

ECONOMIC AND BUSINESS REVIEW • VOL. 7 • No. 3 • 2005 • 239-260

## HUMAN RESOURCE MANAGEMENT AND FIRM PERFORMANCE IN DOWNSIZING: EVIDENCE FROM SLOVENIAN MANUFACTURING COMPANIES

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**Abstract:** Among Slovenian manufacturing companies that downsized in the 1997–2002 period three human resource management approaches were identified: quasi-strategic HRM with a systematic approach to downsizing; workforce-reduction focused HRM; and HRM by benchmarking. Analyses indicate that in this specific setting a more strategic approach to HRM leads to the better execution of standard HR activities, greater labour efficiency after downsizing and helps to achieve a stronger competitive position and improved company development. HR Power has been emphasised as an important factor of the strategic HRM model for this specific setting and hypothesised to have a similar effect in other settings in European transition economies.

**Key words:** Strategic human resource management, Downsizing, Best practice, Strategic fit, Firm performance, Slovenia

**UDC:** 658.3-058.243.2(497.4)

**JEL classification:** O15, O14

### 1. INTRODUCTION

Although theoretical concepts and empirical models in the management and organisation literature tend to implicitly or explicitly emphasise organisational growth as a paramount feature, organisational decline and especially downsizing remain issues often brought on to the research agenda by business reality. Mass layoffs seen in the most developed countries in 1980s and 1990s led to a large volume of academic contributions questioning the organisational growth assumption and searching for ways to improve the effectiveness of downsizing (Whetten, 1980; Zeffane and Mayo, 1990; Cascio, 1993; Kinnie et al., 1997). The diverse and multidisciplinary downsizing literature converged

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by acknowledging that human resource management plays a crucial role in determining downsizing viability and effectiveness (Ferris et al., 1984; Perry, 1984; Cameron, 1994), yet it did not provide sufficient empirical evidence.

In the 1990s organisational decline and downsizing also became an important issue in European transition economies like Slovenia. The transformation of former socio-economic systems to an open-market economy meant that firms from these economies first had to solve some major problems regarding inefficiency, which had been allowed by the previous system. Afterwards, they had to focus on improving their competitive edge in the midst of the increasingly strong domestic and foreign competition. Both processes involved changes in organisation size and human resources levels. The literature on Slovenian transitional firms focused on studying wider strategic restructuring (Prašnikar, 1997; Pučko 1997 and 2001; Pučko and Edwards, 1999; Domadenik and Prašnikar, 2003), whereas literature emphasising the HRM aspects of downsizing was scarce (Prašnikar and Zupan, 1996; Zupan, 1999).

At roughly the same time interest in studying the HRM-firm performance link in the UK and US started to grow<sup>1</sup>. Two theoretical schools have been trying to explain how human resource management can add to firm performance. The strategic-fit school has focused on the vertical and horizontal fit of human resource activities (Wright and McMahan, 1992). This theoretical approach has sought to establish how firm performance is influenced by the fit between HR activities and business strategy (vertical fit), and the fit among various HR activities (horizontal fit). The universalistic best practice approach, on the other hand, claims there are some universal HR best practices (Pfeffer, 1998) that should be adopted regardless of a firm's external and internal context to achieve superior firm performance. Whereas empirical evidence (Huselid, 1995; Delery and Doty, 1996; Youndt et al., 1996; Huselid et al., 1997) supports the positive effects of the strategic fit of HR activities on firm performance, the best HR practice school's research remained descriptive (Boxall, Purcell, 2003).

Generally, the strategic-fit approach to managing human resources can be applied to different corporate and business strategies (Hitt et al., 2003). Nevertheless, most research studying HRM and firm performance has focused on firms with various growth strategies and little research has tried to determine which approach to managing human resources is better in the context of downsizing. Thus, the purpose of this paper is to bridge the downsizing and strategic HRM literature and identify which approach to managing human resources in downsizing has the most positive effect on firm performance. The arguments derived in this paper are based on empirical evidence about Slovenian manufacturing companies that adopted a downsizing strategy in the 1997–2002 period.

<sup>1</sup> The field has been referred to as strategic human resource management (SHRM).

The paper first locates strategic human resource management (SHRM) in the specific setting of a European transitional economy. Therefore, we first introduce the SHRM field in general and briefly introduce the conceptual SHRM model for European transitional economies. Then we define downsizing as a specific directional strategy, list strategic approaches to downsizing, and establish the importance of HRM for the effectiveness of downsizing. The theoretical framework section concludes with research propositions. Further, in the methodology section we discuss sampling and statistical tools used and introduce an empirical SHRM model for downsizing and its measures. Development of the empirical model is followed by an analysis and discussion of approaches for managing human resources during downsizing for Slovenian manufacturing firms. We conclude with an evaluation of the study and list the implications for theory and practice.

