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Do we have to downsize – does the empirical evidence suggest any alternatives?

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Abstract

Purpose – Given a growing literature indicating that downsizing is not an effective way to address financial decline, having either little impact or negative impact on the financial health or market valuation of financially troubled companies, what is the alternative for those companies in financial trouble? Three sets of alternatives to downsizing are available to companies suffering financial trouble: strategies addressing personnel/fix costs, strategies focused on addressing cost cutting/variable costs and strategies addressing strategic planning/revenue. Although alternatives to downsizing have been identified, little research has been conducted comparing the impact of downsizing vs alternatives to downsizing on firm performance. The paper aims to discuss this issue.

Design/methodology/approach – This present study looked solely at strategies focused on addressing personnel/fix costs. Focusing primarily on forced attrition (downsizing) vs temporary attrition and/or natural attrition, this research attempts to determine whether specific groupings of alternatives to downsizing are more effective at addressing financial decline that companies find themselves in as compared to downsizing. This included relying on temporary attrition, natural attrition or doing nothing at all.

Findings – The research presented here indicates that various alternatives to downsizing have an immediate positive impact on measures of profitability and a positive long-term impact on one measure of efficiency: revenue per employee. Evidence shows that temporary attrition leads to better financial outcomes than natural attrition than forced attrition or downsizing.

Originality/value – The research presented here indicates that various alternatives to downsizing have an immediate positive impact on measures of profitability and a positive long-term impact on one measure of efficiency: revenue per employee. This has implications for managers put in the position of having to make a decision whether to downsize or not.

Keywords Downsizing, Financial health, Impact of downsizing, Alternatives to downsizing

Paper type Research paper

"We are going to have to downsize again." "We have downsized four times in three years, this doesn't seem to be working." "But what else can we do?" This real exchange between a CEO and CFO, contemplating a fifth layoff in four years, highlights the disconnect between what we know about downsizing […] it does not work […] and what firms do […] engage in layoffs. Considerable research evidence shows that downsizing not only does not work, but, under certain circumstances, actually makes the firm less successful. However, most firms, when presented with significant financial trouble or a changing market or industry or a merger or acquisition, choose to downsize rather than consider some other alternative. Although alternatives to downsizing have been identified, little research has been conducted comparing the impact of downsizing vs alternatives to downsizing on firm performance. This study aims to address this by considering whether alternatives to downsizing are empirically more effective at addressing organizational decline than is downsizing.

The emerging picture from a somewhat fragmented literature on downsizing is that downsizing either has little impact or a negative impact on the financial health or market valuation of the company downsizing (see Capelle-Blanchard and Couderc, 2008; Datta *et al.*, 2010; Carriger, 2016 for reviews).

Additionally, Carriger (2017a, b) conducted a series of studies that show that the size of the downsizing and the frequency of downsizing had either no effective or a negative impact

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on the financial health or market valuation of the firms downsizing. Although some studies have looked at alternative ways to implement downsizing, a very few studies to date have looked at the effectiveness of alternatives to downsizing.

Alternatives to downsizing

The literature on the alternatives to downsizing can be divided into three groups: theory, alternatives and evidence. From a theoretical standpoint, there has been some effort to understand why downsizing is more popular than any other alternative in trying to address financial trouble due to market or industry changes, even though the research evidence suggests downsizing does not work. Mathys and Burack (1993) argue that the primary reason for the extensive use of downsizing over other alternatives is because most companies fail to tie downsizing to larger strategic planning. This leads companies to underestimate the hidden costs of downsizing in terms of lost experience, training and educational investment. A more strategic approach to dealing with financial problems would be to use a human resource planning effort that focused on flexibility in order to deal with changing circumstances. "The widespread practices of downsizing to reduce costs and improve response time had not been fully thought through as to its strategic organizational and staffing consequences. Strategic human resource planning has evolved a variety of models that can be useful in these situations" (Mathys and Burack, 1993, p. 83).

Roth (1993) notes that although downsizing might have a short-term positive impact, it often is short-lived. Downsizing is usually followed by failed attempts to increase productivity which leads to another round of layoffs. The failed increase is productivity may be a direct result of the emotional impact of the downsizing on the surviving employees. Roth (1993, p. 7) asks the question, "despite knowledge about the pitfalls of downsizing, why do top-level executives persist in embracing the concept?" The answer may be a lack of acceptable alternatives, a belief that the manager can do better than his or her peers and/or a lack of attention to other managers' experiences.

