

## The Impact of Downsizing on Employee Loyalty

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### Abstract

Over the last few decades, workforce downsizing has become a common human resource technique among management. Different downsizing plans have been employed by numerous corporate units to reorganize their operations and provide more affordable products. Relevant literature on downsizing and employee loyalty was reviewed. Reduced size had a major negative effect on the remaining employees' devotion. This study helps to learn more about how downsizing affects the loyalty of employees who avoid layoffs as a result of downsizing. The purpose of this study is to shed more light on the relationship between downsizing and employee loyalty. According to the study's findings, employees' behaviour within their business would be impacted by their feelings of unease during the downsizing process. Furthermore, merely acknowledging a decline in morale as a foreseeable outcome could damage productivity and employee loyalty. It is vital for a manager overseeing downsizing to make sure that the employees who survive layoffs maintain their dedication and loyalty to the company; failure to do so may have a detrimental effect on their organizational loyalty.

**Keywords:** Downsizing, Employee Loyalty, Survived Employee.

### Introduction

The significance of acquiring a competitive advantage in the current competitive landscape has been emphasized by Heifetz et al (2009) to enhance productivity and prevent negative impacts on the organization and its employees, they recommend organizations adopt strategies that result in agile changes instead of downsizing. According to Dike (2023), downsizing is a common strategy for expanding businesses to close revenue and expense disparities, but it doesn't just impact struggling organizations.

Workforce downsizing has been a popular HR strategy in recent years, aiming to reduce employee numbers, retain human capital, and rebuild organizational structures (Sumathi and Thangaiah, 2023). Globalization may impact job mobility in lower-cost economies, job creation in international markets, increased competitiveness, and job loss in established markets (Ifeoma and Patience, 2021). However, most empirical evidence suggests downsizing negatively impacts employee well-being and corporate success. In recent decades, firms have used layoffs to restructure and develop cost-effective products. Increased competitiveness has resulted in using technology-based devices to reduce the workforce. Downsizing has an impact on employee loyalty, and competent management is essential for organizational success (Ifeoma & Patience, 2021; Ndlovu & Parumasur, 2005; Al-Hammali, Habtoor, & Heng, 2021).

Downsizing tactics are frequently used by organizations in complex, unpredictable situations to boost profitability and competitiveness. Shrimali and Khan (2022); Kim (2024) However, this might lead to employee dissatisfaction and lower engagement, reducing loyalty (Malik et al. 2010; Arzuaga et al., 2021). Downsizing can also be part of a larger employee strategy consistent with the company's overall goals. According to Adu et al (2020), layoffs are only one of several options for improving the success of a company.

This research will provide more insight into how downsizing and HR management affect the loyalty of employees who avoid layoffs during downsizing. This is performed by conducting a systematic review of the findings of independent investigations. This study looks into the characteristics and relationships between variables that reflect the consequences of downsizing on survivors. Individual downsizing studies provide the characteristics used to quantify employee loyalty among downsizing survivors.

### **The Purpose of this Study is**

The study discusses the literature and previous studies on the topic of employee loyalty and the concept of downsizing. This study aims to understand the relationship between these two variables, in particular the impact of downsizing on the loyalty of employees after the downsizing and reduction of employees. Thus, the findings from previous studies will support the conclusion of this study.

### **The Significance of the Study**

The main significance of this study is in the following two aspects

**Society.** This study will highlight the negative effect of downsizing on the loyalty of a large number of employees working in organizations. By investing in the well-being and development of employees, companies can build a more resilient and loyal workforce that is better equipped to handle challenges and changes in the future.

**Economy.** This study aims to enhance business models and the national economy by increasing annual revenues through effective downsizing plans. It emphasizes the importance of creating a positive work environment, fostering growth and collaboration, improving HR rules, and promoting a safety culture. Policies enhancing employee loyalty, safety, and work-life balance are also crucial.

### **The Concept of Employee Loyalty**

First impressions greatly impact employee loyalty. Individual necessities and moral obligations are the two categories of loyalty. Genuine loyalty is in favour of central policies. Employees of today place a high priority on welfare and information. In addition to promoting

sustainability and growth, loyalty strengthens the bond between employers and employees (Dhir et al., 2020).

