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THE IMPACT OF DOWNSIZING ON THE CORPORATE REPUTATION *

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Abstract. *This paper deals with the downsizing influences on the corporate reputation. In this paper we stress the importance of the corporate reputation as one of the most important firm's intangible assets. This kind of resources could be a significant source of the firm's competitive advantage. After the presentation of a brief review of downsizing literature, we investigate the downsizing influence on the corporate reputation. More precisely, we investigate how downsizing influences the eight dimensions that determine corporate reputation index. Our discussion is based mainly on the findings of a number of referent studies that investigate downsizing outcomes. Since we have found that there is a great possibility for downsizing to be an unsuccessful firm's strategy and therefore to decrease the corporate reputation, it is important before making the decision about downsizing to reconsider the necessity of such a decision.*

Key Words: *downsizing, corporate reputation, corporate reputation index, employee.*

INTRODUCTION

Under the conditions of intensified competition and demanding consumers, corporate reputation is becoming a source of competitive advantage. Selection in purchasing on the part of consumers on the basis of brand, image and other intangible product characteristics is becoming dominant, thus inducing companies to invest more in the creation of reputation that will reflect the business of the enterprise. Favorable reputation which is a result of the long lasting favorable public perception of the enterprise can be transformed into added value and become valuable assets of the enterprise which are hard to copy.

In today's competitive business environment, organizations are forced to realize different kind of changes. Previously, those changes were mostly incremental and adaptive, but recently, they have become radical and discontinuities. Consequently, changes that organizations realized nowadays produce more and more radical consequences for the employees.

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One of the most popular strategies used lately for firm's restructuring is downsizing. It is a radical, discontinuities change, with significant influence on organizations, employees, and society[1]. Although we may find examples of downsizing in the 70s of XX century, this strategy became extremely popular in the 90s. It primarily affected blue-collar workers, but nowadays this strategy is spreading to all industries, regions, companies, and employees at all levels of skill and education [1, p. 260] and has, therefore, become a global phenomenon. Downsizing could be realized through several forms, but all of them include reducing the number of personnel. This has caused downsizing to become a painful experiences in the life of corporations and their employees. The main reasons for the adoption of this strategy is that the companies reported increased global competition, overstaff, increased costs, new technologies, preparation for privatization or strategic issues such as mergers, acquisitions, outsourcing, etc.

In the attempt to examine the effectiveness of this strategy, numerous studies have been realized. However, despite the frequent use and popularity of this strategy, most of the empirical evidence fails to support the thesis that downsizing improves organizational performance.

Some studies have investigated the impact of downsizing on the intangible firm's assets. They have found that downsizing had negative influence on many intangible assets, for example, social capital, organizational learning capacity, employee commitment, etc. However, there are only a few studies that investigated the impact of downsizing on *corporate reputation.* This intangible resource has become a very important resource for organizations since it can be a source of sustainable competitive advantage.

Recently, the interest in how downsizing affects the corporate reputation has resulted in two kinds of studies: indirect and direct [2, p. 254]. Indirect studies investigate the impact of downsizing on reputation through other aspects of the firm, while direct studies investigate direct impact of downsizing on reputation. Within indirect studies, there is the opinion that if downsizing has a positive impact on financial performance, downsizing will have a positive impact on reputation. However, as the empirical evidence shows that downsizing does not always improve the performance, it appears that downsizing in most cases has a negative influence on reputation.

The aim of this paper is to give an overview of how downsizing might affect corporate reputation. The structure of the paper is as follows. First, we emphasize the significance of corporate reputation as the firm's intangible assets. Second, after a short review of the referent downsizing literature, which investigates relationship between downsizing and corporate reputation, we are going to analyze how downsizing affects the factors that determine corporate reputation index, measure of the corporate reputation.