Kothen *et al.* (1999) suggest that globalization has provided the impetus or excuse for downsizing. They argue that global competition necessitates downsizing, even though there is no evidence that downsizing works. These authors present three perspectives on downsizing: economic, institutional and socio-cognitive. The economic perspective is the most frequently referred to explanation for downsizing; downsizing is motivated by the financial benefits that can be realized, even though very few studies support this assumption. The institutional perspective is focused on institutional rules and social norms of an industry that specifies appropriate behavior or constraints on management choices. Finally, the socio-cognitive perspective is based on mental models or schemes imposed by managers to help interpret situations, arising from the need for cognitive simplification, ideological influence, and interaction with other managers.

Cascio (2005) focuses on the economic rationale for downsizing. He suggests that there are two ways to make money: increase revenue or cut costs. Cost cutting is more predictable since payroll is a fixed cost. Although, in his own research, he has found no evidence that downsizing leads to improved financial performance, the predictability of cutting fixed costs may drive downsizing.

More recently, Cascio (2009) has considered other possible reasons for downsizing given the lack of evidence of its effectiveness. These include a cloning response, everyone else is doing it; a vividness heuristic, focusing on the vivid occasional successes; and disregarding the vast majority of failures. Additionally, in order to consider alternatives to downsizing, first, a manager must determine whether the performance issue at hand is temporary or permanent. In the case of a more permanent financial or market issue, downsizing may be the only option. However, in the case of a more temporary financial or market issue, alternatives to downsizing should be considered.

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But, what are these alternatives to downsizing?

Settles (1988) suggested reduced workweek, early retirement, part-time and contract workers, cutting wasteful spending, reducing salaries, hiring freezes, job retraining, lateral job moves, leveraging employee's expertise to come up with other alternatives and re-negotiating union contracts.

Mathys and Burack (1993) suggested adjusting hours, hiring, firing, overtime and/or reduced workweek; employing part-time and temporary help; using subcontractors and/or outsourcing; leveraging natural attrition through retirement, either phased out or early; and using shared services. Roth (1993) suggested better utilizing employee expertise in devising cost-cutting initiatives and improving productivity. Sheaffer *et al.* (2009) suggested personnel and asset cutbacks together and separately as alternatives to downsizing to address both short-term and long-term firm performance. Luan *et al.* (2013) suggest reduction in organizational slack as an alternative to downsizing.

Cascio (2005) initially suggested delaying hiring start dates, reducing benefits, revoking job offers, freezing salaries, freezing promotions and furloughs. Later, Cascio (2005) suggested leveraging natural attrition, voluntary turnover, early retirement and compulsory termination, as well as redeployment, furloughs and reduced hours, pay cuts with or without incentives, work sharing, and telework and hoteling office space.

Finally, Martin and Davis (2013) identified 50 alternatives to downsizing. The 50 alternatives are based on a three-perspective model of downsizing as outlined by Kothen *et al.* (1999) as economic, institutional and socio-cognitive. The 50 alternatives are also organized around six domains: compensation/benefits, business processes, organizational structure, supply chain management, training/development and talent management. The basic premise is that the 50 alternatives will provide better outcomes than downsizing.

In summary, various approaches to addressing financial trouble due to market or industry changes can be grouped into three categories: forced attrition, temporary attrition and natural attrition. Forced attrition would include permanent downsizing or layoffs. Temporary attrition would include furloughs, reduced work hours and reduced wages. Natural attrition would include voluntary turnover, succession planning (phased or early retirement), redeployment, outplacement and hiring freeze. All of these approaches address the fixed cost side of the equation associated with personnel costs. There may be an entire set of alternatives that address variable costs associated with productivity and other cost cutting efforts. And there may also be an entire set of alternatives that address the revenue side associated with productivity and increased business (Table I).

But is there any evidence that alternatives to downsizing lead to better outcomes than downsizing?