## 2. THEORETICAL FRAMEWORK

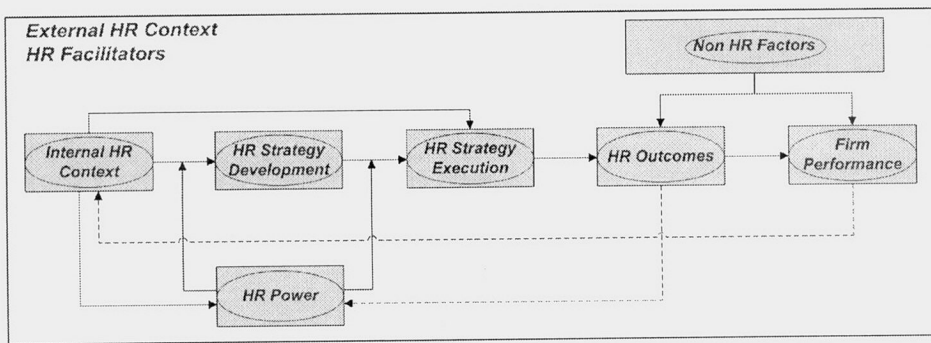
### *2.1 Strategic Human Resource Management*

The field of strategic human resource management evolved in the late 1980s and early 1990s by combining knowledge from strategic management and human resource (previously personnel) management. It focuses on studying relationships between business strategy, human resource activities and firm performance. At the beginning, the field lacked a good theoretical background and thus researchers were preoccupied with conceptual issues (Dyer, 1984; Beer et al., 1984; Legnick-Hall, Legnick-Hall, 1988; Guest, 1989). Wright and McMahan (1992) overcame this deficiency by providing a sound theoretical background, embedded in Barney's (1991) resource-based view of the firm. According to this view, firms can gain sustainable competitive advantage through human resources that are valuable, rare, imperfectly imitable and organised by providing the horizontal and vertical fit of human resource deployments.

An alternative to the strategic-fit approach to managing human resources is the universalistic best practice approach. Pfeffer (1998), for example, listed seven best practices: employment security; selective hiring of newcomers; self-managed teams and decentralisation of decision-making as basic principles of organisational design; comparatively high compensation contingent on organisational performance; extensive training; reduced status differentials and extensive sharing of financial and performance information throughout the organisation. He claimed that firms using these practices should be in a better position to create a competitive advantage through people. The best practices approach is commonly associated with benchmarking, which serves as a tool for identifying best practices in more specific settings. Boxall and Purcell (2003) claim that some entry-level best practices exist that should be adopted by most companies within a specific setting to provide them with legitimacy. However, after having provided for entry-level best practices, context-specific human resource deployments should be adopted to differentiate the organisation from its competitors.

Conceptual models are the most common way of studying strategic human resource management (e.g. Wright and McMahan, 1992; Delery and Doty, 1996). They are usually embedded within the HR context and include relationships between business strategy, HR strategy, HR activities, HR outcomes and, finally, firm performance (Becker et al., 1997). Due to the unique HR context (both external and internal), these widely used general SHRM models may neglect some of the key dimensions affecting the HR-company performance link specific for firms in European transitional economies. Therefore, a SHRM model for these countries (see Figure 1) has been developed (Zupan and Kaše, 2003).

FIGURE 1: Conceptual SHRM model for European transitional economies



Source: Zupan and Kaše, 2003.

In this model the strategic fit between business strategy (part of the Internal HR Context) and HR strategy affects the horizontal fit and quality of activities in HR Execution, which further influences Company performance through the mediating effect of HR Outcomes. Further, the HR Context is more precisely defined. It includes internal and external context and emphasises HR Facilitators as an important feature for the development of HRM in European transition economies. Finally, since in these countries an administrative approach to managing human resources with a relatively low vertical fit and lack of benchmarking prevails, another variable labelled HR Power is introduced as a moderator of HR Strategy Development and HR Execution. Namely, the insufficient power of both managers and HR specialists is suspected to influence firms' failure to adopt a strategic approach to HRM. The model is flexible enough to be used for empirical analysis for various business strategies and settings. Therefore, for the purpose of this paper the SHRM model for European transitional economies was further reduced to enable an examination of the HRM-performance link for a specific directional strategy (downsizing) within a specific industry (manufacturing) of a specific country (Slovenia). Returning to the conceptual model in Figure 1, this means that the External HR Context and a significant share of the Internal HR Context constructs are controlled for.

## 2.2 Downsizing and Human Resource Management

Downsizing has been defined as (Freeman, Cameron, 1993, p.12): 'a set of activities undertaken on the part of management of an organisation, designed to improve *organizational efficiency, productivity and/or competitiveness*, which represent a strategy implemented by management and affects the size of the firm's workforce and work processes used'. The phenomenon is studied at micro-individual and macro-organisational levels by several disciplines including psychology, sociology and business science (Shaw and Barrett-Power, 1997). In this paper, we focus on the organisational level as the unit of analysis to be consistent with research and conceptualisation in the SHRM field, which studies multiple HR activities at the organisational level (Wright and Boswell, 2002).

A critical success factor in downsizing is the choice of strategic approach. Cameron et al. (1991) listed three not mutually exclusive downsizing strategies that can be combined to form a strategic approach in downsizing. The workforce reduction strategy is aimed at eliminating individual jobs through layoffs, attrition, buyouts, retirement incentives etc. Redesign and systemic change strategies, on the other hand, foster transformation and organisational change. Usually, most common strategic approaches that exclude redesign and systemic change are less successful in practice (Cameron et al., 1991). According to the SHRM model discussed above, HRM deployments should fit these downsizing approaches to improve a firm's competitive edge.

Most companies that downsize expect higher productivity (efficiency), an improved cash flow, labour cost reductions, less hierarchy and bureaucracy, fewer overheads, business process optimisation, better communication and faster decision-making, along with greater entrepreneurship and innovativeness (Casco, 1993). However, the expected results rarely materialise. The reasons for this are chiefly attributed to the *survivor effect* (Brockner, 1988). The term addresses psychological states and behaviours that are characteristic of employees who have survived downsizing (especially layoffs). The role of HRM in preventing this effect by promoting employee involvement, teamwork, communication and information-sharing, rewarding, appraising, training, articulating with vision and administrating downsizing in a trustworthy and fair manner is decisive (Cameron, 1994).