1. Corporate Reputation as a Part of the Intangible Assets of an Enterprise

Under dynamic, unsafe and very complex conditions of business activity, the advantage is on the side of those enterprises which successfully differentiate in relation to competition. Differentiation based on intangible features is becoming an important aspect of

[1] Theoreticaly, downsizing could be incremental change, too, but it apperas in very limited cases. For example, downsizing based on freezing employement.

the competition for loyalty and keeping of consumers. Investing in the creation of valuable and strong brands, patents, relations with internal and external stakeholders, creating the reputation in the wider public, innovation, research and development, are becoming the key sources of competition in a global environment. Corporate reputation is becoming a key element of the intangible assets of an enterprise and a source of its long term competitive advantage [1, pp. 31-42]. The reputation of an enterprise in the perception of the wider and narrow public, on the other side has an impact on its competitiveness, market share and profit, meaning the whole market position.

Corporate reputation is the public assessment of the key identity and image of an organization making a favourable long term position. Reputation represents a distinctive capability, implying a number of attributes attributed to the enterprise deriving from its previous actions [2, p. 37]. In contrast to the existing perception of stakeholders about what has really been realized (identity), the reputation of an organization represents a long term perception of the total integrity of the enterprise [3, pp. 16-17]. It is based on the experience of the defined public with a company and is a result of its whole behaviour, symbol and communication with the environment. In contrast to image, corporative reputation cannot be changed in a short time and if it is favourable it suggests credibility, reliability, trust and responsibility of an organization [4, p. 72]. Recognizable and stable reputation gives the enterprise:

- Authority for the creation of a long term business success and competitive advantage;
- Product and service credibility and emotional attachment of consumers more than any other specific product or service characteristics;
- The creation of loyalty of consumers in the purchases of high risk, when on account of the complexity of information the assessment of the total value of an offer is difficult to establish;
- Goodwill creation which decreases the conflicts of an enterprise with the local community, Government, consumer protection organizations and other organizations;
- The increase of trust within different interest groups like investors, employees and potential partners for example.

The impact of a corporative image and reputation on business success of the enterprise can be positive or negative depending on the level of correspondence with the existing identity. Well created image is difficult to copy by the competition which has a long term repercussion on the market position. Higher value for consumers in the phase of the assessment of alternatives has the enterprise with a better positioned image which leads toward the increase of business performance, satisfaction, loyalty of employees, investment intensification and innovation activities, market expansion, better relation with business partners and non-government organization, success at mergers and acquisition, greater impact on economic flows and longer market survival.

For the creation of unified reputation of an organization the mutual interaction of image and identity is of essential importance. Corporative image is a multidimensional mental image of the enterprise in the market environment, ie the totality of impressions the key public has formed about a particular enterprise. It is the consequence of an experienced not real quality of an enterprise and is created as a result of the interaction of experience, belief, emotion, knowledge and impression of the key stakeholders in an organization [5, p. 430; 3, p. 16] attitudes and perception of stakeholders are formed on the basis of how enterprise works and presents itself. Image is a psychological construction which combines three dimensions: belief as a cognitive dimension of an attitude, emotion as an effective attitude component and intention in behaviour. There are five different image forms [6, pp. 254-255]: the mirror image regarding the way the management sees the public perception of itself ie mutual perception of the key enterprise constituents, the multiple image regarding the differences in the perception of the key public, the wish image reflecting the aspirations of a focal organization and the optimum image as a possibility in particular circumstances.

A corporative image is formed as a result of the interaction of a number of factors affecting each other. These are: socio-political, cultural, industrial, organizational and process factors. The key factors of corporative reputation are corporate culture, business strategy and internal and external communication [Figure 1, 3, p. 17]. Business strategy determines the perception of organizational characteristics like products, their quality, branch position, and announcement. The creation of the perception and attitude of the public is affected by different enterprise elements like product performances, value system, and, business results, tradition, visual identity, management, public display, attitude towards employees and other constituents. However, all the elements are not of similar importance for the creation of an image and depend on the relative importance of the factors concerning the public target groups. The perception of competitors, financial organizations, media, share holders and employees can be different, so the corporate image is a result of an average perception of its dimensions. The standards for the comparison of the existing image can be the previous image of a company, competition image or some normative expectations.

