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Relationship between downsizing and organisational performance: serial mediation effect of employee morale and tolerance to ambiguity

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Abstract: The purpose of the study is to examine the impact of downsizing on organisational performance. The study adopts serial mediation analysis through employee morale and tolerance to the ambiguity between downsizing and organisational performance. It uses organisational support theory to establish the relationship among study variables. The data are collected from employees in the manufacturing unit using a questionnaire and analysed using structural equation modelling. The analysis found that downsizing positively impacted organisational performance and provided evidence that downsizing action, when viewed as affirmative action by employees, brings positive outcomes. The results emphasised the importance of employee morale and the need to create a culture of tolerance to ambiguity for achieving sustainable organisational performance. The study results added to the downsizing literature by establishing both its direct effect and indirect effect on organisational performance.

Keywords: downsizing; employee morale; organisational performance; tolerance to ambiguity; manufacturing sector; employee attitude; serial mediation; survivors; structural equation modelling; positive action.

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1 Introduction

Employee downsizing is an intentional effort to reduce employees (Datta et al., 2010), which is a critical issue for employers due to loss of skilled employees, lower employee morale, lower productivity, reduction in innovation (Ritter-Hayashi et al., 2020), and lower social capital (Cohen and Prusak, 2002). It is called reorganisation, rightsizing, delayering, restructuring, redundancy, rationalisation, and revitalisation to reduce the organisational workforce (McKinley et al., 1998) to achieve competitive advantage (Tsai and Yen, 2008). Employees also look at the positive side of the organisational actions and consider the organisations' activities to improve productivity and employee well-being (Harney et al., 2018; Tsai and Shih, 2013b). At this juncture, what is more necessary for the employers is to understand employees' psychological makeup during those times to ensure that employees view downsizing as rightsizing. According to organisational support theory (OST) (Eisenberger et al., 2001), when employees form a positive perception about the organisational actions, they exhibit beneficial outcomes. Earlier research proved that downsizing leads to innovative behaviour (Chhinzar and Currie, 2014; Marques et al., 2014), economic performance (Céspedes-Lorente et al., 2019), organisational performance (Kawai, 2015; Chadwick et al., 2004). Previous studies have examined the relationship of downsizing with organisational commitment (Hopkins and Weathington, 2006) and employee engagement (Tiwari and Lenka, 2020). Moreover, researchers also examined employee morale (Iverson and Zatzick, 2011), employee loyalty (Niehoff et al., 2001), employee trust (Ann Feldheim, 2007), and intent to leave (Tombaugh and White, 1990) in a downsizing environment. However, the studies examining the psychological underpinning between downsizing and organisational performance are limited. The study on the direct link between downsizing and organisational performance is imperative as downsizing is seen to have a negative effect on survivor employees in terms of lower employees' psychological and physical health and lower employee engagement (Dlouhy and Casper, 2020), presence of depressive symptoms among employees (Andreeva et al., 2015; Peter et al., 2016) and psychological distress (Snorraddóttir et al., 2013).

When employees fail to perceive responsible downsizing, it affects their performance. Their perception of justice about the organisation's downsizing activity affects psychological contract (Arshad and Sparrow, 2010). Moreover, the psychological aspects of the employees during the downsizing process is critical to be understood. Although

previous researchers have established the relationship of downsizing with other psychological variables, employee morale indicates the individual's interest in being part of the organisation and carrying out the job. As employee morale is affected most during downsizing, it leaves a big question of how employees in the downsized organisation show performance. Employees who continue to work are survivor employees (Ranft and Ranft, 1999). They may carry the disappointment of downsized employees and experience the fear of job loss, work overload, and guilt of being in the job when their colleagues are sent out (Caplan et al., 2002). They feel curtailed to work in a stressful situation (Heckscher, 1995), and their ability to be innovative and learn will also reduce (Brockner, 1992). Such a psychological state of the survivors is unsupportive for organisational growth. Studies have proved that employees who possess tolerance to ambiguity perform well during uncertainty, similar to downsizing. Therefore an understanding of employee morale and employees' tolerance to ambiguity is critical to know the mind-set of the existing employees in the organisation towards achieving organisational performance. A study attempting to examine the indirect effect of downsizing practices on organisational performance is also valuable through employee morale and tolerance to ambiguity. This paper addresses the research question on the underlying reason that makes employees contribute to organisational performance. Therefore, in this study, managerial and production employees working in a manufacturing unit that has changed the top management almost three times in 20 years are considered. These employees have seen the organisational practice as beneficial to them and have been supportive of the changes incorporated in the organisational processes, systems, and procedures.