Another important decision in downsizing is the workforce reduction tactic. Considering the criteria of time, costs and employee well-being, we can classify these tactics into two broad categories: redeployment and layoff tactics (Greenhalgh et al., 1988). In Slovenia, these tactics are usually referred to as 'soft' and 'hard' workforce reduction tactics. Redeployment tactics include natural attrition, induced redeployment and involuntary redeployment, while layoff tactics consist of layoffs without and with outplacement assistance. The actual choice of workforce reduction tactic in transitional countries like Slovenia generally depends heavily on the institutional framework.

Reflecting back on the universalistic approach to HRM, Pfeffer (1998) suggested that downsizing should be avoided by all means because employees should be guaranteed employment security to perform best. Nevertheless, following the logic of the universalistic approach some best practices for downsizing companies have been suggested for this specific setting. For example, Feldman and Leana (1994) suggested the following best practices for downsizing: advance notification system; extensive human resource planning to avoid mass layoffs; honest, direct, and empathetic communication to employees about layoffs; education and retraining programmes; severance pay, financial and social support programmes; survivor assistance programmes; and co-operation in delivering assistance to displaced workers with government, unions, local community and educational institutions.

### ***2.3 Research propositions***

Based on the conceptual model and literature review several propositions have been developed for study purposes. They cover two areas of interest. First, we wanted to analyse the approaches to human resource management in downsizing for our specific setting (Propositions 1-2). Second, some specific relationships between the constructs of the conceptual model are to be examined (Propositions 3-7).

There is some evidence about the HRM-firm performance link in Slovenia (Zupan and Ograjenšek, 2004). Also, specific types of HRM, some being quite strategic, have been identified for Slovenian companies (Zupan, 1999; Dmitrović and Zupan, 2001). However, the HRM-firm performance link has not yet been studied for companies with downsizing strategies since it is usually studied in companies with growth strategies and for high-performance work systems (Appelbaum, Batt, 1994). Thus, we introduce the following propositions.

*Proposition 1:* For companies involved in downsizing various approaches to managing human resources can be identified.

*Proposition 1a:* For companies involved in downsizing a strategic approach to human resource management can be identified.

The strategic approach to HRM is proactive and strongly integrated in strategic planning. By participating in formulation of the business strategy, the HR department can plan human resource needs well in advance and identify demands to redesign and change the system before a reactive workforce reduction is enforced on employees. Thus, the next proposition is formulated.

*Proposition 2:* Companies that adopt a more strategic approach to HRM will more likely apply a redesign and systemic approach to downsizing.

In spite of rhetoric about its importance, in practice HRM has been treated as less important than other business-related areas in Slovenia (Zupan and Kaše, 2003). The low power base of HR departments, employment protective legislation, and poor HR knowledge are obstacles to adopting a more strategic approach to HRM. Therefore, the following proposition should be tested.

*Proposition 3:* The adoption of a more strategic approach to HRM for companies involved in downsizing is conditional on greater HR Power.

Similarly, by providing effective HR strategy there is a greater possibility that its execution is going to be adequately supported within the company and consequently better executed. Furthermore, by providing horizontal fit synergistic effects should enhance the quality of HR activities. Therefore, we suggest the following proposition.

*Proposition 4:* Companies involved in downsizing that adopt a more strategic approach to HRM will execute HR activities better.

There exists an empirically confirmed positive effect of a strategic fit (Delery and Doty, 1996; Youndt et al., 1996) in human resource management and high performance work practices (Huselid, 1995; Huselid et al., 1997) on HR outcomes and overall firm performance. Since there is not much evidence of these effects for companies involved in downsizing, the following propositions are to be tested.

*Proposition 5:* Companies involved in downsizing that adopt a more strategic approach to HRM will achieve better HR Outcomes.

*Proposition 6:* Companies that adopt a more strategic approach to HRM will achieve a better current (static) firm performance.

Finally, companies shaping their human resources with an effective vertical and horizontal fit of HR activities can improve their competitive position by gaining a competitive advantage (Barney, 1991). Thus, the last research proposition is suggested.

*Proposition 7:* For companies involved in downsizing the adoption of a more strategic approach to HRM improves their competitive position and stimulates the company's development.

### 3. METHODOLOGY

#### 3.1 *Sampling and methods*

An extensive survey of Slovenian manufacturing firms with more than 100 employees was performed. There are several reasons why this particular sample was chosen. First, companies that employ fewer than 100 employees are less likely to have an HR



department and formal HR activities. Second, even though the trend of intense downsizing in Slovenia from 1990–1996 was reversed in 1997, there was still sufficient evidence of downsizing among companies in manufacturing<sup>2</sup>. Finally, employee characteristics and career paths, which account for a major part of the variability of human resource management, are more similar within the industry and therefore controlled for.

The survey took place from November 2003 to January 2004. Questionnaires were addressed to HR specialists (heads of HR departments) and included issues on strategic management, human resource management and downsizing for the 1997–2002 period. Forty companies returned the questionnaire, which corresponds to an effective response rate of 22.5%. Data from the questionnaire was supplemented with financial, accounting and industry-related data and prepared for statistical analysis.

Statistical methods were used for two purposes. First, due to the large number of variables in the questionnaire<sup>3</sup> data-reduction procedures and clustering methods<sup>4</sup> were used to produce measures within constructs needed for further analysis. Second, a statistical comparison of means with a one-way ANOVA was employed to establish quantitative information for testing propositions about the relationships between constructs. Since statistical significance (p-value) is often problematic for small samples, we also calculated the size of the effect with Cohen's d measure<sup>5</sup>.