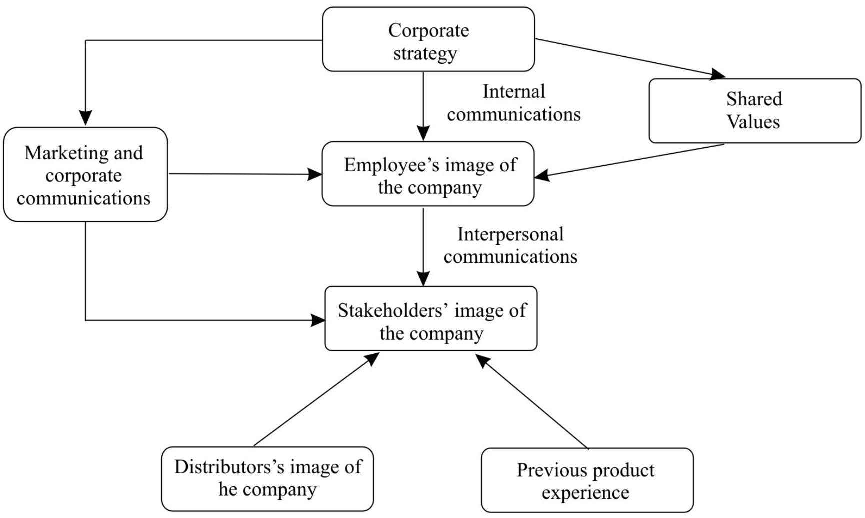

Fig. 1. Factors influencing the corporate image

In order that the corporate reputation could become distinctive competence of an enterprise the role of the employed whose behaviour, relation and communication with the external target groups greatly determines the company reputation in the public is crucial. Namely, the business strategy can be incompatible with the corporate identity and organizational behaviour if there are differences in the attitudes of the employed and presented corporate identity. On the other side the strategy can be communicative, understandable and compatible but the employees don't have the means for its presentation in public. Marketing communication which is not realistic or suitable leads towards the gap between the wished and real business reputation. Corporate reputation is based on the following elements:

- Product quality,
- satisfaction of the consumers,
- stock value,
- innovation and creativity,
- promotion activities,
- vision and leadership,
- internal communication and satisfaction of the employees,
- the core of competence,
- organizational culture and structure,
- partner network,
- financial output.

In order that a unique corporate reputation could be continuously modified and upgraded, the image must be managed. Image management is an integral part of the integrated communication strategy and public relations management [7, p. 90-91]. The objective of the communication strategy is the translation of the identity of an enterprise into wished external presentation and securing of the compatibility of the public attitudes with the strategic position and vision of an enterprise. Definition of a recognizable business reputation means that the alignment of the image with identity has been achieved, since insofar the image is clear, recognizable and aligned with the identity, the auditorium will perceive what the management wants. Otherwise, the management should work on the bridging of the gap between the image that the enterprise has of itself ie how the management sees the others perceive it and the real image that the public has [Figure 2, 8, p. 255].

Ensuring the clarity and preciseness in communication can help in the definition of the wished image and creation of suitable position in the consciousness of a consumer. Focusing the target auditorium and getting to know its characteristics is crucial for the success. The public is disposed daily to a great amount of information which leads to the information satiety, confusion and contradiction between the attitudes of the general public, conditioning the identity crises and problems in the communication with the public. Numerous researches confirm that the auditorium doesn't receive the propaganda massages in a wished manner-in the whole, but in segments. In order that the real and wish perception of an enterprise could be aligned, it is necessary to direct the attention to the research of perception process ie the way the auditorium perceives the enterprise and certain aspects of action.