There has been some work done on alternative human resource management approaches to implementing downsizing. For example, Hitt *et al.*, (1994) looked at "rightsizing," implementing downsizing with a clear mission and strategic leadership. Chu and Wai-Sum (2001) looked at the implementation of different HR practices at different stages in organizational decline and downsizing. Marks and De Meuse (2005) looked at practices that promote employee morale and welfare during downsizing. Hitt *et al.* (2005) looked at HR practices that minimized unintended human and business consequences and maximized individual and organizational renewal during downsizing. Trevor and Nyberg (2008) looked at HR practices that lead to embedding employees, conveying procedural fairness and

Force attrition	Temporary attrition	Natural attrition
Permanent downsizing	Furloughs, reduced work hours, reduced wages	Voluntary turnover, phased or early retirement, redeployment, outplacement, hiring freeze

Table I. Alternatives to downsizing

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enhancing career development during downsizing. And Cheng-Fei and Yu-Fang (2008) looked at dynamic strategic capabilities drawn from strategy research and strategic human resources management implemented during downsizing. However, these were not alternatives to downsizing *per se*.

Very little work has been done looking specifically at alternatives to downsizing and that work has almost exclusively been through case studies. Kothen *et al.* (1999) conducted a comprehensive case study of Volkswagen, which chose not to downsize in the face of financial trouble and market changes. Volkswagen did not institute downsizing as a response to competitive pressures, rather they considering downsizing to be a last resort. As the auto industry took a downturn in 1993, Volkswagen was confronted with having to reduce production costs by 20 percent. Leveraging a cooperative company culture, Volkswagen included all employees in decision making about downsizing and considered alternatives to downsizing. The company implemented shorter work hours without compensatory pay, using a four-day workweek to reduce payroll by 20 percent. The company also implemented a furlough system where employees could take unpaid leave. Finally, Volkswagen focused on increasing productivity using a just-in-time manufacturing process, continual improvement, and training. After implementing these alternatives to downsizing Volkswagen was able to address the competitive pressures they faced and were able to return to full production by 1999.

Cascio (2005) reports on three case studies: Charles Schwab, Cisco Systems and Philips Electronics Singapore. As alternatives to downsizing Charles Schwab put projects on hold, cut back on expenses, instituted executive pay cuts, encouraged employees to take unused vacation and unpaid leave, instituted Fridays as volunteer work days without pay and only then considered layoffs. Cisco Systems instituted a series of furloughs. Philips instituted mandatory workforce planning, filled vacancies internally and recruited contract workers rather than full-time employees. The bottom line from the three case studies is "Don't use downsizing as a 'quick fix' to achieve short-term goals in the face of long-term problems. Consider other alternatives first and ensure that management at all levels shares the pain and participates in any sacrifice employees are asked to bear. Make downsizing truly a last resort, not a first resort" (Cascio, 2005, p. 48).

To date, only two studies have compared company performance outcomes among those companies that downsize and those companies that employ various alternatives to downsizing. Sheaffer *et al.* (2009), using econometric analysis, found that a combination of downsizing or reduction in headcount and reduction in assets had a negative effect on long-term performance on high-tech firms but had a positive impact on short-term performance. Luan *et al.* (2013) found that downsizing does not always improve firm financial performance, but reduction in organizational slack may leave the firm inappropriately sized and also negatively impact firm financial performance.

Focusing primarily on forced attrition (downsizing) vs temporary attrition and/or natural attrition, this research attempts to determine whether specific groupings of alternatives to downsizing are more effective at addressing financial decline as compared to downsizing. Theoretically, these groupings of alternatives only represent personal/fixed cost alternatives. Cost cutting/variable cost and strategic planning/revenue generation alternatives were not considered.

Methods

Subjects

The subjects for this research included all companies listed on the 2008 Fortune 500, who were also listed on the 2014 Fortune 500, and who did not downsize in 2008 but were in financial trouble in that year. This yielded a sample of primarily multinational firms, primarily headquartered in the USA. This should be considered a primarily US corporate sample.

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In total, 75 companies on the 2008 Fortune 500 meet these criteria. Downsizing was defined as any company that showed an overall decrease in total headcount of 5 percent or greater between 2008 and 2009. This is a typical benchmark for downsizing in the management literature on downsizing (Carriger, 2016). Financial trouble was defined as any company that showed an overall decrease in total cashflow from operations of 5 percent or greater between 2008 and 2009. Total cashflow from operations has been used in the management literature as a global measure of financial health (see Carriger, 2016, 2017a, b). However, alternative approaches to determining financial health have been used. For example, looking at stated reasons for downsizing as reported to the SEC (Worrell *et al.*, 1991; Lee, 1997; Chalos and Chen, 2002; Chen *et al.*, 2001; Capelle-Blancard and Couder, 2008; Brauer, 2010; Marshall and McColgan, 2012), the ratio of operating return on equity (ROE) to cost of equity (Chen and Hambrick, 2012; Trahms *et al.*, 2013), productivity (Ketchen and Palmer, 1999), bankruptcies (Bradley *et al.*, 2011), decline in return on assets (ROA) (Ndofor *et al.*, 2013; Trahms *et al.*, 2013) and decline in market capitalization (Love and Nohria, 2005). As many of these financial measures (ROE, ROA and stock equity) are also used as dependent variables in this study and to align with the three most recent studies looking at downsizing (Carriger, 2016, 2017a, b), cashflow from operations was chosen as the measure of financial health.