### *3.2 Instrumentation and measures*

In order to produce empirical evidence we modified the conceptual SHRM model for European transitional economies. Thus, we reduced the model to our specific setting and by means of exploratory research design developed specific measures for the constructs of the model. Following our framework of propositions, we derived two types of measures by using different methods. By means of clustering we established a common comprehensive nominal order measure of the Internal HR Context and HR Strategy Development labelled the HR Approach. In addition, we derived scale-order measures for the constructs HR Power, HR Strategy Execution, HR Outcomes and Firm performance by means of principal component analysis.

We support the decision to employ clustering to identify approaches to HRM in downsizing for Slovenian manufacturing companies with the small sample size and complexity of the underlying primary variables (business strategy dimensions vari-

<sup>2</sup> For example, in Slovenia the number of employees in manufacturing dropped from approximately 314,000 in 1991 to approximately 211,000 in 2002 (Statistical Office of the Republic of Slovenia, 2003).

<sup>3</sup> There were approximately 400 primary variables used in the analysis. The list of primary variables with basic descriptive statistics can be obtained from the authors.

<sup>4</sup> Principal component analysis and hierarchical clustering optimised with K-means clustering.

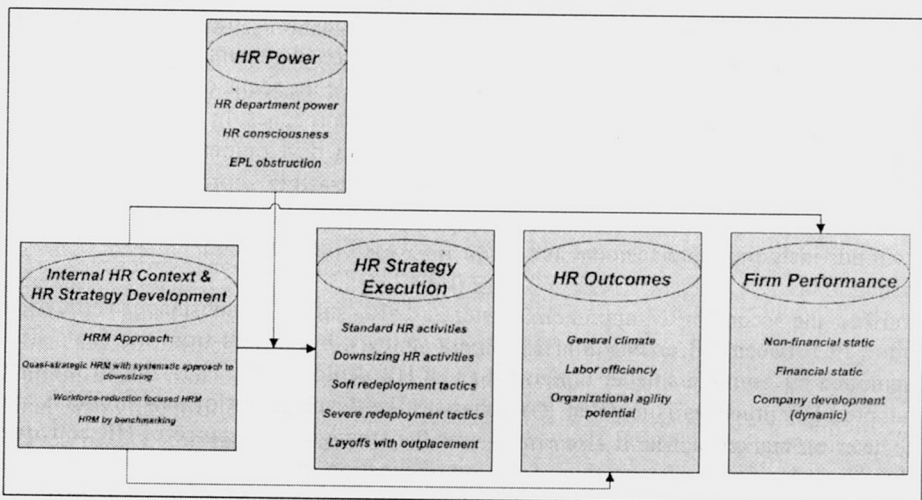
<sup>5</sup> See Breaugh (2003) for more.



ables, horizontal fit variable and HR strategy development variables)<sup>6</sup>. Cluster membership and centres derived by hierarchical clustering served as inputs for K-means clustering, which was used to optimise clusters. In both procedures squared Euclidean distance as the distance measure and Ward's method were used. Three clusters were generated and interpreted by comparing the cluster centre means with the ANOVA procedure and size of the effect measure (Cohen's *d*). Results of the procedure are seen in Appendix A, while a detailed description of each cluster based on the analysis is given in the results section.

The instrumentation of measures for all remaining constructs is chiefly based on principal component analysis (Varimax rotation with Kaiser Normalisation)<sup>7</sup>. Their eigenvalues are consistently above 1 and all of them account for a substantial amount of the variability of the underlying primary variables. The executed principal component analyses also had suitable values of the Kaiser-Meyer-Olkin measure of sampling adequacy and a viable Bartlett test of sphericity (for more see the table in Appendix A). Tables 2-6 in Appendix A introduce the factor loadings of underlying primary variables to justify the interpretation of the newly derived measures.

FIGURE 2: Instrumentation of empirical SHRM model in downsizing \*



<sup>6</sup> For more, see Table I in Appendix A.

<sup>7</sup> Only the variable *Layoffs with outplacement assistance* was defined as a direct measure without employing principal component analysis. It measures the execution quality of the only hard workforce reduction tactic observable in Slovenia.

\* EPL stands for employment protective legislation.

The instrumentation of measures resulted in an empirical SHRM model for downsizing. As evident from Figure 2 this model only allows us to observe direct effects between constructs of the model. This deficiency can be attributed to statistical investigations of phenomena only observable in limited populations and to methodological difficulties in trying to overcome this problem. Further, the majority of relationships in the empirical model are contemporaneous, except for the relationship between Internal HR Context & HR Strategy Development and Firm performance which is intertemporal.

#### 4. RESULTS

Results are organised in two subsections. First, the HRM approach measure is examined and its categories are described. Second, a summary of the results about relationships between HRM approach and other discussed constructs is given.

##### 4.1 Description of HRM approaches

The measure for Internal HR Context & HR Strategy development provides us with three HRM approaches to downsizing. We call the first approach (cluster 1; n=23) *quasi-strategic HRM with a systematic approach to downsizing*. This approach has the best vertical and horizontal fit of HR deployments of the three. Thus, this HRM approach is characterised by HR activities that fit the business strategy adequately and are congruent among themselves. Further, it is characterised by pursuing a defender and cost leadership strategy, supplemented with M&A, while the focus on high-quality, new markets and technology characterises all three HRM approaches. In addition, this HRM approach emphasises the strategic importance of the development portfolio of HR activities and the compensation system. Finally, its strategic approach to downsizing focuses on redesign, structural changes and work process rationalisation, and soft methods including outplacement assistance for workforce reduction.