Nearly 28% of today's workforce forms the survivor employees whose perception of downsizing is critical to understand what contributes to organisational performance. The conclusion obtained from the study will provide important theoretical and managerial implications. It examines the unaddressed issue in the downsizing literature: the mediating effect of employee morale and tolerance to ambiguity towards organisational performance. The forthcoming sessions include the literature review on the variables and their relationships, followed by the development of hypotheses. Further, the methodology adopted in carrying out the research is explained. Then the results of data analysis are presented, followed by a discussion on the study's results and implications.

2 Literature review

Organisations consider downsizing as the strategy for their survival (Wilkinson, 2005) when economic motivation plays a role in gaining a competitive advantage in the long term. They adopt lean strategies bringing in organisational change (Nordin et al., 2020). On the other hand, studies also highlight the negative outcomes of downsizing (Datta et al, 2010; Datta and Basuil, 2015). Moreover, Baron and Kreps (1999) indicated the global trends, shortened product life cycle, increasing labour costs, development of information systems, flexible work arrangements, and shareholders' demand for a high return on equity as reasons why organisations adopt downsizing strategy. Other studies examined the stock market reaction (Worrel et al., 1991), the effect on profitability and performance implications showing positive, negative, and null results leaving the performance outcome of downsizing in an unresolved state. Downsizing is of great importance in regaining the efficiency of the organisation and to reduce organisational

costs (Sun, 1997). In a longitudinal study conducted in Korean firms, downsizing helped the firms to improve financial performance that has not faced any loss but when downsizing is implemented after a financial loss, a similar positive effect is not seen (Yu and Park, 2006). Moreover, when employees in the downsizing companies are treated well, the employees redevelop their capabilities thereby building themselves as assets to the organisation (Tsai and Yen, 2015) in addition to implementing strategies to retain them (Shani and Senthilkumar, 2020).

Downsizing causes structural changes in the social capital that affects the firms' dynamic capabilities (Schenkel and Teigland, 2017). It negatively affects customer satisfaction, and the effect is more when organisational slack is less, and it indirectly affects the firm performance through customer satisfaction as a mediator (Habel and Klarmann, 2015). It is carried out to align organisational units with the strategy (Aalbers and Dalfsma, 2014) to achieve firm performance, while Gandolfi's (2014) study did not approve the ripple effect of downsizing lead to firm performance. Downsizing increases the firm's performance immediately after the firm's operational and financial performance is improved (Goesaert et al., 2015). Most of the studies examining downsizing-organisational performance relationships reported contrasting results that leave inconclusiveness in understanding their relationship. Other than firm performance, studies have reported different outcomes of downsizing. Based on the employees' level of downsizing exposure, their commitment level also varies (Arzuaga, 2020). To reduce the downsizing effects, organisations bring in certain interventions to improve employee outcomes (Frone and Blais, 2020). Downsizing also affects organisational innovation (Ramdani et al., 2020) in resource-constrained firms, production efficiency (Kao and Chen, 2020), and job satisfaction (Tsai and Yen, 2020). The black box of causality in human resource practices and organisational performance relationship always remains an area to be explored for achieving competitive advantage (Chadwick and Flinchbaugh, 2020). On the same lines, the relationship of responsible downsizing practice with organisational performance needs further research to understand mediators' effect.

According to OST, employees form a general opinion about the organisational actions that the organisation values their contribution and cares about their well-being (Eisenberger et al., 2001). The organisational support perspective provides a rationale for the link between employee perception of the organisation's strategic decisions and actions with employee attitude and behaviour (Loffeld and Stoferr, 2017; Rezaei, 2019). Notably, downsizing practices are critical for the survival of the organisation. In particular, when considered a favourable organisational action in this practice, employees are induced to return the positive benefit to the organisation. Employees in the downsized organisation may see their role as essential and necessary as the organisation retains them. These employees are the survivors who may understand the pulse of the organisation's situation and appreciate its efforts of downsizing rather than closing down the business (Mishra et al., 2009). In the downsized organisation, survivor employees form a perception about the organisational action of downsizing. Moreover, the organisational process input factors affect the company's performance (Formby et al., 2019). From the OST perspective, employees see downsizing as a favourable action towards employees, and their efforts increase organisational performance.