Procedure

A search of all newspapers, magazines and trade journals, indexed in the ProQuest database, was conducted for the period January 1, 2008–December 31, 2008. The search terms used include the name of each company and any derivative of that name. A total of 4,619 articles were uncovered for all companies combined, ranging from 0 to 890 articles for any particular company. Each article was then searched individually for the following key words: "cross training" OR "succession planning" OR "redeployment" OR "employee buy-out" OR "reduced hours" OR "lower wages" OR "attrition" OR "outplacement" OR "leave of absence" OR "furlough" OR "senior executive compensation" OR "hiring freeze" OR "mandatory vacation" OR "reduced workweek" OR "overtime reduction" OR "salary reduction" OR "temporary facility shutdown" OR "voluntary sabbaticals" OR "employee lending" OR "exit incentives." Each article was then scanned for key words, and the text around the key words were reviewed by a trained rater to determine what strategies each companied used as an alternative to downsizing. Each company was coded as to the alternative they used. Nine primary alternatives were uncovered: nothing, succession planning, furlough, hiring freeze, lowered wages, attrition, reduced wages, outplacement and redeployment. The nine alternatives were conceptually grouped into three downsizing alternative categories: temporary attrition – furlough, reduced hours, reduced wages; natural attrition – attrition, succession planning, redeployment, outplacement, hiring freeze; and nothing or no attrition or not specified. Each company was then rated as using one of the three alternatives to downsizing categories and compared to those companies (76) that were in financial decline and did downsize.

Analysis

The companies using alternatives to downsizing were compared to the downsizing companies on various financial outcome measures collected each year from 2008 to 2014. The financial outcome measures included: measures of profitability – ROE (a profitability ratio which measures the efficient use of equity or income per dollar of equity) (Block and Hirt, 2005), ROA (a profitability ratio which measures the efficient use of assets or income per dollar of assets) (Block and Hirt, 2005), return on investment (ROI – a profitability ratio which measures the efficient use of investment, or income per dollar of long-term investment (Block and Hirt, 2005), earnings before interest, taxes, depreciation and amortization

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(operating income of a company before deductions for financial changes, taxes, and cost of assets) (Block and Hirt, 2005); measures of debt – current ratio (a liquidity ratio which measures the ability to meet current cash needs (Block and Hirt, 2005), long-term debt (how much of a company's operations are funded by bond issues, leases, or bank loans) (Block and Hirt, 2005); measures of efficiency – inventory turnover (efficient use of inventory or sales per dollar of inventory) (Block and Hirt, 2005), revenue per employee (employee productivity or revenue generated per employee), total asset turnover (efficient use of total assets or sales per dollar of total assets) (Block and Hirt, 2005); a measure of revenue – total revenue (total receipts from sales or total income from the business); and, finally, a measure of market valuation – stock equity (total contribution to and ownership interest of stockholders in the company) (Block and Hirt, 2005) (Table II).

A modified event methodology, a short-term and a long-term analysis were conducted on all financial outcome measures comparing companies that downsized with companies that used an alternative to downsizing. The modified event methodology involved regressing size of the company (total headcount in 2008), industry of the company (based on SIC codes) and the alternatives to downsizing or downsizing on each of the financial outcomes measures in 2008, the year of the downsizing for companies that downsized. The short-term analysis involved a repeated measures analysis of co-variance, employing Hotelling's trace statistic and least significant difference *post hoc* statistic, on alternatives to downsizing co-varying size of the company (total headcount in 2008) and industry (based on SIC codes) from 2008 to 2011. The long-term analysis involved a repeated measures analysis of co-variance, employing Hotelling's trace statistic and least significant difference *post hoc* statistic, on alternatives to downsizing co-varying size of the company (total headcount in 2008) and industry (based on SIC codes) from 2008 to 2014.