Further, the second HRM approach (cluster 2; n=10) still has a substantial vertical fit, i.e. a fit between HR activities and business strategy, but differs from the first HRM approach by having a smaller horizontal fit of HR deployments. Thus, the fit between adopted HR practices is smaller. It emphasises the development of new products and focuses on market niches. It also emphasises the strategic importance of HR activities that are specific to downsizing, and communication and employee relations. The strategic approach to downsizing for this approach is determined by focusing on quick and »hard« method-driven workforce reductions, with a 'one method fits all' way of thinking. Workforce reductions mostly involve production workers. We will name this approach *workforce reduction focused HRM*.

Finally, the third HRM approach (cluster 3; n = 4) is characterised by a low vertical fit and extensive HR benchmarking in downsizing. Thus, a firm adopting this approach

does not have HR activities that fit the business strategy and are congruent among themselves, but instead it tends to evaluate and mimic other firms that have experienced a similar situation. Strategic importance is not emphasised for any of the HR activity portfolios. Further, its offensive position in the market differentiates this approach from the other two. Finally, in the area of downsizing this category focuses on redesign. Since benchmarking and a lack of strategic orientation for HR activities are significant in this approach, we will refer to it as *HRM by benchmarking (best practices)*.

#### 4.2 Relationships between constructs

After having identified the three approaches to HRM that Slovenian companies adopt in the area of downsizing, we checked for differences between them considering various construct measures. The HRM approach that exhibits a greater amount of strategic approach to HRM should differentiate from the other two in HR Power, HR Strategy Execution, HR Outcomes and Firm performance. Cluster membership was used as a factor variable in a one-way ANOVA procedure to determine differences between the HRM approaches we have identified for all construct measures of the model. Because of the small sample size and the comparison of the three HRM approaches, effect size (Cohen's  $d$ ) was estimated in addition to the significance level. In Table 6 we present a summary of the differences for construct measures between the three identified HRM approaches.

It is evident from Table 6 that only within the constructs HR Strategy Execution and HR Power are there statistically significant differences between HRM approaches. However, by taking size of the effect into consideration we can also discuss differences within HR Outcomes and Firm performance constructs. The risk of recognising differences between HRM approaches for the measures HR consciousness, general climate, potential for organisational agility, non-financial company performance and for static financial company performance is too high.

Substantial differences can be found between all three HRM approaches for the standard HR activities portfolio, the first HRM approach exhibits the highest value of the variable. Further, the first HRM approach also handles severe redeployment tactics better and achieves higher labour efficiency than the second and third approaches. HRM by benchmarking differs from the other two approaches by the quality of execution of downsizing the HR portfolio, softer redeployment tactics and layoffs with outplacement assistance, where its performance is worse. In addition, substantial differences for EPL obstruction between the second and third HRM approaches and for a competitive position and company development between the first and second HRM approaches have been found. The third HRM approach seems to be the least obstructed by EPL while the first one seems to achieve the best competitive position and company development.

TABLE 6: Summary table on differences in construct measures between HRM approaches (cluster membership as a variable)<sup>8</sup>

Construct	Secondary variables	Mean C1	Mean C2	Mean C3	ES 1-2	ES 1-3	ES 2-3	Sig.
HR Strategy Execution (mediator)	Standard HR activities portfolio	0.344	-0.141	-1.320	0.723	2.431	1.449	<b>.004</b>
	Downsizing HR activities portfolio	0.119	0.075	-0.873	0.055	1.163	1.324	.243
	Softer redeployment tactics	0.149	0.178	-0.793	-0.028	0.905	1.136	.196
	Severe redeployment tactics	0.293	-0.499	-0.824	0.806	1.063	0.548	<b>.024</b>
	Layoffs with outplacement assistance	2.826	3.200	1.000	-0.326	1.316	1.689	<b>.015</b>
HR Power (moderator)	HR department power	0.276	0.048	-1.247	0.246	1.583	1.453	<b>.014</b>
	HR consciousness	0.026	-0.054	-0.263	0.079	0.283	0.159	.872
	EPL obstruction	-0.012	0.381	-0.541	-0.436	0.506	0.844	.258
HR Outcomes (mediator)	General climate	-0.246	-0.188	0.435	-0.066	-0.785	-0.720	.551
	Labour efficiency	0.232	-0.646	-0.910	0.800	1.227	0.162	.117
	Potential for organisational agility	0.121	-0.337	-0.357	0.390	0.446	0.014	.604
Firm Performance	Non-financial company performance	-0.025	-0.073	-0.343	0.045	0.317	0.241	.849
	Static financial company performance	0.141	-0.006	-0.421	0.136	0.569	0.313	.620
	Competitive position and company development	0.303	-0.572	0.214	0.929	0.090	-0.714	.067

Source: questionnaire analysis.