OST explains positive employee outcomes in return for the organisational actions that support employees. Previous studies have established the positive relationship of employee perception on organisational support with various outcomes such as work engagement (Imran et al., 2020), employee performance (Chen et al, 2020), employees'

voice in the organisation (Stinglhamber et al., 2020) and organisational commitment (Pattnaik et al., 2020). All the positive outcomes of the perception of organisational support are attained as employees see the organisational activities as beneficial to them and feel that the organisation is considering their well-being. Employees who consider downsizing as the responsible activity of the organisation for helping them may feel good about the organisation's decision. This positive perception will impact its performance to meet the organisation's goals. The improvement in organisational performance is seen as the success of downsizing practices. In other words, organisational performance scores correspond to the evaluation of the post-downsizing. Studies have proved that change initiatives towards sustainable development and diversity contributed to the organisation (Roscoe et al., 2019; Kundu et al., 2019). If an employee perceives downsizing as positive, the organisational performance will also increase. About the above discussion, the following hypothesis is tested.

H1 Employees' perceiving downsizing as a positive activity will contribute to higher organisational performance.

2.1 Employee morale

Morale is how one feels positive and supportive of the organisation he/she is working for. During downsizing, it is tough for the organisation to hold employee morale. The survivor employees who are active and empowered may view downsizing positively for maintaining trust with the organisation. They become advocates. While those who see downsizing positively but do not feel empowerment remained as followers who keep moving to move in the organisation's direction. The problem occurs only with those employees who do not positively see downsizing; they lost trust in the management and showed unproductive behaviours. The worst is the case of empowered survivors, but having low confidence with the organisation spread negative things about the organisation that affects the entire process. Therefore enough care needs to be taken to hold trust with the organisation and feel empowered (Mishra et al., 2009). For the downsizing process to be successful, the organisations have to follow four steps:

- 1 deciding to downsize
- 2 planning the downsizing with the formation of a cross-functional team and training the managers
- 3 announcing the decision about downsizing with the proper rationale behind the action, giving advance notification to employees and making the announcement at the appropriate time
- 4 implementing downsizing and helping departing employees and training survivor employees in downsizing implementation (Makawatsakul and Kleiner, 2003).

Iverson and Zatzick's (2011) study results proved the positive result of high-performance practices in improving employee morale while the results of Makawatsakul and Kleiner (2003) indicate the negative effect on morale among the survivors of downsizing and the displaced workers.

Several approaches help to understand the behaviour of the survivor employees (Baehr and Renck, 1958). As the survivor of the downsizing process, concerning the psychological approach, employees tend to satisfy their lower-order needs and move

towards meeting higher-order needs. The social approach indicates the need for the employees to be in the team. It also creates a sense of identification with the job. Therefore based on the level of employee morale, when the productivity level varies, the organisation has to be involved in providing rewards, training support to carry out the job, infrastructural support, and necessary supervision. Employee morale acts as a pushing force in achieving productivity. More the employees feel their need to be met either psychologically or socially, and it is easier to achieve organisational performance.

Earlier research has examined the relationship between employee morale and workplace performance (Weakliem and Frenkel, 2006). Employee morale is an employee attitude. As Fishbein and Ajzen (1975) defined, attitude helps the individuals respond consistently favourably or unfavourably. Therefore, employees are involved in evaluating an object either favourably or unfavourably. Based on that, they will engage in positive or negative behaviour towards the organisation. On similar lines, if the employees have a positive attitude, they will support the downsized organisation's activities. Blau (1964) explained that employees tend to exchange the organisation's affirmative action by exhibiting positive organisational outcomes based on social exchange theory. Therefore, when downsizing is seen as a favourable action, employees' attitude towards the organisation remains positive, and this positivity comes back to the organisation. Among the previous studies, only limited studies have focused on the mediating effect of employee morale (Jackson et al., 2012). Employee morale is most important that needs integration with downsized organisations' organisational processes (Mishra et al., 2009). Based on the earlier studies, this study proposes that employee morale will play the mediating effect between downsizing practices and organisational performance.

H2 Employee morale will mediate the relationship between employee perception of downsizing and organisational downsizing.