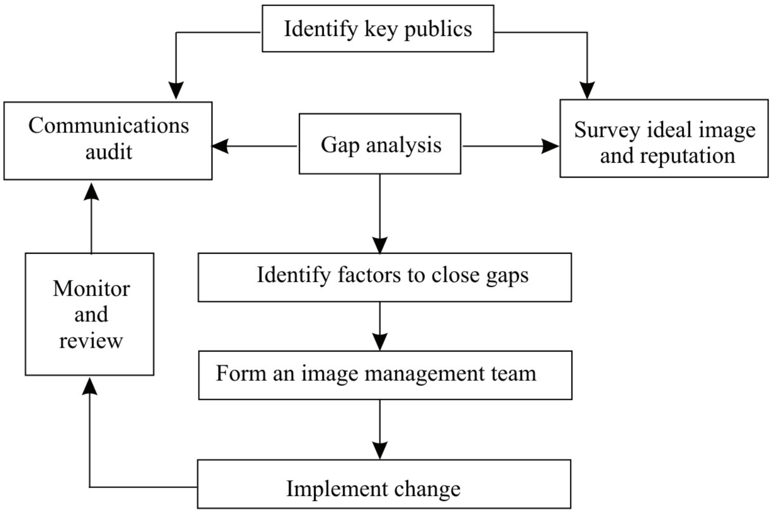

Fig. 2. Image management

Measuring the current image of the enterprise and the attitudes of the key public is an important phase in the process of image management in which the degree of agreement and disagreement between the anticipated and realized values is established. The objective is to perform the transfer of potential negative attitudes, apathy and ignorance to positive attitudes and sympathy through suitable mechanism. The measurement is based on the research of the existing image and assessment of limiting factors from the aspect of certain public groups. In accumulating the information and defining the priorities and changes in the communication with the public, the system of complaint has an important role as a significant system in the enterprise for the removal of the dissatisfaction of consumers and convergence of their attitudes [9, pp. 159-172]. It is important to identify potential changes in the perception of its products and services resulting from technological changes, changes in value, lifestyle and frame of mind.

2. Downsizing Literature Review

Despite the fact that in the past 20 years downsizing has become a very common way of firms restructuring, this concept still does not have precise theoretical formulation. Instead, downsizing literature offers us numerous definitions. Downsizing is usually defined as a set of activities, undertaken on the part of the management, designed to improve organizational efficiency, productivity, and/or competitiveness [12, p. 12].

However, this definition does not contain the causes of this strategy, which we believe, would help in better understanding of this strategy. Most academic researches believe that downsizing is the reactive response to the organizational crisis in order to gain some kind of corporate renewal [13, p.161]. However, there is empirical evidence that downsizing could be a proactive response, too. In the study realized in the 90s it was found that 81% of the organizations that made the decision to downsize were profitable at the time [14, p. 21]. According to that, we believe that a more appropriate definition of downsizing could be that this process is a reactive or proactive organizational response that includes the reduction of different kinds of organizational resources, but always includes the reduction of personnel, used in order to reduce costs, improve organizational competitiveness and increase profit [15, p. 48]. Additional expected benefits from the reductions include faster decisions, better communication, and employees' empowerment.

The effects which downsizing produces could be researched from three different levels of analysis. Those levels of analysis include a macro level, and organization level and micro or individual level. The most dramatic consequences occur on the ***individual level*** *since* this strategy has the most negative influence on those who leave the organization. This strategy jeopardizes their welfare, social security, social networks, stability, plans, etc. However, this strategy could also have a negative influence on those who stay. Researchers in management science and psychology explain different kinds of responses that can be expected from survivors. It was found that a significant number of employees experience lower motivation and productivity, feelings of job insecurity, anger, job stress, decrease loyalty and organizational commitment, turnover intentions, absenteeism, etc. This symptom is known as the "survivors' syndrome" [16]. The authors agree that this phenomenon is a major factor that contributes to the failure of most organizations to achieve their corporate objectives after downsizing.

At the ***organizational level*** of analysis, downsizing issues are concerned mainly with whether to downsize, how to implement downsizing, and what the effects of downsizing on the organization's performances are. Concerning the third issue, numerous studies have been realized that investigated the downsizing effects. Although there can be some positive outcomes of the downsizing process, especially if it is applied as a part of a strategic plan, in the final analysis many authors agree that the negative outcomes outweigh the positive [16].