Employee loyalty enables a business to flourish swiftly. It drives people to work at their best, contributing to the firm's success and growth (Albtoosh et al., 2022). According to Abror et al (2020), engaged employees are more loyal than their less engaged counterparts, which benefits the organization's growth and success. Employee loyalty opportunities and expectations are rapidly evolving, particularly in the business environment (Stojanovic et al., 2020). Thus, maintaining and developing a loyal workforce offers several advantages and shields the company from certain disadvantages, making it essential to organizational efficiency. According to Darmawan et al (2020), employee loyalty is increased through empowerment, training, encouragement, and performance reviews. Employee loyalty must be increased by the workplace, job satisfaction, cooperation, and collaboration, (Farrukh et al., 2020). Three categories are used to classify employee loyalty: to the firm or organization; to the leader; and the job (Saputra and Mahaputra, 2022). Employers foster employee loyalty by understanding psychological contracts and reciprocal relationships, investing heavily in training programs, rules, and benefits to ensure business viability and employee loyalty; (Schrag, 2001; Dutta and Dhir, 2021).

According to social exchange theory, there is interdependence between the transactions that occur between individuals and organizations. When you offer a benefit, you establish a responsibility to reciprocate. Interdependent contacts build loyalty and trust, which eventually leads to employee loyalty (Blau, 1964). Employee loyalty is a strong commitment to their employer, leading to increased engagement, productivity, and a willingness to go above and beyond at work. According to Frempong and Agbenyo (2018), a lack of job satisfaction may result in decreased employee loyalty.

Loyalty is an emotional connection with internal and external dimensions, involving feelings of caring, affiliation, and devotion. Leaders should focus on these internal feelings, as employees may not understand their intentions or demonstrate loyalty in misunderstood behaviors, (Singh et al., 2020). Based on an awareness of psychological contracts and the reciprocal nature of certain rights and responsibilities in human relationships, employers also offer their employees loyalty, (Schrag, 2001). Organizations invest heavily in training programs, rules, and employee benefits to ensure a viable business and employee loyalty, (Dutta and Dhir, 2021).

The term "employee loyalty" was first used by Hirschman in 1970. He characterized a loyal employee as one who endures hardships without complaining, believing that things would be better in the future. Rusbult et al (1988) define employee loyalty as the desire for improved working conditions, readiness to support the organization, and desired citizenship behaviours. Employee loyalty involves staying with a company, adhering to rules, prioritizing company goals, refraining from sharing false information and promoting company products, (Powers, 2000). Dhir and Dutta (2021) define loyalty as an employee's strong sense of ownership, belief in the business, and willingness to work towards common goals. Employee loyalty is an emotional and cognitive bond between employees and a company, indicating their commitment to the Organization's success and efforts to achieve its objectives (Lee and Liu, 2021).

According to Collins (2019) study, the concept of loyalty in the corporate world has evolved significantly over the past two decades. Loyalty was once assumed to be a natural part of company culture. In today's society, loyalty is demonstrated by practical actions. Employee

recognition, corporate rewards, monetary gifts, and effective marketing communications can foster strong connections with employees.

Nguyen and Ha (2023) suggest that organizations can boost employee loyalty through competitive compensation, recognition, professional development, clear communication, shared values, work-life balance, and career opportunities. Policies that promote such partnerships can lower turnover and maximize performance. Organizations should foster loyalty environments to enhance employee engagement, retention rates, morale, job satisfaction, productivity, and performance, while also fostering a constructive company culture (Farrukh, et al., 2020). Employee loyalty is a worker's commitment to a company and its policies, and fair compensation, workload, and working hours can enhance this loyalty, (Saputra & Mahaputra, 2022).

Albtoosh et al (2022) A recent survey revealed that 80% of participants viewed workplace loyalty as evolving, highlighting the importance of sustainable loyalty in various fields like management, industrial marketing, accounting, economics, and strategic management. According to Khuong and Linh (2020), Employee loyalty is crucial for the organization as it drives commitment, consistency with vision and values, and commitment to goals. Low loyalty can lead to low confidence, poor job quality, absenteeism, and high staff turnover.

Sharma (2019) examined the relationship between leadership, training, working climate, and employee loyalty. Results showed that the working environment and leadership significantly impact employee loyalty, while training and development have little influence. Employees who view themselves as essential to their organization demonstrate dedication and voluntary involvement. The study was conducted in India Noida, NCR, A convenience sampling method was utilized with a non-probability sample size of 100.

Ansari (2021) used the service profit chain (SPC) model to evaluate the impact of service quality, employee loyalty, and profitability on Omani telecom services, emphasizing the importance of regular assessments for organizational success. A questionnaire-based study was carried out to investigate how a company's internal assets affect revenue turnover and profitability, employee satisfaction and loyalty, and operational efficiency. Employee loyalty might improve internal performance and increase relationships with clients and suppliers, making it a valuable asset for any firm. Regular reviews of service quality, employee loyalty, and SPC are essential.