2.2 *Tolerance of ambiguity*

Furnham and Ribchester (1995) defined tolerance of ambiguity "as the way individuals perceive and process information about ambiguous situations or stimuli when confronted with an array of unfamiliar, complex, and incongruent clues." Employees who possess a high tolerance to ambiguity follow the institutional norms and show reduced norms violation contrary to the employees with low tolerance to ambiguity (Weisbrod, 2009). Those employees who are intolerant to ambiguity exhibit a lower level of positive individual outcomes (Bardi et al., 2009). Tolerance of ambiguity is an individual difference variable (Furnham and Marks, 2013), and its level varies as every individual will process, interpret, and react to the information differently. It is seen as a favourable situation, while intolerance of ambiguity is a threat (Budner, 1962). During downsizing, the amount of information and the reliability of information is at the minimum level. At such times, employees try to understand the situation with less information that results in anxiety, which brings in cognitive effort to resolve the ambiguity (McLain et al., 2015). The scale of Herman et al. (2010) measured tolerance to ambiguity considering the cross-cultural phenomenon. While McLain's (2009) scale of tolerance to ambiguity included three perspectives of tolerance to novel, complex, and stimuli. Buhr and Dugas's (2006) intolerance to ambiguity scale included 27 items of four dimensions. Budner's (1962) scale had 16 items to measure tolerance to ambiguity.

When employees see the downsizing as a threat situation, productivity is affected. As an individual level variable, when employees by nature possess tolerance to ambiguity, their ability to work in an unforeseen situation was not a threatening one; instead, it is a natural one. Such an innate ability to see the downsizing process's opportunity enables the tolerance of ambiguity to contribute to organisational performance. Earlier studies have examined the relationship of tolerance of ambiguity with customers' attitudes (Wang et al., 2018), stress-related variables (Litman, 2010), entrepreneurial performance (Teoh and Foo, 1997), and firm performance (Westerberg et al., 1997). Studies are needed to understand the role of tolerance of ambiguity as a mediator. These studies will bring better understanding that enables employees to shift to less familiar and less structured mode (Furnham and Marks, 2013). Han et al. (2019) identified that individuals develop a tolerance of ambiguity through education programs that bring alterations to the existing system and improved financial performance (Katsaros et al., 2014).

The breaking down of organisational routines builds ambiguity. Downsizing breaks the routine, and the level of the breaking of routine varies from efficiency improvement without disturbing the existing regular activities (Brauer and Laamanen, 2014). The breaking of routine builds ambiguity among employees. According to OST, during these path-breaking routines, when employees consider the downsizing process in the good sense and perceive the organisation's supportive action, it pushes them to render back the benefit of being retained in the organisation through better organisational performance. Moreover, downsized organisations improve employee perception of organisational support by reducing perceived change-related uncertainty (Cullen et al., 2014). Therefore, based on the previous literature, tolerance of ambiguity is proposed to mediate the relationship between downsizing and organisational performance.

H3 Tolerance of ambiguity will mediate between employee perception of downsizing and organisational downsizing performance.

2.3 *Mediators*

The survivor employees of the downsized company have the opportunity to contribute to the organisation, and this builds morale and confidence among them. According to Zorn et al. (2017), they prevent knowledge leakage in the organisation and ensure that the organisational culture prevails the same. Besides, high morale employees are likely to build a tolerance to ambiguity. They possess more trust as they see the downsizing activities like a planned and well-communicated one that removes the doubts on organisational activities (Mishra et al., 2009), making them believe that the organisation supports them. With such perception, employees show a high readiness to change (Gigliotti et al., 2019). Employees' foster tolerance of ambiguity as the organisation's action is clear and transparent, focusing on the overall development of employees and organisations. This causal chain implies that downsizing practices that are seen as favourable by the employees help to form a positive image of the organisation and its actions. Such a positive organisational impression builds employee morale. It removes the ambiguity that may arise at the critical time of organisational change as the employees feel that the organisation is involved in employee favourable actions. All these, in turn, make the employees return the positive benefits received through performance because of the positive norm of reciprocity. In this way, downsizing practice, when perceived positively as beneficial to employees, activates the

organisation's positive picture, building morale and tolerance to ambiguity aligned to achieve organisational performance. Hence, the hypothesis is stated as follows.

- H4 Employee morale and tolerance of ambiguity will sequentially mediate between employee perception of downsizing and organisational downsizing performance.

