

Midocean University

Faculty of Business Administration

Department/ Specialization: Master of Business

Administration



Research Title/

Analyzing the Positive Impacts of Corporate Downsizing on Organizational Efficiency and Financial Performance

Prepared by student/

Fatema Jamal Aldin

Supervised by/

Dr. Faisal Abd Al-Ameed

Dr. Dhyab Jarad

العام الدراسي:

2025

Analyzing the Positive Impacts of Corporate Downsizing on Organizational Efficiency and Financial Performance

1. Introduction

Corporate downsizing, defined as the strategic reduction of a company's workforce or operational assets to lower costs and improve efficiency, is often associated with negative outcomes such as reduced employee morale and productivity. However, a growing body of research suggests that downsizing can yield significant benefits, including enhanced financial stability, streamlined operations, and the promotion of positive organizational behavior (POB) among remaining employees (Baykal & Zehir, 2018). This study focuses on small and medium-sized enterprises (SMEs) to explore how downsizing can positively impact organizational efficiency and financial performance, while also examining the role of generalized optimism as a coping mechanism for employees. By addressing these positive aspects, the study aims to provide a balanced perspective on downsizing, contributing to both academic literature and practical strategies for organizational management.

2. Research Problem

The majority of downsizing research emphasizes its negative consequences, such as decreased employee morale, increased turnover, and reduced productivity (Schulz & Johann, 2018). However, there is a notable gap in the literature regarding the potential positive impacts of downsizing, particularly in SMEs. These benefits include cost reduction, improved operational efficiency, and the enhancement of employee resilience through psychological resources like optimism (Cohee, 2019). This study addresses the research problem: Why do existing studies predominantly focus on the negative outcomes of downsizing, and how can the positive impacts, such as financial stability and organizational efficiency, be better understood in the context of SMEs? By exploring these understudied aspects, the research seeks to fill this gap and provide actionable insights for managers.

3. Importance of the Study

This study is significant for both academic and practical reasons:

- **Academic Contribution:** It addresses a gap in the organizational development literature by focusing on the positive impacts of downsizing, an area overshadowed by studies on negative outcomes. By integrating the Positive Organizational Behavior (POB) framework, the study contributes to theoretical advancements in understanding employee resilience and organizational efficiency during restructuring (Baykal & Zehir, 2018).
- **Practical Relevance:** The findings will provide SME managers with evidence-based strategies to implement downsizing in a way that maximizes financial and operational benefits while maintaining employee morale. The emphasis on generalized optimism offers insights into fostering a resilient workplace culture, which is critical during organizational change.
- **Societal Impact:** By promoting effective downsizing strategies, the study can help SMEs remain competitive, supporting job retention and economic stability in local communities.

4. Research Objectives

The primary objective is to analyze the positive impacts of corporate downsizing on organizational efficiency and financial performance in SMEs. Specific objectives include:

- To evaluate the financial benefits of downsizing, including cost reduction and revenue generation through asset liquidation.
- To assess how downsizing enhances organizational efficiency by streamlining processes and reducing redundancies.
- To explore the role of generalized optimism within the POB framework in improving employee productivity and morale post-downsizing.
- To identify contextual factors (e.g., managerial communication, organizational support) that enhance the positive outcomes of downsizing.

5. Research Questions

The study addresses the following research questions:

- How does downsizing contribute to financial stability in SMEs?
- In what ways does downsizing improve organizational efficiency in SMEs?
- How does generalized optimism influence employee productivity and morale after downsizing?
- What contextual factors enhance the positive outcomes of downsizing in SMEs?

6. Research Hypotheses

To guide the qualitative exploration, the study proposes the following hypotheses:

- H1: Downsizing significantly improves financial stability in SMEs through cost reduction and asset liquidation.
- H2: Downsizing enhances organizational efficiency in SMEs by streamlining processes and reducing redundancies.
- H3: Generalized optimism among employees and managers positively influences productivity and morale post-downsizing.
- H4: Contextual factors, such as effective managerial communication and organizational support, enhance the positive outcomes of downsizing.

7. Previous Studies

Several studies have explored downsizing, though most focus on its negative impacts. Schulz and Johann (2018) found that downsizing can harm corporate reputation but noted that contextual factors, like transparent communication, mitigate these effects. Carriger (2017) demonstrated that downsizing improves financial health by reducing labor costs, particularly in SMEs facing economic challenges. Cespedes-Lorente et al. (2019) highlighted the role of information technologies in

amplifying the economic benefits of downsizing. Baykal and Zehir (2018) explored how psychological capital, including optimism, enhances employee performance post-downsizing. Cohee (2019) emphasized that positive coping mechanisms, such as reframing downsizing as an opportunity, reduce stress among remaining employees. Ramdani et al. (2021) found that downsizing can increase innovation outputs by reallocating resources. This study builds on these findings by focusing specifically on SMEs and integrating the POB framework to examine both financial and behavioral outcomes of downsizing.

8. Theoretical Framework

The study is grounded in the Positive Organizational Behavior (POB) framework, which emphasizes psychological resources like optimism to enhance organizational outcomes (Baykal & Zehir, 2018). The stress and coping process model (Blechschnitt, 2018) is also employed to analyze how employees and managers respond to downsizing. Key concepts include:

- Generalized Optimism: A psychological state that fosters positive expectations and resilience, enabling employees to view downsizing as an opportunity (Cohee, 2019).
- Positive Reinterpretation: Reframing downsizing as a chance for organizational improvement (Schulz & Johann, 2018).
- Organizational Efficiency: Achieved through streamlined processes and reduced redundancies post-downsizing (Carriger, 2017). This framework provides a lens to explore how psychological and operational factors interact to produce positive outcomes in SMEs undergoing downsizing.