Results

Employing a modified event methodology, regression analysis revealed that alternatives to downsizing had a significant impact on three of the four measures of profitability but none of the measures of debt, efficiency, revenue or market valuation.

With regards to ROE, there was a significant relationship between alternatives to downsizing the year after the downsizing companies downsized, even after accounting for size of the company and industry. The correlation between alternatives to downsizing and ROE was −0.163 ($p = 0.027$), indicating that alternatives to downsizing explained approximately 2.5 percent of the variance in ROE the year after the downsizing companies downsized. As companies employed downsizing rather than alternatives to downsizing, regardless of the size of company or industry, the company's ROE the next year decreased (ROE 2009 = 0 × size of company + −3.941 × industry + −2.095 × downsizing alternatives + 22.479, $F = 4.550$, $p = 0.005$, $r = -0.163$, $R^2 = 0.090$). Companies did differ by size ($t = 2.766$, $p = 0.006$) but not by industry ($t = -1.590$, $p = 0.114$). Companies differed by downsizing or alternatives to downsizing ($t = -2.064$, $p = 0.041$).

Table II. Measures of financial outcome

Measures of profitability	Measures of debt	Measures of efficiency
Return on equity (ROE)	Current ratio	Inventory turnover
Return on assets (ROA)	Long-term debt	Revenue per employee
Return on investment (ROI)		Total asset turnover
EBITA		
Measures of revenue	Measures of market value	
Total revenue	Stock equity	

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With regards to ROA, there was a significant relationship between alternatives to downsizing the year after the downsizing companies downsized, even after accounting for size of the company and industry. The correlation between alternatives to downsizing and ROE was −0.218 ($p = 0.004$), indicating that alternatives to downsizing explained approximately 4.75 percent of the variance in ROA the year after the downsizing companies downsized. As companies employed downsizing rather than alternatives to downsizing, regardless of the size of company or industry, the company's ROA the next year decreased (ROA 2009 = 0 × size of company + −1.035 × industry + −0.453 × downsizing alternatives + 6.954, $F = 5.241$, $p = 0.002$, $r = -0.218$, $R^2 = 0.097$). Companies did not differ by size ($t = 1.232$, $p = 0.220$) but did by industry ($t = -2.599$, $p = 0.010$). Companies differed by downsizing or alternatives to downsizing ($t = -2.796$, $p = 0.006$) (Table III).

Finally, with regards to ROI, there was a significant relationship between alternatives to downsizing the year after the downsizing companies downsized, even after accounting for size of the company and industry. The correlation between alternatives to downsizing and ROI was −0.229 ($p = 0.004$), indicating that alternatives to downsizing explained approximately 5.25 percent of the variance in ROI the year after the downsizing companies downsized. As companies employed downsizing rather than alternatives to downsizing, regardless of size of company or industry, the company's ROI the next year decreased (ROI 2009 = 0 × size of company + −1.704 × industry + −1.049 × downsizing alternatives + 19.198, $F = 4.201$, $p = 0.007$, $r = -0.229$, $R^2 = 0.087$). Companies neither differed by size ($t = 1.506$, $p = 0.134$) nor by industry ($t = -1.755$, $p = 0.082$). Companies differed by downsizing or alternatives to downsizing ($t = -2.752$, $p = 0.007$).

For the short-term analysis of financial outcomes up to three years after the downsizing companies downsized, repeated measures of analysis of co-variance revealed that alternatives to downsizing had a borderline impact on two of the four measures of profitability and one of the three measures of efficiency, but none of the measures of debt, revenue or market valuation.

For ROE, the ANCOVA yielded a main effect for alternatives to downsizing ($F = 2.349$, $p = 0.075$). The average ROE, controlling for size of company and industry, for companies that downsized was 7.246, for companies that used temporary attrition was 25.284, for companies that leveraged natural attrition was 11.943 and for companies that used no attrition or did not specify was 19.259. *Post hoc* K-Matrix contrasts indicated that companies that downsized significantly differed from all other companies (contrast estimate = −11.582, standard error = 4.761, $p = 0.016$).