3 Methods

3.1 Context

The study considered a diversified engineering company in the Southern part of India in the state of Tamil Nadu operating across the globe. It is involved in the manufacturing and marketing of agricultural and construction equipment. Today it is an Rs.1800 crore worth company and produces about 400,000 engines every year. It has manufacturing units in four locations across the country. The study is conducted in one of the company's manufacturing units that are in existence since 1982. Over the years, when the company's top management changed, there were changes in its policies. The company adopted downsizing from 1991 to 1993. The downsizing results in a reduction in the headcount from 1,500 to 500, with the downsizing percentage of 33%. The company adopted new technologies for manufacturing and brought changes in the product line. From 1994 to 2014, the company increased its employee strength to 1,000. In later years, there is a reduction in employee strength. In 2018, the company had 235 old employees and 500 new employees. Overall the changes in the company due to external and internal factors posed challenges. Such situations, although they are common in the manufacturing sector, it becomes imperative to understand how the downsizing affects the post downsizing performance. The study included a sample size of 230 employees, including employees at executive, managerial, and production levels. Almost 33% of the respondents (76 out of 230 respondents) are the old employees who survived the downsizing process will provide more significant insights into their perception of downsizing in their unit and their psychological state.

3.2 Measures

The study used 20 items to measure downsizing, employee morale, tolerance to ambiguity, and organisational performance. The items are measures on a five-point Likert-type scale (1 = strongly disagree to 5 = strongly agree). Sronce and McKinley's (2006) scale on downsizing is used in the study to measure employees' perception. A sample item included: 'organisational downsizing enhances the company's profitability', and alpha reliability for this scale was 0.86. Britt et al.'s (2007) scale on employee morale included the item 'I look forward to going to work', and the alpha reliability for this scale was 0.62. Tolerance of ambiguity is measured using the scale developed by Budner (1962). It included the item 'it is more fun to tackle a complicated problem than to solve a simple one'. The scale showed reliability with an alpha value of 0.78. The items to measure organisational performance items from Tsai and Shih (2013a) compare the organisational performance after downsizing with the pre-downsizing years' performance.

In the questionnaire used in this study, the explanation of organisational performance is stated and mentioned that the company's performance measures the improvement in the activities such as employee productivity, customer value of product and services, revenues for the company, and asset utilisation. Studies examining organisational performance have measured it from employees other than managerial and executive-level employees (Lee et al., 2019). A sample item to measure organisational performance included 'the extent that the firm had increased in asset utilisation', and the scale is reliable with an alpha value of 0.74.

Sample

A pilot study examines the scale reliabilities. The reliability results indicate that the Cronbach's alpha for scales was above 0.61, indicating scale reliability (Nunnally, 1978). In 2018, the company under study had a mix of old and new employees, reflecting that it is involved in adding its workforce to meet its production objectives. The manager of the unit distributed questionnaires to all employees. The respondent details are not revealed to others. The data is checked for incomplete responses and outliers. After this operation, only 210 valid responses are included for further analysis.

Characteristics of the respondents

The total respondents' number is 210. All respondents are male employees. Among the respondents, 87 employees (42%) fall under the age of 35 years, 72 employees (34%) belong to a 36 to 45 years age gap, and 51 (24%) employees are above 45 years of age. Out of 210 employees, 76 employees (36%) were the old, survivor employees, and 134 employees (64%) joined after the downsizing process. Regarding marital status, all employees were married. Concerning the management levels, 19 employees (9%) worked at the executive level, 36 employees (17%) were at the managerial level, and the remaining employees (74%) were the production employees. The mean values, standard deviation, correlations, and reliability values are summarised in Table 1.

Table 1 Means, standard deviation, correlation, and reliability estimates for study variables

<i>Variable</i>	<i>M</i>	<i>SD</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
1 Perception of downsizing	17.71	3.86	0.86			
2 Employee morale	13.22	3.73	0.21*	0.62		
3 Tolerance of ambiguity	18.33	3.71	0.75**	0.25**	0.78	
4 Organisational performance	19.08	3.44	0.95**	0.24*	0.77**	0.74

Notes: N = 210; reliability coefficients (Cronbach's alpha) appear in bold.

M: Mean, SD: standard deviation. *p < .05, **p < .01.

Partial least squares structural equation modelling (PLS-SEM) tests the robustness of the model. It helps to predict the dependent variable and to check the serial mediating role of employee morale and tolerance to ambiguity downsizing and organisational performance. The model testing involves two steps: measurement model testing and examining the structural model using Hayes Process Macro.