This strategy has a significant influence on the ***macro level***, too. A significant number of the employees who leave the organizations cause many implications for the community. On one side, there is less revenue for the community to finance its needs, but on the other, the pressure on social funds increases.

For many organizations downsizing has almost become a way of "living". Many of them have gone thought this process several times. The reasons for new waves of this process are usually reported as a failure in realizing planned aims. The gap between perceived cost savings and reality often forces organizations to repeat the downsizing process in the hope of realizing the initial objectives. However, instead of that, organizations sink into bigger and bigger crisis.

3. Downsizing and Corporate Reputation

As we have said earlier, only a few studies have been realized that investigate downsizing influence on intangible assets, especially on corporate reputation as one of the most important intangible assets.

Among the rare studies, Stelios (2003) realized one of them. In his research, he found a negative relationship between downsizing and corporate reputation for social performances. Reputation for social performances (RSCP) is a dimension of the firm's overall reputation [17, p. 13]. It refers to firm's reputation of principles, processes, and outcomes, which have the social impact [17, p. 13]. As a firm resource, the RCSP is significant for two reasons. First, RCSP is a mediating variable between corporate social performances and corporate financial performance. Corporate social performances have an impact on the firm's profitability through its influence on the firm's reputation. Second, reputation for social performances can directly influence the firm's competitive position by signaling to prospective employees the attractiveness of the firm as an employer, thus, influencing the firm's ability to attract and retain talented personnel [17, p. 13]. A few years later, Stelios also found that high firm profitability prior to downsizing and massive layoffs intensified this negative impact of downsizing on reputation for social performances [11, p. 254). Explanation is as follows: if the companies are richer and stronger prior to downsizing, they are expected to be more socially responsible during downsizing. If that expectation is betrayed, the downsizing has a more negative influence on corporate reputation.

Karake (*1998*) investigated the impact of downsizing on the corporate social responsibility measured by a company's reputation index [10]. In her survey, she found a negative relationship between firm's social performance and the degree of downsizing. Consequently, firms that downsize heavily are thought of as less socially responsible and their reputation index (based on eight social dimensions) is lower.

Other research concerning downsizing influences on corporate reputation resulted in similar conclusions. *Love and Krattz* found that downsizing substantially damages corporate reputations, too. The argument for downsizing having a negative effect was based primarily on downsizings negative symbolism regarding consistency with commitments, trustworthiness and the like [18]. However, they also found that some factors might moderate the relationship between downsizing and corporate reputation. For example, a recent performance decline may positively moderate this relationship. In other words, if the organization was "in trouble" prior to downsizing, downsizing would not have too much negative influence on the corporate reputation.

4. Discussion of the Downsizing Influence on the Corporate Reputation Index

In the attempt to provide better understanding of how downsizing influences corporate reputation, in the text below, we will discus how downsizing might influence each dimension that determine corporate reputation index. We will base our conclusion findings on many studies that investigate downsizing effects.

Corporate reputation index summarizes eight social dimensions that reflect a multiple constituency view of the firm as having many stakeholders, such as investors, employees, customers and the global community [10, p. 209]. Those dimension are: (1) quality of management, (2) quality of products/services offered, (3) innovativeness, (4) value as a long term investment, (5) soundness of financial position, (6) ability to attract, develop and keep talented people, (7) responsibility to the community and environment, and (8) wise use of corporate assets [10, p. 209].