The study by Abd-El-Salam (2023) examines how service quality and managerial commitment impact employee loyalty. This relationship is investigated in the iron and steel sector (EZDK) in Egypt. Data are gathered through interviews; fifteen interviews with people at various managerial levels make up the final sample. The thematic analysis identifies key themes from the collected data. Sustainable employee loyalty is critical for firms in various fields, including management, industrial marketing, accounting, economics, and strategic management.

Tam et al (2024) found that factors such as training opportunities, employee involvement, support from superiors, working conditions, salary, benefits, fair rewards, alignment with organizational goals, and empowerment mediate employee loyalty in SMEs in Ho Chi Minh City, Vietnam. The study used 640 surveys and quantitative analytical methodologies, with a high fit in the SEM analysis. The findings provide management implications for increasing employee loyalty in SMEs, enabling qualitative improvement and analyzing barriers to implementation.

Loyal employees contribute to a company's growth and sustainability by reducing financial distress, saving costs on recruitment and training, providing training courses, and attracting new customers. Obtaining employee loyalty is challenging for administrators and managers,

and employers should adopt a proactive approach to analyze, control, and build loyalty (Vuong et al., 2021).

Based on the above argument, employee loyalty must be viewed from the essential perspective that an organization exists before a person arrives and continues to exist long after they leave. Downsizing is a major issue that might make it more difficult for a manager to comprehend, value, and manage other people in the organization. Employee loyalty is an exciting and complex field.

### **The Concept of Downsizing**

Downsizing is an economic restructuring effort by an organization to reposition itself for a more competitive edge through cost savings, greater productivity, improved profitability, increased work satisfaction, and employee loyalty (Lewin & Johnston, 2000; Udokwu, 2012). Although downsizing seems to provide the impression that some constructive steps are being taken to turn around an organization, dealing with those affected by the process is one of the main casualties of the process (Bhattacharyya, 2005). During poor economic circumstances, a business may use a variety of extra human resource reduction methods, including freezing recruitment, lowering temporary employees, redeploying staff, reducing pay, eliminating overtime, and reducing working hours (Johnstone, 2024).

Udokwu (2012) definition of downsizing emphasizes the economic restructuring process aimed at enhancing competitive advantage through cost reduction, increased productivity, improved profitability, and enhanced job satisfaction. Downsizing in organizations refers to the intentional reduction of the workforce to improve efficiency and cut costs (Ryan and Macky, 1998). Downsizing can be defined as a determined reduction process to reduce the size of an organization's workforce (Spreitzer and Mishra, 2002). Carbery and Garavan (2005) defined downsizing as a specific type of organizational restructuring that involves reducing the number of employees. Siyal (2023) defines downsizing as a strategy to enhance organizational performance, efficiency, productivity, and competitiveness by adjusting workforce size and work procedures. Downsizing the workforce in firms experiencing financial difficulties and declining income might result in decreased efficiency and fewer employees. However, this decision can badly affect individuals, families, and society, because job losses or funds may result in major financial losses, (Van Aaken et al., 2022).

According to Tsai and Yen (2020), firms must constantly implement new strategies to adapt to quickly changing conditions. A strategic management approach utilized globally to improve competitiveness, profitability, effectiveness, and efficiency while reducing workforce size is downsizing organizations, which entails splitting workers into victims and survivors (Ifeoma and Patience, 2021; Frone and Blais, 2020).

Dlouhy and Casper (2021) examined the impact of downsizing on surviving employees' health and participation, based on data from two German employee samples. There is little evidence to support the claims that job resources reduce the indirect effects of downsizing on surviving employees' health or that job demands enhance the indirect effects of downsizing on surviving employees' participation.

Downsizing is a popular management strategy, but its effectiveness in improving performance is often unsatisfactory, as the consequences have not always materialized over time (Tsai and Yen, 2008). Ifeoma and Patience (2021) suggest that a firm's HRM system should be re-examined during downsizing to ensure the strategy and business environment are suitable, as sensitivity can lead to psychological benefits for survivors and economic benefits. Layoffs as part of downsizing measures can create severe emotional, social, financial, and physical

suffering for employees and their families. Employees may feel furious, impatient, vulnerable, rejected, and helpless, which can transfer to their families and cause long-term distress, (Mujtaba and Senathip, 2020).

McLachlan (2022) states that businesses should prioritize how practices align with different kinds of accountability in diverse circumstances and concentrate on how organizational, societal, and institutional variables influence the adoption of best practices. Contextual conditions are useful here because different roles reflect deeply rooted attitudes, customs, and beliefs that help businesses comprehend downsizing practices and their drawbacks.