Measurement model

The testing of the measurement model assesses the reliability and validity of the study constructs. Internal consistency reliability measures whether the items are the measure of the latent constructs. Composite reliability indicates the measure of internal consistency. The measurement model with composite reliability above the threshold value of 0.60 for each construct is considered satisfactory (Hair et al., 2014). The results indicated that the composite reliability for all of the constructs exceeded the cut-off value for downsizing, employee morale, tolerance of ambiguity, and organisational performance, thereby indicating the high internal consistency of the measures.

The convergent validity checks whether the outer loadings of the items have a value of 0.708 or more, and the average variance extracted (AVE) of 0.5 (Fornell and Larcker, 1981). In this study, the measurement model met the suggested threshold of AVE (0.54 to 0.57) and composite reliability (0.74 to 0.77). The results indicated that all of the constructs confirm convergent validity. Hence the convergent validity is established for the model (Table 2).

Table 2 AVE and composite reliability

<i>Variables</i>	<i>Average variance extracted</i>	<i>Composite reliability (CR)</i>
Perception of downsizing	0.553	0.843
Employee morale	0.571	0.863
Tolerance of ambiguity	0.566	0.851
Organisational performance	0.542	0.849

Note: AVE – average variance extracted (AVE > 0.50 accepted); CR > 0.60 accepted.

Discriminant validity checks for the level of difference between one construct from the other constructs in the model. The square root of AVE has to be more than the correlation value of the same construct (Fornell and Larcker, 1981) to confirm discriminant validity. The discriminant validity in this study model is good as the square root of organisational performance, employee morale, tolerance of ambiguity, and perception of downsizing meet the standards (Hair et al., 2014). Table 3 presents the results of adequate discriminant validity.

Table 3 Results of discriminant validity

	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Perception of downsizing	0.743			
Employee morale	0.171	0.756		
Tolerance of ambiguity	0.419	0.623	0.752	
Organisational performance	0.157	0.599	0.604	0.736

Notes: Square root of AVE appear in bold.

1 – organisational performance, 2 – employee morale,
3 – tolerance of ambiguity, 4 – perception of downsizing.

Next to the measurement model, the structural model examines the causal relationship between the constructs.

4 Results

4.1 Structural model

The bootstrapping technique examines the significance of the hypothesised model. Table 3 contains the path coefficients of the proposed hypotheses. The analytical approach of Hayes (2017) tests the mediation hypotheses. The sequential test of mediation directly tests the indirect effects. The estimates of indirect effects via mediating variables are also reported in Table 4 and Figure 1. As proposed in Hypothesis 1, the employee perception of downsizing is related to organisational downsizing performance ($\beta = 0.85$, $SE = 0.04$, $t = 20.51$) in the positive direction is supported. Next, the proposed Hypothesis 2, employee morale as a mediator between employee perception of downsizing and organisational performance, is not supported. As stated in Hypothesis 3, employee tolerance of ambiguity mediated the relationship between employee perception of downsizing and organisational performance. Finally, Hypothesis 4 is supported that the employee morale and tolerance of ambiguity sequentially mediated the relationship between their perception of downsizing and organisational performance. Thus both the hypotheses H3 and H4 are found to be supported.

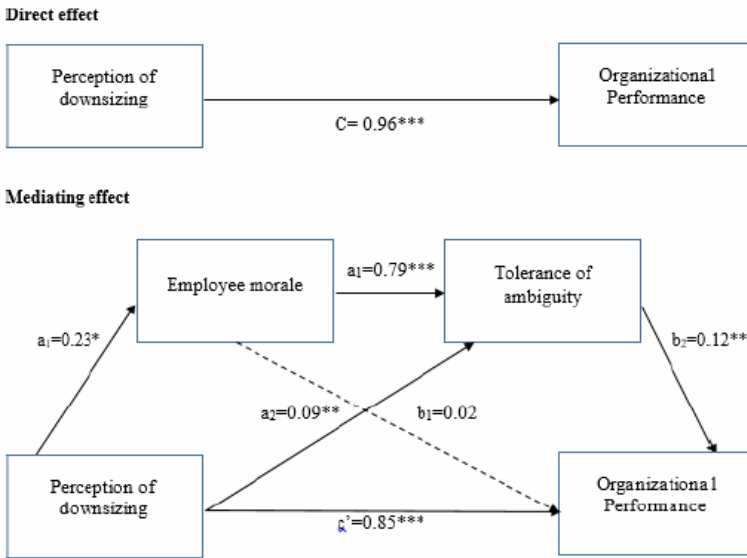
Table 4 Path coefficients and indirect effects for mediation models