## 5. DISCUSSION

The analysis provides some insights into approaches to HRM in downsizing for Slovenian manufacturing companies. We identified three distinctive approaches to HRM in our specific setting. The quasi-strategic HRM approach exhibited a relatively high vertical and horizontal fit of HR activities and focused on redesign, structural and

\* Effect size measure (Cohen's d) measures differences between the treatment and control group. Measures have the following meaning: below 0.2 negligible differences, 0.2-0.5 small differences; 0.5-0.8 moderate differences and above 0.8 substantial differences.

systemic change in downsizing. The workforce reduction focused HRM approach still had a relatively high vertical fit but exercised the lowest level of benchmarking and was especially characterised by its focus on workforce reduction. The third type, HRM by benchmarking, was characterised by the highest level of benchmarking and the lowest horizontal and vertical fit and was thus similar to the universalistic best practice approach to HRM. Although none of the three can be said to have a fully strategic HRM, the quasi-strategic HRM approach exhibited a substantial strategic HRM orientation. Therefore, we can confirm propositions 1 and 2, while we are less confident in confirming proposition 1a.

The construct HR Power was hypothesised to contribute substantially to the adoption of a more strategic HRM approach to downsizing. It is the first time that this new construct has been empirically tested for the case of Slovenia. The significance attributed to this construct in the conceptual model was confirmed since greater HR department power supported a more strategic approach to HRM. By confirming proposition 3, we can also be more confident in hypothesising that achieving greater HR department power is crucial for strategic HRM development in transitional countries and also for other settings and business strategies. The construct HR Power has a substantial influence on HR Strategy Execution since it moderates execution in two ways: directly and indirectly through better HR Strategy Development. Further research on HR Power and its mechanisms is needed if we want to know more about SHRM in transitional countries. One more interesting question to be answered is whether high EPL obstruction diminishes or enhances HR department power, conditioned on the fact that the HR department interprets the law for top management. In our case, the only substantial difference in EPL obstruction was found between benchmarking (best practices) and workforce reduction HRM approaches. We could speculate that adopting the best practices reduces the risks connected with EPL obstruction.

We found mixed results for proposition 4. HR activities in the specific setting we studied can be divided into standard and downsizing HR activities. Companies that adopt a more strategic approach to HRM have emphasised and executed standard HR activities portfolio better. We may argue that a clearer HR strategy contributes to the better execution of HR activities or that greater HR department power in companies that pursue a more strategic approach to HRM results in better execution. However, at the same time there are no differences between the quasi-strategic and workforce reduction focused HRM types for all downsizing HR activities, except for severe redeployment tactics, which are better executed by the quasi-strategic HRM type. This could be attributed to the fact that flexible employment, education and retraining, which form severe redeployment tactics, are frequently used in redesign and structural change processes. The best practice approach, on the other hand, has been less successful in executing standard and downsizing HR activities, as well as all workforce reduction tactics.

Similarly, proposition 5 is only partly confirmed. Companies that adopt a more strategic approach to HRM achieve better labour efficiency after downsizing. There are no other substantial differences between HRM types in the potential for organisational agility and in the general climate, although we were given a slight insight that the general climate was better in the benchmarking HRM type and that, for this type, there was also less potential for organisational agility than in the two other HRM types. Since due to the chosen type of analysis the mediating effect of HR Outcomes is not directly observable, we can speculate that a more strategic approach to HRM in downsizing affects firm performance through increased labour efficiency.

Companies that have adopted a more strategic approach to HRM have achieved a more competitive position than companies that have emphasised workforce reduction. However, the benchmarking HRM approach achieved a similar competitive position as the quasi-strategic HRM approach. Therefore, we found only partial support for proposition 7. We can establish that the HRM approach emphasising workforce reduction had the worst competitive position after downsizing. In addition, no substantial differences in static financial or non-financial performance between all three HRM types were found. It can therefore be inferred that firm performance in downsizing is not influenced by the HRM approach adopted.

Since neither quasi-strategic human resource management nor any other of the three identified types of HRM was found to influence static firm performance in downsizing, we must search for the reasons underlying these results. They could be sought in the fact that some companies in the sample had not finished downsizing by the end of 2002, thus still not materialising its effects properly. In addition, it may be that even if downsizing had been completed the effects of HRM on firm performance would not be observable in the short term. Finally, the absence of strategic HRM-firm performance could be attributed to the relatively low value-added in the manufacturing industry, as suggested by previous research (Boxall, Purcell, 2003).

Future research should examine the strategic HRM-firm performance link in downsizing for industries that generate more value added. More generally, the HRM-firm performance link in European transition economies should be examined in various other strategies and institutional settings. Especially comparative and longitudinal studies within and between these countries remain the most challenging. Finally, more HRM research should further examine the HR Power construct. It should contrast it with industrial relations systems and focus on finding out how HR department power, HR consciousness and EPL obstruction shape human resource management in companies with different business strategies.

There are some limitations to our study mostly due to the fact that we are trying to research a specific phenomenon on the organisational level. Most of the methodological drawbacks of our study originate in the small sample size. Namely, our empirical model



only measures direct effects between constructs and global fit indices of the empirical model cannot be established. However, even having the whole population of adequate companies in our setting would still not suffice to build a viable structural model. As a compromise, partial least squares seem the most useful method for a further examination of the issue. In addition, the causality issue, i.e. whether HRM affects firm performance or vice-versa, remains to be solved, which can only be done by building a longitudinal model. Finally, for simplicity reasons we performed our study on the organisational level whereas extending its complexity to a multilevel analysis (individual, group, organisation) might yield richer insights.

Being aware of these limitations, our contribution to the literature lies in joining SHRM and downsizing literature and in building a solid empirical model examining HRM-firm performance in downsizing. We manage to provide full instrumentation of the empirical model and some interesting empirical evidence. At the same time, the empirical model exhibits substantial complexity yet it remains simple enough to be used for empirical investigation. Also, we introduce and empirically examine a newly defined construct HR Power, which might be very important for SHRM field development in European transition economies.