A good supportive program, including a wage increase, family support, health care plans, etc., could significantly improve employee long-term commitments and lead to improved employee behaviour after downsizing (Tsai et al., 2005; Tajzadeh-Namin 2012; Sayed, 2013).

In the same context, Virick (2007) found that employees who have a strong sense of organizational loyalty and security may act aggressively towards their organization when redundancies occur. The move from the public sector to the competitive private sector violated survivors' expectations. The HR manager's role significantly impacts employee loyalty and can buffer negative emotional reactions and work-related stress in redundancy contexts. Frone and Blais (2020) studied the link between working conditions, organizational downsizing, and employee outcomes. They found that downsizing led to higher expectations, role conflicts, aggressive supervisors, dysfunctional leadership, job instability, and employment uncertainty. Restructuring had more detrimental effects on the psychological work environment.

Elshaer and Saad (2020) explore the impact of job insecurity on survivors' attitudes in Egypt's downsizing hotels and travel agencies. It finds a strong correlation between job insecurity and turnover intention, with high trust and commitment weakening this relationship. However, loyalty and dedication to the organization reduce the urge to resign, potentially threatening Egypt's tourism industry.

When and how downsizing impacts company innovation is the goal of the study conducted by Ramdani et al (2021) Using a u dataset of UK organisations. They claim and statistically illustrate that downsizing has a twofold impact on innovation, contingent on the organisation's resources. Our findings show that downsizing has positive effects on innovation outputs in organisations with excess resources and a negative impact on organisations with limited resources. Mathisen et al (2023) found that restructuring and downsizing impact the psychological work environment and safety climate, with different organizational change initiatives affecting perceptions of risks, such as psychological risk and safety atmosphere.

Downsizing negatively impacts employees' mental and physical health, according to a study by Ahammer, Grüb, and Winter-Ebmer (2023) in Austria. The study found that workers' fears about their jobs contribute to the long-term consequences of downsizing, resulting in significant costs for the organization. Mujtaba and Senathip (2020) found that downsizing survivors view it as unfair, causing guilt, sympathy, and a sense of security. They may also hoard information to avoid betrayal. These feelings can lead to conflicting emotions such as dismay, worry, guilt, and jealousy, which can result in fewer skilled workers and poor morale in a business. This can lead to a decrease in skilled personnel and a decrease in overall morale. Komazec, Maričić, and Đurić (2023) conducted a study on the impact of procedural fairness on the behaviour of 556 workers who were spared from layoffs. The findings showed that certain aspects of the downsizing process significantly influence survivors' behaviour, motivation, and satisfaction with their organization, highlighting the importance of restoring financial stability and enhancing organizational efficacy.

Downsizing can lead to job satisfaction decline, increased turnover intentions, and emotional distress for both displaced workers and survivors. Displaced workers may experience depression and anxiety, while survivors may face insecurity, stress, and fear of the unknown. To mitigate these effects, managers should implement strategies, maintain open communication, and show trust and respect. Addressing these issues can help both parties recover.

### **Downsizing Impacts Employee Loyalty**

Downsizing and organizational reform can result in low loyalty, job discontent, and employee layoffs. The procedure may hurt staff members as well as the overall company (Van Vianen et al., 2011). When there are unjust layoffs, there may be a favourable, but not statistically significant, association between employee satisfaction and survivors' perceptions of downsizing as liberating. Since the success of downsizing depends on survivors delivering core competencies and corporate memory for a new period of commercial prosperity, organizations must adopt strategies to mitigate the negative effect on employee loyalty (Ikyanyon, 2012; Dike, 2023). Employees who survive a downsizing process are responsible for the organization's innovative performance and successful reorganization but also bear more responsibilities due to vulnerability and cynicism.

Organizations that are downsizing want to be more productive and efficient, but those that survive the process need to adapt to new organizational structures. Success hinges on their capacity to manage and execute tasks well. Reduced loyalty, job instability, anxiety, depression, motivation, dissatisfaction, anger, diminished credibility, and elevated stress are some of the possible outcomes for survivors (Tourish & Hargie 2004; Richtner and Ahlstrom, 2006; Malik et al., 2010).

Niehoff et al (2001) research highlights the challenge of maintaining loyalty during downsizing, suggesting that survivors can cope by empowering themselves and enriching their jobs. Effective strategies can result in job insecurity, decreased efficiency, and financial losses; ineffective strategies can greatly improve employee loyalty and reduce stress during downsizing. Supportive strategies include wage increases, healthcare plans, and family support (Cameron 1994; Klehe et al., 2011; Coleman, 2023).