For ROI, the ANCOVA yielded a main effect for alternatives to downsizing ($F = 2.435$, $p = 0.068$). The average ROA, controlling for size of company and industry, for companies that downsized was 11.572, for companies that used temporary attrition was 17.536, for companies that leverage natural attrition was 14.786, and for companies that used no attrition or did not specify was 20.641. *Post hoc* K-Matrix contrasts indicated that companies that downsized significantly differed from all other companies (contrast estimate = −6.083, standard error = 2.367, $p = 0.011$).

For total asset turnover, the ANCOVA yielded a main effect for alternatives to downsizing ($F = 3.727$, $p = 0.013$). The average total asset turnover, controlling for size of company and industry, for companies that downsized was 1.112, for companies that used

	Downsized	Temporary attrition	Natural attrition	Nothing
ROE	1.8413	15.335	13.517	33.1247
ROA	2.452	5.9573	2.5424	3.2913
ROI	7.4551	17.438	12.1203	15.5829

Table III. 2009 – the year after downsizing

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temporary attrition was 1.155, for companies that leverage natural attrition was 1.029 and for companies that used no attrition or did not specify was 2.222. *Post hoc* K-Matrix contrasts indicated that companies that used no attrition or did not specify significantly differed from companies that leveraged natural attrition (contrast estimate = −1.193, standard error = 0.374, $p = 0.002$) (Table IV).

For the long-term analysis of financial outcomes up to six years after the downsizing companies downsized, repeated measures of analysis of co-variance revealed that alternatives to downsizing had a significant impact on two of the three measures of efficiency but none of the measures of profitability, debt, revenue, or market valuation.

For Revenue per Employee, the ANCOVA yielded a main effect for alternatives to downsizing ($F = 3.954$, $p = 0.018$). The average revenue per employee, controlling for size of company and industry, for companies that downsized was 0.35m, for companies that used temporary attrition was 1.32m, for companies that leveraged natural attrition was 0.45m and for companies that used no attrition or did not specify was 0.28m. *Post hoc* K-Matrix contrasts indicated that companies that used temporary attrition significantly differed from companies that used natural attrition or that used no attrition or did not specify (contrast estimate = −0.95m, standard error = 0.30m, $p = 0.003$).

For total asset turnover, the ANCOVA yielded an interaction effect for alternatives to downsizing by year ($F = 1.828$, $p = 0.039$). Companies that leveraged temporary attrition saw a decline in total asset turnover over time while all other companies showed lower total asset turnover that remained steady over time. The downsizing companies and companies leveraging natural attrition showed the lowest total asset turnover that remained steady across the six-year span Table V.

In summary, alternatives to downsizing have an immediate positive impact on ROE, explaining 2.6 percent of the variance in ROE and a borderline positive short-term impact on ROE from 2008 to 2011, with downsizing being worse than temporary attrition, natural attrition, or doing nothing. Similarly, alternatives to downsizing have an immediate positive impact on ROA, explaining 4.75 percent of the variance in ROA. Finally, alternatives to downsizing have an immediate positive impact on ROI, explaining 5.2 percent of the variance in ROI, and a borderline positive short-term impact on ROI from 2008 to 2011, with downsizing being worse than temporary attrition, natural attrition or doing nothing.

Over the long term, alternatives to downsizing have a significant positive impact on revenue per employee, with natural attrition or doing nothing being worse than temporary attrition. Additionally, alternatives to downsizing have a significant positive short-term impact on total asset turnover from 2008 to 2011 with natural attrition being worse than doing nothing, but alternatives to downsizing interacting with changes in total asset turnover over the long term from 2008 to 2014.

Table IV. 2011 – three years after downsizing

	Downsized	Temporary attrition	Natural attrition	Nothing
ROE	7.246	25.284	11.943	19.259
ROI	11.572	17.536	14.786	20.641
Total asset turnover	1.112	1.155	1.029	2.222

Table V. 2014 – six years after downsizing

	Downsized	Temporary attrition	Natural attrition	Nothing
Revenue per employee	0.35m	1.32m	0.45m	0.28m

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Discussion

Given the building literature indicating that downsizing is not an effective way to address financial trouble, having either little impact or negative impact on the financial health or market valuation of financially troubled companies (see Capelle-Blanchard and Couderc, 2008; Datta *et al.*, 2010; Carriger, 2016 for reviews), what is the alternative for those companies in financial trouble? The research presented here indicates that various alternatives to downsizing have an immediate positive impact on measures of profitability and a positive long-term impact on one measure of efficiency: revenue per employee.