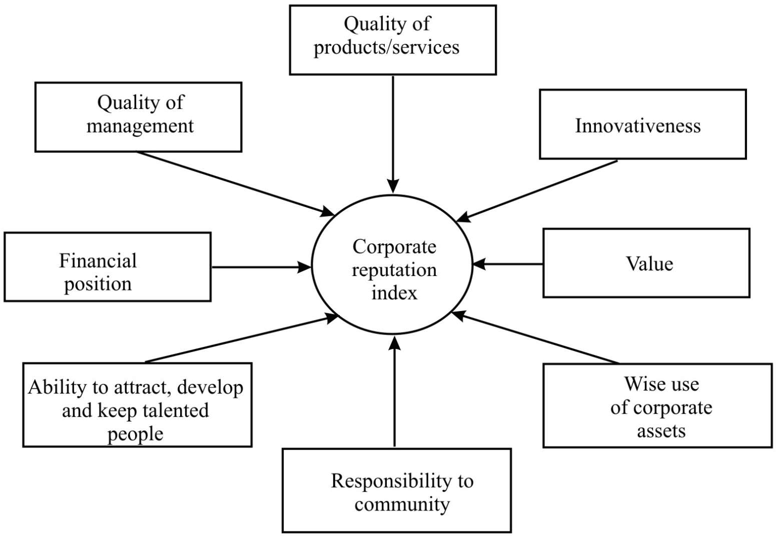

Fig. 3. Dimension corporate reputation index

1) Quality of management. The researches found that realizing the downsizing process usually affects about 10 percent of a company's work force. Although it usually affects all levels in the firm, middle management, in the past was hit disproportionately hard. Middle management makes up 5 to 8 percent of the work force, but represents 22 percent of the eliminated positions [19]. According to that, many of those who were laid off, may have had important competencies for the organizational success. Consequently, the firm after their laying off continues its functioning with less stock of competencies that may causes lesser quality of management. In addition, the firms with less headquarters staff are often forced to call upon line managers, or the staff of the operating level to perform many corporate staff functions, often with mixed results [19]. Besides that, companies that reduce management levels may also weaken or destroy many important communication links, slowing organizational response to change, etc. In summary, there is a great possibility that downsizing may reduce the quality of the management after this process occurred.

2) Quality of products/services offered. Many researches suggest that downsizing and the quality are dichotomous concepts. When companies take priority of cost concerns, the quality and customers satisfaction usually suffer. According to the AMA survey, there is a strong correlation between quality improvements in products and services and increase profits – but only 26% of respondent firms cutting jobs report short-term quality improvements [16]. Quality often suffers because there is no change in the way work is done. Research also found that in the organizations that had recently engaged in substantial downsizing the customer satisfaction significantly decreased [20]. Therefore we agree with authors who say that "corporate downsizing may have helped bottom lines and stockholder in the short-term, but it hasn't helped customers" [20].

3) Innovativeness. Some researches found that after the organizations become "lean", in some cases the cuts were so deep that crucial skills for the long-term growth are inevitably lost [16]. In addition, it has been found that the most competent employees might voluntarily leave the organization. At the same time, they usually were the individuals with the most energy and creativity that the organization needs. Since downsizing is a very costly project, in many cases it caused cutting budget for research and development. "Cutting R&D spending and losing valuable human skills and expertise can have a very serious impact on the competitiveness of a company depending on innovation. The costs of such policy can be measured in lost market share, decreased volume of sales, higher cost of goods sold, and lost customers" [16]. Downsizing might also break the entrepreneurial networking that is very important for innovators to reach needed resources in order to realize their innovations [21, p. 32].

4) Financial position. Many authors agree that downsizing is more likely to fail than succeed in reaching its financial and performance goals. In a survey carried out by Wyatt Associates in the 1990s, the results indicated that only 32% increased profits, 22% increased productivity and 17% decreased bureaucracy [16]. Some researches report that in general for two years following downsizing the stock value of firms decreases. In his study, *Mentzer* did not find any proof of a positive relationship between downsizing and profitability. He warned that across-the-board cuts might create the illusion of courageous management but not necessarily bolster the company's future profitability [16]. The benefits form the compensation saved by downsizing can disappear quickly if the downsized jobs are not permanently removed. DeMeuse found that downsizing has little effect on financial performance. Organizations that implement large-scale downsizing (interventions of 10% or greater) significantly under-perform those corporations that implement smaller interventions [22, p. 42].