	<i>Path coefficients</i>			<i>Indirect effects</i>	
	<i>Organisational performance</i>	<i>Employee morale</i>	<i>Tolerance of ambiguity</i>	<i>Estimate</i>	<i>Bias-corrected bootstrap 95% confidence interval</i>
Perception of downsizing	0.85(.04)	0.23(.10)	0.09(.06)		
Employee morale	0.02(.03)		0.79(.07)		
Tolerance of ambiguity	0.12(.03)				
Total				.960(.02)	(.90,1.01)
Per → Mor → Org per				.005(.00)	(.00,-.02)
Per → Tol → Org per				.003(.00)	(.00,.02)
Per → Mor → Tol → Org per				.095(.06)	(.01,.24)

Notes: Per – perception of downsizing, Mor – employee morale,
Tol – tolerance of ambiguity, Org – organisational performance.

This result revealed that the perception of an employee towards downsizing was influenced by employee morale and tolerance of ambiguity, which further influenced organisational performance.

Figure 1 Direct effect and serial mediation effect (see online version for colours)



5 Discussion and implications

Based on the findings, employee morale and tolerance to ambiguity have serially mediated the relationship between downsizing practices and organisational performance. The result of the study indicated that downsizing practice is a predictor of organisational performance (H1). This result supported earlier work where the short-term performance is examined after downsizing is positive (Sheaffer et al., 2009). A similar result is also achieved among Taiwan manufacturing companies, where the production efficiency improved as the effect of downsizing strategies (Kao and Chen, 2020). The IT companies' economic performance was also positive after downsizing due to IT implementation (Céspedes-Lorente et al., 2019). Downsizing has also shown positive innovation outputs (Fernández-Menéndez et al., 2020) in the presence of resource slack (Ramdani et al., 2020). Large scale downsizing showed an increase in efficiency without disturbing the organisational routines (Brauer and Laamanen, 2014). Downsizing practice indicates that the organisation is incorporating change practices for organisational sustenance. Employees who look at the positive side of this, involve themselves in the change initiative of the organisation that helps to achieve organisational performance. On the lines of OST, the activity of downsizing is considered to be an affirmative action by the employees. It gives them a belief that the organisation values employees' contribution and considers their well-being. Such belief leads to the development of acceptance towards the change initiative among employees.

The second result of the study is contrary to the expectations that employee morale did not act as a mediator in downsizing and organisational performance relationship. Weakliem and Frenkel's (2006) study presented a significant association between employee morale and organisational performance. However, the present study failed to identify such a relationship. Therefore this study was unable to prove the statistical

significance for H2. Morale is an attitude, and in this study, it failed to mediate, indicating that it is insufficient to bring organisational performance. Although the direct effect between downsizing and organisational performance is significant, the indirect effect could not prove significant. In the downsizing context, employee morale that builds employee trust is insufficient as employees would perceive a considerable amount of uncertainty in the organisation's actions. Employee morale did not solely explain the relationship between the perception of downsizing and organisational performance after controlling the tolerance of ambiguity.

As was expected, the third result indicated that tolerance of ambiguity mediated the relationship between downsizing and organisational performance (H3). Tolerance of ambiguity is a personality variable indicating the individuals' ability to take up the challenging and unannounced situations that are happening in organisations. Tolerance of ambiguity is a mediator between a change practice and organisational performance. As the downsizing practice is carried systematically, the employees could predict organisational actions and did not have ambiguity about what is happening in the organisation, developing tolerance to ambiguity. Based on OST, the downsizing activity has been seen as positive by employees, and employees showed support to the organisation by improving their tolerance skills towards ambiguity and finally contributing to performance. The result is similar to the outcome of Katsaros et al.'s (2014) study indicating that systematic implementation of downsizing practice enhances proper communication about positive aspects of the change in the existing system leading to betterment in financial performance. Moreover, downsized organisations reduced uncertainty due to downsizing (Cullen et al., 2014), contributing to better employee acceptance to change and an increase in employee tolerance to uncertainty. Besides, employees' confidence in ambiguity management contributes to career decision-making based on personality traits (Xu, 2020) that affect individual and organisational outcomes.