Downsizing survivors may exhibit extreme risk aversion and narrow focus, limiting their inventiveness and adaptability. Corporate executives must develop the ability to adapt to external shocks like recessions, as established organizations often experience organizational rigidity (James et al., 2000).

Loyalty and socio-emotional outcomes—like job uncertainty, a loss of personal desire, and poor communication—can be adversely affected by downsizing. These impacts are exacerbated by high unemployment rates, inadequate social security, and cultural deficiencies. The emotional loyalty of survivors can be increased with careful implementation, according to (Eze et al., 2021).

According to several studies Burack and Singh (1995); Ryan and Macky (1998); Kaiser (2004); Tourish & Hargie (2004), downsizing can have a detrimental effect on employee loyalty, which can result in lower productivity, higher turnover rates, and worse work satisfaction. Demoralization and a loss of faith in the organization can be the outcome of this lack of loyalty (Mujtaba and Senathip, 2020; Dlouhy and Casper, 2021; Saesabillah and Handini, 2023). To preserve a pleasant work environment, organizations must thus carefully evaluate how downsizing will affect employee performance and loyalty levels (Langster and Cutrer, 2021; Joshi, 2022).

In light of the aforementioned, this study recommends selecting particular morale outcomes that the business wants to take care of. Three common threads are included in the proposal for a downsizing approach that will affect employee morale. Following that, the company will be able to: Anticipate employee reactions. Determine participation to boost morale and increase worker loyalty. Monitor and analyze staff morale and the impact of downsizing on employee behaviour.

Managers highlight the importance of company loyalty but fail to display it in encounters with employees. Rayburn (1999) predicts that employees will be frustrated and fearful of losing their employment as a result of downsizing. According to Robinson and Morrison (1995), surviving employees feel a lack of loyalty to their organization, which leads to lower motivation and support behaviours. Survivors' psychological contracts are impacted when they lose their employment. Survivors report feeling less committed to the firm, wanting to leave more often, being dissatisfied, caring more about their jobs, and having higher turnover. Survivors hunt for new jobs, which raises the possibility that they'll leave due to downsizing, (Langster & Cutrer, 2021).

Singh et al (2020) found that job enrichment indirectly influences employee loyalty through empowerment, but it does not directly influence loyalty due to the shift in perception of occupational loyalty due to globalization and downsizing. This study highlights the importance of employee loyalty in modern organizations, highlighting its impact on employee behaviour and productivity. Downsizing can lead to decreased morale, trust, and perceived organizational support, while survivors may experience survivor guilt and increased workload. Communication and implementation of downsizing strategies also influence loyalty, (Noer, 1993; Angayarkanni & Shobana, 2020). Employee loyalty during and after downsizing is influenced by leadership communication, support, skill development opportunities, organizational culture, engagement initiatives, and employee recognition, which can mitigate the negative impact on loyalty, (Klehe et al., 2011; Niehoff et al., 2001).

Employees who have flexible work arrangements, such as remote work or scheduling, can better manage their personal and professional duties, decreasing burnout. Strategies to alleviate the negative impact of downsizing include honest communication, support services, employee involvement, incentives, and establishing a culture of openness, trust, and justice (Emshoff, 1994; Feldman, 1995; Almnaizel et al., 2021).

In conclusion, Downsizing significantly affects employee loyalty, affecting commitment, motivation, and contribution. To mitigate its negative effects, organizations should understand its complexities, implement transparent communication, support employees, and foster a trust culture. After downsizing, focus on rebuilding businesses with organizational design, process adjustments, and job content.

### **Conclusion**

Downsizing can have both positive and negative effects on companies. Research emphasizes the negative effects on employees who stay, such as decreased loyalty. This study aims to analyze the negative impact on surviving employees, focusing on low morals and decreased loyalty to their organization, as downsizing becomes a reality in today's competitive business environment. The study suggests that downsizing can lead to employee dissatisfaction and negatively impact their behaviour within the organization. It suggests that effective human resource management and organizational behaviour are crucial factors in ensuring employee loyalty and productivity gains during downsizing.



**Recommendations**

Downsizing can lead to a significant loss of human capital and negatively impact employee loyalty. HR managers should minimize this impact through regular meetings and building strong relationships. They should ensure fair reductions and respect for workers' dignity, as failure to do so may decrease loyalty and increase job insecurity, negatively impacting career motivation and morale.

**Limitation and Further Studies**

The literature on downsizing and employee loyalty is limited, necessitating future research on organizational culture, leadership styles, demographics, and long-term effects. A holistic approach is crucial for informed decision-making and positive work environments.

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