart organizational demise or to temporarily adjust to a cyclical downturn in sales (Cameron, Freeman, & Mishra, 1993: 20). In the U.S., while employees in both private and public organizations were familiar with the concept of downsizing to some degree, the term did not necessarily appear in older business dictionaries prior to the 1980s. Before downsizing existed in popular vocabulary, many U.S. workers were aware of the concept of reduction in force (RIF). In theory, downsizing is conceptually different from RIF in that RIF is adopted as a result of reduced budgets, a change in corporate direction, or a move in governmental mission that forces agencies to reduce their workforces (Jones, 1998). North American firms have long used RIF to reverse declines in their economic fortunes. Workforce reductions have traditionally been accepted by U.S. businesses as a quick way to cut costs by lowering overheads, eliminating unnecessary work, reducing bureaucracy, and getting rid of surplus employees (Allan, 1997).

Level of strategizing: Prior to the late 1980s, downsizing was adopted and implemented as a "reactive response to organizational bankruptcy or recession" (Ryan & Macky, 1998: 31). This suggests strongly that downsizing was intrinsically correlated with the business cycle, and thus, frequently chosen as a reactive measure to economic crises (Budros, 1999). This reaction to temporary changes is also known as "cutbacks" (Anthony et al., 1996: 637-638). Prior to the mid-1980s, there was virtually no strategizing of downsizing on the part of managers and business owners (Littler & Gandolfi, 2008). Downsizing was not seen as a strategy *per se* (Macky, 2004). In fact, it was not until the late 1980s and early 1990s that downsizing emerged as a managerial strategy (Chadwick, Hunter, & Walston, 2004) and, in fact, became the human resource management "strategy of choice" (Cameron et al., 1993: 21). Appelbaum, Everard, and Hung (1999) assert that downsizing was rarely part of the overall strategic plan for the firm prior to the mid-1980s, but a short-sighted, knee-jerk reaction of changes in competition (Bruton, Keels, & Shook, 1996). There is consensus among downsizing scholars that the period between the mid-1970s and the mid-1980s was a decade of non-strategic job-cutting with no clear discourse focusing (Littler & Gandolfi, 2008).

Phase 2: Mid-1980s – Early 2000s

The second phase (or period) of job cutting refers to the years from the mid-1980s until the early 2000s. What occurred during those years? Again, the various levels of argument need to be presented and discussed as depicted in Table 1:

Level of practice: Variations in labor input from the mid-1980s until approximately 2003 comprised larger job cuts (Greenglass & Burke, 2001), plant closures (Appelbaum et al., 1999; Orlando, 1999), outsourcing (Beylerian & Kleiner, 2003), and the increased use of contingent labor (Polivka, 1996; Beylerian & Kleiner, 2003). Conspicuously, this period came to be known as the period of "mass layoffs" (Davis, 2003: 184). The prime targets of downsizings and corporate layoffs during this phase were not the industrial blue-collar workers who had traditionally borne the brunt of cutback in employment (Cascio, 1993). Conversely, it was the clerical, technical, professional, and managerial workers that became the strategic targets of workforce reduction programs (Cappelli, 1992; Allan, 1997). Efforts by firms to obtain a competitive advantage position through resource parsimony (Griggs & Hyland, 2003) challenged the 'bigger is better' corporate paradigm (Tucci & Sweo, 1996). Firms came to value being perceived as 'lean and mean' (Gandolfi, 2008). Strategically, the lean and mean corporation tried to keep employment levels low through the permanent elimination of blue- and white-collar employees (Heckscher, 1995). While many organizations purported to become lean and mean (Appelbaum et al., 1999), many ended up being 'lean and lame' (Mroczkowski & Hanaoka, 1997).

Statistics unveil a sobering picture of the number of individuals that lost permanent jobs in this phase: For instance, the Bureau of Labor Statistics (BLS) in the U.S. reported that more than 4.3 million jobs were shed between 1985 and 1989, while the *Fortune 500* firms eliminated 3.4 million jobs between 1982 and 1992 (Lee, 1992). Allan (1997) cites that more than 85 per cent of the *Fortune 1000* companies downsized their white-collar forces from 1989-1993, thus affecting more than 5 million jobs. Morris, Cascio, and Young (1999) refer to a report released by The New York Times showing the elimination of 43 million U.S. jobs from 1979-1996. The rate of job loss hit a peak of 3.4 million a year in 1992 (Morris et al., 1999) and with 1998 topping the decade biggest downsizing year up to that point (Dolan et al., 2000).