Most importantly, the study found the serial mediating role of employee morale and tolerance to the ambiguity between downsizing and organisational performance (H4). In the serial mediation effect, employee morale is high for employees with high ambiguity tolerance. Such employees show more exceptional organisational performance even after downsizing due to the employees' positive perception of downsizing as posited by OST. They have built employee trust leading to hold employee morale, which has further developed employees' tolerance to ambiguity. Finally, due to the positive norm of reciprocity, employees support in meeting organisational goals by exhibiting higher performance. The finding of H2 indicated that employee morale did not solely explain the relationship between the perception of downsizing and organisational performance after controlling the tolerance of ambiguity. This finding supported that both employee morale and tolerance of ambiguity might play an effective role in enhancing job-related performance (Verma, 1987), which further results in the distinctive effect of perception of downsizing on organisational performance rather than as an individual mediator.

5.1 Practical implications

The present study holds essential insights for managers who seek to improve employee morale and organisational performance in downsizing situations. In the downsizing context, organisations try to retain the trust of the existing employees, but at the same time, employees may have the effect of downsized employees. This research shows that the current employees' morale improves as they have seen downsizing as a positive

activity. Under these circumstances, existing employees' morale helps to build a tolerance to ambiguity for encountering difficulties in contributing to organisational performance. To handle this case, organisations have to take preventive steps to minimise the effect of downsizing among employees by communicating:

- 1 about the organisation's situation and steps it takes to keep the business alive and to be competitive
- 2 about the actions that are benefiting the downsized employees (Mishra et al., 2009).

Said differently, some existing employees can be spreading the information that will pull down the confidence of existing employees and thus ensuring the trust of existing employees becomes a prime action.

The next meaningful way is to train the managers to handle ambiguity in work situations. The training programs assist in increasing an individual's tolerance to ambiguity that ultimately improves employee performance. The programs include role-playing for tackling complex situations in a fun way. Alternatively, employees need to share their work experiences, both good and bad, with their peers and supervisors. They have to develop self-interest to create learning and developmental needs (Carbery and Garavan, 2005). Overall, the training programs and sharing of experiences help to build a tolerance to face ambiguity in the workplace. Third, companies could select employees who are tolerant of uncertainty. The uncertainty tolerant employees create an innovative culture that gives space for high acceptance of ambiguity in work situations and builds creativity among employees. This strategy could also yield productive employees because they are by their nature, exhibit a high tolerance to ambiguity, and work in complex situations.

6 Conclusions

The study findings confirm that the positive perception about the downsizing practices increases the organisation's performance not only directly but also indirectly. The downsizing practices need to ensure that employee morale is high that will, in turn, increase the tolerance of ambiguity for achieving higher performance. However, employee morale did not mediate between downsizing and organisational performance. The study explains the link between downsizing, organisational performance through employee morale, and tolerance to ambiguity. The previous studies reported employee morale as a mediator, while this study did not report such a result.

The current study has certain limitations that it relied on a self-report measure of organisational performance by employees, including executive, managerial, and production-level employees. This methodology is adopted in previous organisational performance research using only top executives of the organisation. Some studies also used the actual performance figures to evaluate the improvement in organisational performance. The scale used to measure tolerance to ambiguity (Budner, 1962) is relatively old, while further studies have developed ambiguity tolerance measurement (McLain, 2009) based on Budner's scale. This study adopted the original version of the scale and defines ambiguous situations as those that 'cannot be adequately structured or categorised by the individual because of lack of sufficient cues'. The study has considered the definition of tolerance to ambiguity as 'the tendency for an individual to

perceive ambiguous situations as desirable' as given by Budner (1962). Moreover, the scale represented the items to measure tolerance to ambiguity as a personality trait that predicted performance outcomes in the workplace and the psychometric properties of the scale are valid.

In this study, employees perceive downsizing as rightsizing that builds employee morale, which is associated with higher levels of tolerance of ambiguity towards organisational performance. Jungert et al. (2018) indicated that employees help each other to increase need satisfaction and autonomous motivation that improves employee performance. Last, in the present study, tolerance of ambiguity is explored as a mediator. The study emphasises the relationship between downsizing and organisational performance as perceived by employees. As organisations' involve in bringing change through downsizing practices, the influence of employees' opinions about change in their attitude and behaviour improves its significance. This study provides insights into the morale of the employees and their tolerance to ambiguity in this dynamic. Lastly, the study aimed to explore direct and serial mediating relationships, and the serial mediators strengthen the connection among these constructs.

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