Practitioners should pay special attention to achieving greater HR Power, especially HR department power, within their companies. Raising the HR department's reputation within the company, ensuring HR information system support and improving HRM-related knowledge of all HR actors is crucial for achieving a more strategic orientation to HRM. In Slovenia, the potential for companies to differentiate in downsizing with workforce reduction tactics is minimal due to the employment protective legislation and institutional background. There is a window of opportunity for companies to differentiate themselves through an adequate HR strategy development and execution which would run parallel to workforce reduction tactics.

To conclude, for Slovenian manufacturing companies a more strategic approach to HRM in downsizing is characterised by the better execution of standard HR activities, a bigger increase in labour efficiency and better contribution to the company's development. In other words, a more strategic approach to HRM in downsizing supports a company when it is taking on more demanding business.

Received: March 2005

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## APPENDIX A

TABLE 1: Cluster centres and statistical analysis to support cluster membership interpretation, i.e. different HRM approaches' identification and justification.

	Secondary variables	Mean C1	Mean C2	Mean C3	ES 1-2	ES 1-3	ES 2-3	Sig.
General SHRM variables	Vertical fit of HR deployments	2.96	2.80	1.75	0.20	1.58	0.89	<b>.038</b>
	HR benchmarking in downsizing	2.57	1.70	4.00	0.81	-1.24	-3.00	<b>.002</b>
	Horizontal fit of HR deployments	3.13	2.60	2.50	0.80	0.90	0.17	<b>.048</b>
Business strategy dimensions	High quality, new market's and technology	-0.10	0.18	0.24	-0.32	-0.35	-0.06	.607
	Defending current position	0.24	-0.07	-1.35	0.37	1.63	1.17	<b>.010</b>
	Cost leadership with existing products	0.21	-0.22	-0.51	0.57	0.73	0.28	.196
	Innovator (niche)	-0.22	0.69	-0.60	-1.18	0.41	1.40	<b>.010</b>
	M&A driven growth	0.23	-0.44	-0.13	0.98	0.45	-0.57	<b>.042</b>
Strategic importance of HR activities	Focus on development portfolio of HR activities	0.27	-0.27	-0.96	0.57	1.58	0.48	<b>.048</b>
	Focus on workforce reduction or redesign	0.06	0.44	-1.43	-0.43	1.67	1.72	<b>.005</b>
	Focus on compensation or communication and employee relations	0.31	-0.68	-0.18	1.20	0.47	-0.41	<b>.030</b>
Strategic approach to downsizing	Pay freeze preference followed by quick, one-time workforce reduction with harder methods, preferential reemployment	-0.01	0.40	-0.79	-0.40	0.79	1.18	.134
	Workforce reduction without redesign; one method fits all	-0.08	0.61	-0.27	-0.74	0.20	0.83	.116
	Preference for soft methods and outplacement	0.18	0.01	-1.15	0.18	1.27	1.06	<b>.051</b>
	Workforce reductions in administration and management headquarters) or plant closings	0.01	-0.05	0.59	0.06	-0.57	-0.51	.534
	Focus on structural changes and work process rationalisation	0.34	-0.22	-1.57	0.68	2.48	1.15	<b>.001</b>
	Workforce reductions for productions workers while ignoring flexible employment	-0.45	1.07	-0.34	-2.01	-0.15	1.64	<b>.000</b>

Source: questionnaire analysis.

## APPENDIX B

TABLE 1: Principal component analysis for observed constructs of the model

Construct	Secondary variable (principal component)	Preserved Variability	KMO measure	Bartlett's test
HR Strategy Execution	Standard HR activities portfolio	63.4%	0.839	.00
	Downsizing HR activities portfolio			
	Soft redeployment options	57.7%	0.703	.00
	Severe redeployment options			
	Layoffs with outplacement assistance	100%	-	-
HR Power	HR department power			
	HR consciousness			
	EPL obstruction	68%	0.667	.00
HR Outcomes	General climate			
	Labour efficiency			
	Potential for organisational agility	67.5%	0.744	.00
Firm Performance	Non-financial company performance			
	Static financial company performance			
	Competitive position and company development	71.1%	0.683	.00

Source: questionnaire analysis.

TABLE 2: Instrumentation of the HR Power construct<sup>9</sup>

HR power – primary variables	PC1	PC2	PC3
HRM knowledge – top managers	.222	<b>.789</b>	-.108
HRM knowledge – HR department	<b>.752</b>	.355	.00
HRM knowledge – line managers	.00	<b>.832</b>	.145
HR department is respected within company and contributes to achieving company goals	<b>.616</b>	.147	.00
HR information system support	<b>.689</b>	.213	.00
HR department interprets employment law to top management exclusively.	<b>.839</b>	-.232	.114
Employment law has obstructed HRM in downsizing	.00	.00	<b>.984</b>

Source: questionnaire analysis.

PC1 = HR department power; PC2 = HR consciousness; PC3 = EPL obstruction

<sup>9</sup> Factor loadings that were used for interpreting each principal component are in bold.

TABLE 3: Instrumentation of the HR Strategy Execution construct

HR activities - primary variables	PC1	PC2
Recruitment, selection and placement	.793	.00
Compensation	.807	.182
HR function effectiveness evaluation	.726	.279
Job and task (re)design	.149	.779
Employee development	.629	.467
Workforce reduction activities	.309	.686
Education and training	.715	.319
Employee relations and communication	.220	.777
Performance management	.744	.390

Source: questionnaire analysis.