The U.S. Department of Labor commissioned Morris et al. (1999) to study the magnitude and pervasiveness of downsizing in the U.S. The results showed that large firms, in particular, were prone to engage in massive levels of layoffs, including IBM (85,000 jobs), AT&T (83,000 jobs), General Motors (74,000 jobs), and Sears (50,000 jobs). The longitudinal research further found that manufacturing firms accounted for the highest incidence of downsizing (25%), followed by retail (17%), and service (15%). However, downsizing is not confined to the corporate sector; the public sector has also seen a dramatic change (Dolan et al., 2000). In terms of profitability, empirical data have shown that low-profitability companies were more inclined to adopt downsizing than their high-profitable counterparts (James, 1999; Kirby, 1999). Moreover, empirical evidence disclosed that one third had downsized more than 15% of their workforce over a period of 12 months, thereby further providing evidence that large organizations were more prone to resort to downsizing (Gandolfi, 2006). Cascio (1993) uses anecdotal evidence contending that downsizing begets more downsizing. He illustrates his point by referring to the U.S. firm Kodak which downsized four times between 1982 and 1992. Similar findings were observed studying Digital Equipment, Honeywell, IBM, and Xerox which all experienced multiple deep employee cutbacks in the 1990s.

Level of discourse: Between the mid-1980s and early 2000s, downsizing was adopted as a strategy to bring about the 'Wall Street effect' where an announcement of layoffs would yield immediate increases in stock prices (Littler & Gandolfi, 2008). Downs (1995) asserts that a facet of the Wall Street effect is 'mass performance management' inferring that nothing else gets a firm's name in the paper more quickly than an announcement of a layoff. Indeed, executives were aware of the positive reaction immediately following a decision and announcement to downsize, which was used as a means of achieving short-term positive stock price movements (Appelbaum et al., 1999). Correspondingly, Fisher and White (2000) postulate that managers continued to use downsizing to improve productivity and gain the favor of Wall Street. Downsizing was adopted because executives believed that downsizing efforts would be viewed favorably by investors and financial analysts and that stock prices would rise in response to announced downsizing activities (McKinley, Sanchez, & Schick, 1995).

Level of strategizing: Beginning in the mid-1980s, as downsizing rose to prominence and gained status, it became the preferred route to improving organizational productivity (Griggs & Hyland, 2003). Since 1988, in particular, downsizing has manifested itself as a proactive human resource strategy (Chadwick et al., 2004) and a strategic managerial tool (Luthans & Sommer, 1998). This fundamental change connotes that downsizing attained the status of a fully-fledged restructuring strategy with the intent of achieving a new organizational structure and a new level of competitiveness (Littler, Dunford, Bramble, & Hede, 1997). It was during this time period that corporate leaders shifted from "bigger is better" to "lean-and-mean" (Griggs & Hyland, 2003: 178). Fundamentally, a key strategy of the lean and mean firm was the adoption of downsizing (Budros, 2002). The strategizing of downsizing during this period was referred to as the institutionalization of downsizing (McKinley, Zhao, & Rust, 2000). However, Appelbaum and colleagues warned that firms following the 'troublesome' downsizing trend pursued a 'follow-the-leader' zero-sum game (Appelbaum et al., 1999). This was referred to as cloning – mimicking those firms that provide a benchmark in the industry in terms of excellence and prestige (McKinley et al., 1995).

Phase 3: Early 2000s - Present

The third phase (or period) of job cutting refers to the years between the early 2000s up until the present time. What has taken place since approximately 2003? The various levels of argument need to be presented and discussed as depicted in Table 1:

Level of practice: Variations in labor input between the early 2000s and the present time have comprised job cuts (Wilkinson, 2005), plant closures (Macky, 2004; Maurer, 2005), outsourcing (Minnick & Ireland, 2005), the continued use of contingent labor (Maurer, 2005), and natural attrition (Simons, 2007). Empirical evidence suggests that while variations in labor inputs have continued since 2003, the actual job cuts per firm have shown to be smaller (i.e., smaller packages of job cuts) compared to the previous two phases. This is likely to suggest that firms have restructured and engaged in corporate layoffs incrementally (Littler & Gandolfi, 2008).

Level of discourse: It is noteworthy that while corporate restructurings, layoffs, plant closures, outsourcings, and the use of contingency workers have continued to this day, the language and rhetoric of downsizing have fundamentally changed (Littler & Gandolfi, 2008). For instance, downsizing announcements *per se* have largely vanished. The absence of downsizing language in the popular press is evident and downsizing announcements have rarely appeared in corporate press releases since 2003. It seems as though the corporate language and rhetoric has returned to levels comparable to the pre-1970s. In December 2007, for instance, the

Swiss pharmaceutical giant, Novartis AG, announced a major restructuring of its U.S. operations, which foresaw the disappearance of 1,260 sales positions in the U.S. The corporate announcement in Switzerland and in the U.S. focused on cost-cutting and streamlining activities rather than on downsizing in its strictest sense (Olson, 2007). In January 2007, U.S. firm Ligand Pharmaceuticals Inc., also announced a major restructure in its operations. Instead of using downsizing language from the 1990s, the firm chose the words "*as it [the firm] transitions to a smaller company*" in its communication. As such, the language signals have become confused compared to the previous job cutting phase (Littler & Gandolfi, 2008). Littler and Gandolfi (2008) used NAS data from 2003 to 2008 and determined that not one corporate announcement used downsizing or close cognates (including rightsizing and resizing) in its media release. Therefore, downsizing language has ceased as an effective signal to capital markets, investment analysts, and intermediaries (Littler & Gandolfi, 2008).