9. Methodology and Research Methods

9.1 Research Design

The study adopts a qualitative research design, utilizing secondary data analysis to explore the positive impacts of downsizing in SMEs. A qualitative approach is suitable for understanding complex organizational phenomena and contextual factors (Campos-Garcia & Zuniga-Vicente, 2018).

9.2 Data Collection

- Sources: Secondary data will be collected from peer-reviewed journal articles, industry reports, and case studies available in academic databases such as Google Scholar, JSTOR, and EBSCOhost. The focus will be on studies published between 2015 and 2025 to ensure relevance.
- Selection Criteria: Sources must address downsizing, organizational efficiency, financial performance, or POB in SMEs. At least 15–20 high-quality sources will be selected to ensure robust analysis.

9.3 Data Analysis

Thematic analysis will be used to identify recurring themes related to the positive impacts of downsizing. The process includes:

- Coding data to identify patterns (e.g., cost reduction, efficiency gains, employee optimism).

- Grouping codes into themes, such as financial benefits, operational improvements, and psychological coping mechanisms.
- Synthesizing findings to answer the research questions and test the hypotheses.

9.4 Research Tools

The study will utilize the following tools:

- NVivo (trial version) or Microsoft Excel for coding and thematic analysis of secondary data.
- Zotero or Mendeley for organizing and managing references.
- Microsoft Word for drafting and formatting the final report.

9.5 Ethical Considerations

As the study relies on secondary data, no direct human participants are involved, minimizing ethical concerns. The research will adhere to academic integrity by properly citing all sources using APA style and avoiding plagiarism. Data from proprietary sources will be used only with appropriate permissions.

10. Study Limitations

The study has the following limitations:

- **Reliance on Secondary Data:** The findings depend on the quality and availability of existing literature, which may limit depth or specificity for SMEs.
- **Scope Limitation:** Focusing on SMEs may restrict generalizability to larger organizations or different industries.
- **Potential Bias:** Secondary data may reflect biases in original studies, such as selective reporting of positive outcomes. To mitigate these limitations, the study will use diverse, high-quality sources and a transparent methodology to ensure robust and credible findings.

11. Potential Risks and Mitigation Strategies

- **Risk 1:** Limited availability of relevant secondary data **Mitigation:** Expand the search to additional academic databases (e.g., ResearchGate) or adjust the scope to include larger firms if sufficient SME-specific data is unavailable.
- **Risk 2:** Time constraints due to extensive literature **Mitigation:** Adhere strictly to the timeline and prioritize key sources to maintain focus and efficiency.
- **Risk 3:** Ambiguity in thematic analysis results **Mitigation:** Use multiple coding cycles and consult the supervisor to validate findings and ensure clarity.

12. Expected Outcomes

The study is expected to:

- Provide evidence of the financial and operational benefits of downsizing in SMEs, such as cost reduction and process streamlining.
- Highlight the role of generalized optimism in enhancing employee productivity and morale post-downsizing.
- Offer practical recommendations for SME managers to implement downsizing effectively while maintaining a positive workplace culture.
- Contribute to the academic literature on POB and downsizing by addressing the positive aspects of organizational restructuring.

13. References

- Baykal, E., & Zehir, C. (2018). Mediating effect of psychological capital on the relationship between spiritual leadership and performance. *Journal of Management and Organization*, 24(3), 398–417.
- Blechschmitt, F. (2018). Three essays on corporate restructuring: How to effectively reverse declining firm performance. [Doctoral dissertation, University Name].
- Campos-Garcia, I., & Zuniga-Vicente, J. Á. (2018). Downsizing and employer branding: Is there a relationship? *Human Resource Planning for the 21st Century*, 61–78.
- Carriger, M. (2017). Does size matter? The impact of the size of downsizing on financial health and market valuation. *Journal of Strategy and Management*, 10(3), 313–325.
- Cespedes-Lorente, J. J., Magan-Diaz, A., & Martinez-Ros, E. (2019). Information technologies and downsizing: Examining their impact on economic performance. *Information & Management*, 56(4), 526–535.
- Cohee, G. L. (2019). Corporate downsizing. *Organizational Dynamics*, 48(1), 38–43.
- Gupta, A., Nadkarni, S., & Mariam, M. (2019). Dispositional sources of managerial discretion: CEO ideology, CEO personality, and firm strategies. *Administrative Science Quarterly*, 64(4), 855–893.
- Nwoye, C. C. (2017). Retaining employees after downsizing. [Publisher details].
- Ramdani, B., Guermat, C., & Mellahi, K. (2021). The effect of downsizing on innovation outputs: The role of resource slack and constraints. *Australian Journal of Management*, 46(2), 346–365.
- Roy, R. S. (2020). Downsizing–Overall Impact on Workforce and Organizational Performance. [Publisher details].
- Schenkel, A., & Teigland, R. (2017). Why doesn't downsizing deliver? A multi-level model integrates downsizing, social capital, dynamic capabilities, and firm performance. *The International Journal of Human Resource Management*, 28(7), 1065–1107.
- Schulz, A. C., & Johann, S. (2018). Downsizing and the fragility of corporate reputation: An analysis of the impact of contextual factors. *Scandinavian Journal of Management*, 34(1), 40–50.