Three sets of alternatives to downsizing are available to companies suffering financial decline: strategies addressing personnel/fix costs, strategies focused on addressing cost cutting/variable costs and strategies addressing strategic planning/revenue (Mathys and Burack, 1993; Cascio, 2009). This present study looked solely at strategies focused on addressing personnel/fix costs. This included relying on temporary attrition (e.g. furloughs), relying on natural attrition (e.g. hiring freeze) or doing nothing at all (or simply not reporting what the company did do). Evidence shows that temporary attrition leads to better financial outcomes than natural attrition than forced attrition or downsizing.

Koten *et al.* (1999), Cascio (2009) and Martin and Davis (2013) all note that there are three explanations for the use of downsizing, and presumably the lack of use of alternatives to downsizing. These include an economic explanation: downsizing is motivated by the financial benefit accrued to the company doing the downsizing; institutional explanation: institutional rules and social norms of the industry; and socio-cognitive explanation: mental models and schemes imposed on managers. It seems clear from the prevailing research that the financial explanation, though the most frequently referenced explanation by senior managers, has little empirical support. It also seems clear that the institutional explanation might apply to existing or long-time residents in a particular industry, though it would seem counterproductive for new entrants trying to find a competitive advantage to simply follow institutional rules and social norms. That leaves the socio-cognitive explanation, which may be where the impasse lies. Might it be the case that senior managers have mental models and schemes about the use of downsizing which, despite its verifiable ineffectiveness, leads senior managers to downsize and to not consider alternatives to downsizing? Perhaps what is called for here is a shift in mental models and schemes among senior managers which would allow them to consider reactive or proactive alternatives to downsizing.

Finally, one theoretical explanation for why downsizing does not work is drawn from the medical field and labeled the "band-aid theory" of downsizing (Carriger, 2017a, b). The theory suggests that downsizing is like putting a band-aid on an otherwise serious wound. The band-aid may stop the bleeding for a time, but the band-aid does not address the underlying cause of the injury. Downsizing may stop the financial bleeding for a short time, but it does not address the underlying cause of the financial trouble, inevitably allowing the financial trouble to return. Perhaps what is needed is more robust strategic planning to address the underlying cause of the financial trouble that the band-aid of downsizing is only covering up. The only alternatives to downsizing considered in this research were other reactive or band-aid alternatives, temporary attrition and natural attrition. These may be more effective band-aids, and the evidence here suggests they are. However, addressing the underlying cause of the wound through strategic planning would seem to be more effective as a long-term fix.

Limitations and future research

One limitation to the present study is a focus on only personnel/fixed costs alternative to downsizing. All alternatives considered here, temporary attrition, or natural attrition as alternatives to forced attrition, or downsizing, are reactive responses to financial trouble (Mathys and Burack, 1993). Alternatives focused on strategic planning/revenue, which

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would be more proactive, were not considered. Future research could look at those companies that do not find themselves in financial trouble and, therefore, do not have to downsize and compare them with similar companies in financial trouble to explore whether strategic planning is more effective in the non-financially troubled companies.

A second limitation to the present study is a focus on all companies that found themselves in financial trouble regardless of the reason for the financial trouble. Cascio (2009) notes that companies that are in temporary financial trouble may benefit from some alternatives to downsizing. However, companies that are in permanent financial trouble may only have downsizing at their disposal as a solution to their predicament. Future research could look at the differential effectiveness of various alternatives to downsizing among companies that find themselves in temporary and permanent financial trouble.

Finally, the research presented here looked only at financially declining companies in 2008, presumably because of the financial crisis of 2008. It would be interested to look at companies in the present economy and see if the same principles about reactive and proactive approaches to addressing financial decline using downsizing or various alternatives to downsizing hold. More evidences in different economic times and conditions would bolster the notion that downsizing should not be considered a preferred approach for responding to financial trouble.

Conclusion

This research shows that alternatives to downsizing have an immediate positive impact on measures of profitability, compared to downsizing itself, in companies that are experiencing financial decline. Additionally, over the long term, alternatives to downsizing have a significant positive impact on revenue per employee. Although the only alternatives to downsizing studied here were also reactive responses to financial trouble, temporary attrition and natural attrition, these were more effective approaches to dealing with a company's financial trouble than was forced attrition or downsizing. It is left to future research to investigate whether proactive approaches to the company's financial position, such as strategic planning and strategic talent management, are an even more effective alternative to downsizing.

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