PC1 = Standard HR activities portfolio; PC2 = Downsizing HR activities portfolio

TABLE 4: Instrumentation of the HR Strategy Execution construct II

Workforce reduction tactic – underlying variables	PC1	PC2
Education and retraining for redeployment	.00	.810
Early retirement	.810	.00
Voluntary separation	.787	.00
Introduction of flexible employment	.00	.650
Transfer to another company	.410	.536
Transfer within company	.630	.488

Source: questionnaire analysis.

PC1 = Soft redeployment tactics<sup>10</sup>; PC2 = Severe redeployment tactics

<sup>10</sup> E.g. temporary workers, job-sharing, reduced work time, contractual work and outsourcing (Robbins, 2001).



TABLE 5: Instrumentation of HR Outcomes construct<sup>11</sup>

HR Outcomes - underlying variables	PC1	PC2	PC3
Absenteeism 02	.00	<b>-.863</b>	.00
Labor costs index 02/96	<b>.616</b>	-.213	.00
Productivity 02	.357	<b>.704</b>	.233
Trust in top management 02	<b>.843</b>	.00	.260
Mutual trust among employees 02	<b>.734</b>	.392	.00
Employee satisfaction 02	<b>.766</b>	.231	.298
Flexibility and learning capability	.132	.00	<b>.824</b>
Risk-taking attitude	.159	.00	<b>.809</b>
Organisational citizenship	<b>.721</b>	.245	.00
Employee commitment to work	.554	<b>.613</b>	.149

Source: questionnaire analysis.

PC1 = General climate; PC2 = Labor efficiency; PC3 = Potential for organisational agility

TABLE 6: Instrumentation of Firm performance construct<sup>12</sup>

Business performance indicators – underlying variables	PC1	PC2	PC3
Gross value added per employee 02	.00	<b>.882</b>	.377
Growth of gross value added 02-01	.00	.125	<b>.607</b>
EBIT per employee 02	.00	<b>.905</b>	.240
ROA 02	.130	<b>.802</b>	-.198
Competitive position after downsizing	.344	.00	<b>.695</b>
Length of new product development cycle 02	<b>.669</b>	-.241	.398
Customer (client) satisfaction 02	<b>.804</b>	.00	.322
Complaints resolution effectiveness 02	<b>.838</b>	.169	.00
Product quality 02	<b>.860</b>	.00	-.135
Company reputation 02	<b>.824</b>	.00	.151

Source: questionnaire analysis.

PC1 = Non-financial company performance; PC2 = Static financial company performance;  
PC3 = Competitive position and company development

<sup>11</sup> In the following table we list the most commonly cited direct results of human resource management (Boxall and Purcell, 2003).

<sup>12</sup> Underlying variables that measure non-financial performance and competitive position have been collected with an attitudinal survey, whereas the underlying financial indicators are based on accounting and financial data. Only robust financial indicators that diminish the effects of workforce size, capital structure and tax burden are included.



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NADA ZUPAN

RAVNANJE S ČLOVEŠKIMI VIRI IN USPEŠNOST PODJETJA V RAZMERAH ZMANJŠEVANJA: DOKAZI IZ SLOVENSКИH PODJETIJ V PREDELOVALNIH DEJAVNOSTIH

ECONOMIC AND BUSINESS REVIEW • VOL. 7 • No. 3 • 2005 • 239–260

Pri slovenskih podjetjih v predelovalnih dejavnostih, ki so se v obdobju 1997-2002 zmanjševala, smo prepoznali tri pristope k ravnanju s človeškimi viri (RSČV): kvazi strateško RSČV s sistemskim pristopom k zmanjševanju, RSČV s poudarkom na zmanjševanju števila zaposlenih in RSČV s posnemanjem. Skozi analizo smo ugotovili, da v obravnavanih okoliščinah bolj strateški pristop k RSČV pripomore k boljšemu izvajanju standardnih aktivnosti RSČV ter k večji učinkovitosti dela, doseganju boljšega konkurenčnega položaja in razvoja podjetja po zmanjševanju. V prispevku izpostavimo konstrukt Moč RSČV, ki se v obravnavanih okoliščinah izkaže kot zelo pomemben in vpliven konstrukt. Predvidevamo, da ima v podobnih okoliščinah ta konstrukt podobne učinke tudi v drugih evropskih tranzicijskih državah.

**Ključne besede:** strateško ravnanje s človeškimi viri, zmanjševanje, najboljše prakse, strateško ujemanje, uspešnost podjetja, Slovenija

**UDK:** 658.3-058.243.2(497.4)

**JEL klasifikacija:** O15, O14

MAJA KONEČNIK

SLOVENIJA KOT TURISTIČNA DESTINACIJA: PROUČEVANJE RAZLIK V ZAZNAVANJU PODOBE V OČEH PREDSTAVNIKOV TURISTIČNE DEJAVNOSTI IZ BLIŽNJIH IN BOLJ ODDALJENIH TRGOV

ECONOMIC AND BUSINESS REVIEW • VOL. 6 • No. 3 • 2004 • 261–282

Prispevek proučuje kompleksno naravo koncepta podobe turistične destinacije ter analizira slednjo za destinacijo Slovenijo v očeh tujih predstavnikov turistične dejavnosti. Podrobneje predstavlja razlike v dojetju komponent podobe Slovenije med predstavniki turistične dejavnosti iz bližnjih in bolj oddaljenih trgov. Kljub temu, da se splošna podoba Slovenije kot turistične destinacije ne razlikuje med analiziranimi skupinama anketirancev, statistično značilne razlike potrdimo pri analiziranju zaznavnih