Level of strategizing: There is an awareness, realization, and understanding that there is little or no strategic value in making downsizing, cost-cutting, and layoff announcements. The much-cited 'Wall Street effect', which was so prevalent in the 1980s and 1990s, no longer applies. Anecdotal evidence suggests that layoff and restructuring announcements in this current period have not generated stock market inflations as was the case in the previous phase. As noted, there has been a noticeable absence of downsizing language in corporate announcements since 2003. As such, it can be concluded that corporate restructuring plans, including layoffs, plant closures, and outsourcing are no longer effective signals to capital markets (Littler & Gandolfi, 2008).

Having reviewed the job cutting phases that have crystallized over the past three decades, what downsizing practices are currently being utilized in this job cutting phase? The following section aims to showcase briefly some contemporary downsizing practices and shed light on job losses that have occurred in this current financial crisis.

Contemporary downsizing practices
There is strong empirical evidence suggesting that firms have continued to resort to downsizing and engage in layoffs in this current cost cutting phase (Gandolfi & Neck, 2008, Gandolfi, 2009; Mishra, Mishra, & Spreitzer, 2009). Conspicuously, there are two downsizing practices that are currently being adopted by companies in the U.S. - stealth downsizing and non-selective (i.e., across-the-board) downsizing:

Downsizing activity #1: Stealth downsizing
Stealth layoffs or stealth downsizing, seen by some as a new management fad (Weiss, 2008), is a contemporary layoff practice in the U.S. Under the stealth approach, managers are not permitted to discuss downsizing and downsizing-

related layoffs openly in meetings, memos, or e-mails out of fear that negative publicity may ensue (Gandolfi, 2010). Firms engaging in such practices attempt to avoid negative press coverage at all costs, yet they are likely to create an atmosphere of distrust and unease among employees leading to decreased levels of workforce morale and motivation as well as defections of talented people (McGregor, 2008). As a result, companies reduce employee levels in a surreptitious manner (Weiss, 2008). In other words, firms lay off individuals quietly (McGregor, 2008). Historically speaking, IBM has been known for pursuing stealth practices cutting small number of people across a range of departments and keeping the firm out of the public eye. Back in 2002, for instance, IBM unveiled its "*resources actions*" strategy, which entailed skills rebalancing and the elimination of redundancies (Krane, 2002). As a direct consequence, IBM cut in excess of 5,000 jobs over the course of four months without issuing an overarching public statement on the extent of the layoffs (Krane, 2002). This practice became known as 'stealth layoffs'. In 2005, Hewlett-Packard (HP) engaged in stealth layoffs in that, originally, the company was believed to be on a layoff 'rampage' which it denied, but later admitted. Thereafter, HP was said to have mastered the technique of stealth layoffs since it kept things quiet so as not to disturb the political and economic ecosystems (Demerjian, 2005). In 2008, both Google (Caulfield, 2008) and Yahoo (Rouse, 2009) resorted to stealth layoffs with little fanfare and media coverage. In 2009, movie rental firm Blockbuster has been utilizing a stealth layoff strategy closing a large number of its U.S. stores over an undisclosed period of time in the wake of the current financial downturn in the U.S. (Farfan, 2009). On the other hand, IBM continued its stealth layoff strategy in the first quarter of 2009 despite the company's strong financial results released in January 2009 (Kennedy, 2009).

Downsizing activity #2: Non-selective downsizing

There is substantial empirical evidence supporting the notion that large firms, in particular, have continued to downsize and embark upon extensive non-selective, across-the-board job cutting. This is mostly evident in layoff announcements and plant closures in the U.S. over the past few years. In 2007, for instance, several large pharmaceutical firms announced plant closures and employee layoffs with industry leader Pfizer reporting the abandonment of three research centers and two manufacturing plants in the U.S. Similar announcements were made by Johnson & Johnson and Amgen as each cut large portions of their workforces (Martino, 2007). A parallel development took place among high-technology companies with both Dell and Motorola shedding significant numbers of employees (Deffree, 2007; Ogg, 2007). Since the late 2007, the global finance industry has been severely impacted by the global credit squeeze (Elstein, 2008) and the U.S. subprime mortgage crisis with many firms been forced to make deep personnel cuts (Rampell, 2009). For instance, U.S.-based banks were forced to cut in excess of 65,000 employees during the June 2007–2008 time period (Story & Dash, 2008). At present, employee cutbacks are occurring in all industries

(Rampell, 2009) and the economic downturn has produced staggering job losses in the U.S. (Bureau of Labor Statistics, 2009). While there are preliminary signs showing that the U.S. economy is on the mend, there are reports showing that firms have continued to reduce workforce levels resulting in increased levels of unemployment in the U.S. (Quinn, 2009).

Concluding remarks

Downsizing is dead, long live downsizing! Downsizing has remained a complex, multifaceted phenomenon (Gandolfi, 2009). While the body of literature is extensive and many valuable downsizing lessons have been learned, the reactive and proactive/strategic downsizing practice has continued unabated despite its dubious track record (Mishra et al., 2009). More research and a greater depth of understanding of the various cost cutting phases is required in order to build a firm theoretical foundation for future research and to establish a meaningful dialogue between the business constituents and academic communities.

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