5) Responsibility to the community and environment. It is important to know that strategies that organizations realize have significant influence outside the organization boundaries. Strategy, such as downsizing, produces many negative effects on the community: unemployment, loosing revenue, pressure on the social funds, etc. However, these kinds of investigation are very rare, but some authors suggest that responsibilities in the layoff process are not only the question of humanitarianism, but also a question of costs of loss of community goodwill [16].

6) Value as a long-term investment. Every organization has to develop its mission, purpose, and values. Values serve their purpose of setting parameters within which people can take initiative and make decisions. In addition, values can serve as an integrating force to bring people together and achieve common goals and objectives [23, p. 252]. However, the downsizing process can break many of the pervious values, paradigms, and myths, such as job security, integrity, teamwork, respect, etc. In one word, downsizing can disturb previous firm's value and it usually takes a lot of time and effort to reinforce previous values or institutionalize new ones.

7) Wise use of corporate assets. Despite the fact that in most cases downsizing failed to achieve desired goals, in some cases it enable wiser use of corporate assets. Usually it has happened when organization made the decision to outsource non-strategic or non-value added tasks. Therefore, if done strategically, downsizing might help in better using organizational assets.

8) Ability to attract, develop and keep talented people. If organizations make the decision to downsize, especially through massive layoffs, they send a massage in the environment that employees are considered purely as the cost. Consequently, the employees on the external labour market do not consider such an organization as a valuable place to work. Therefore, downsizing minimizes the organization's ability to attract, develop, and keep talented people. Also, there is evidence that some of the most competent employees who survived layoffs left the organization voluntarily, since the new organizational culture that appeared is not congruent to their values.

CONCLUSION

Corporate reputation is a very important intangible resource. Referent literature suggests that corporate reputation can be a significant source of sustainable competitive advantage. Corporate reputation is the public assessment of the key identity and image of an organization making a favourable long term position. However, many management activities and actions have the potential to decrease this valuable resource. One of the practices that has the greatest potential to decrease it is downsizing. This strategy has a great potential to have a negative influence on many stakeholders, especially employees, customers and community and therefore to decrease corporate reputation.

Investigations on how downsizing affects corporate reputation are very rare but they are important for at least two reasons. First, this kind of investigations could assists in better management of this valuable resource. Second, the investigation of this influence can reduce downsizing as the solution, since a lot of evidence shows that downsizing failed to increase organizational performances. Downsizing influence on the corporate reputation we investigate each dimension that determines corporate reputation index: quality of management, quality of products/services offered, innovativeness, value as a long term investment, soundness of financial position, ability to attract, develop and keep talented people, responsibility to the community and environment, and wise use of corporate assets. Downsizing decision should not be a short-term solution in the attempt to reduce costs and increase profit. Instead, it has to be integrated into a well-crafted vision that makes it clear how downsizing will create competitive advantage. Only in that case, downsizing might positively influence corporate reputation. However, despite the fact that most arguments are against the downsizing benefits, managers have continued this practice. At the same time, academics have continued debates about this controversial topic.

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UTICAJ DOWNSIZING - A NA KORPORATIVNU REPUTACIJU

Biljana Djordjević, Suzana Djukić

U radu se razmatra uticaj downsizing-a na korporativnu reputaciju. Ukazano je na važnost korporativne reputacije kao jednog od najvažnijeg dela neopipljive imovine preduzeća. Ova vrsta imovine može biti značajan izvor konkurentske prednosti preduzeća. Nakon prezentiranja literature o downsizing-u, autori istražuju uticaj downsinzing-a na korporativnu reputaciju. Preciznije, istražuje se uticaj downsinzing-a na šest dimenzija koje determinišu indeks korporativne reputacije. Naše razmatranje je najvećim delom zasnovano na brojnim referentnim studijama koje istražuju rezultate downsinzing-a. Zaključile smo da je veća verovatnoća da je downsinzing može biti neuspešna strategija preduzeća i da smanjuje korporativnu reputaciju veća. Zbog toga je važno da se pre donošenja odluke o downsinzing-u razmotri njena neophodnost.

Ključne reči: *downsizing, korporativna reputacija, indeks korporativne reputacije, employee.*