

Exploring the impact of downsizing on survivor's cognition, emotion, and behaviour: A Malaysian context



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Since the major economic turmoil in 1997 and 2008, organisational downsizing has been relatively common in Malaysia. The Human Resource Minister stated that 2015 recorded the highest number of corporate downsizings within a five-year span and the number is expected to rise due to the current economic uncertainty both globally and nationally (Mallow,2016). Given its popularity in Malaysia, surprisingly little attention has been given on downsizing, particularly on the remaining employees (the survivors). Downsizing often exacerbates survivor's mental and physical health while in reality, successful downsizing depends on them, as they are responsible for carrying forward the new organisation's objectives (Schaeffer, 2012). Predominantly, empirical studies and established frameworks on organisational change were derived from Western societies. Malaysian culture is blatantly different, and evidently, people's attitude, perception and receptive towards change vary by culture (Hofstede,2001). Guided by Colquitt et al. 's (2013) organisational justice framework, the primary aim of this study was to explore and understand Malaysian survivors cognitions, emotions and behavioural outcomes in relation to their personal organisational downsizing experiences. Whereby the secondary aim of the research was to identify personal factors that may influence survivor's responses to such experiences.

A sequential exploratory mixed-methods approach was adopted. The first study collected qualitative data from survivors through 20 sessions of in-depth semi-structured interviews. It aimed to examine the aims mentioned above.



Through a thematic analysis, the results of Study 1 yielded organisational justice theme (as expected from the interview guide questions), together with 8 other themes namely, psychological contract, perceived organisational support, negative and positive emotions, locus of control, optimism, task performance, organisational citizenship behaviour (OCB), and counterproductive work behaviour (CWB). In all, most participants recognised the extinction of cradle to grave employment. As the situation was perceived as something beyond the management's control, it eased them to get onboard with the downsizing efforts. However, what left the bad taste in their mouth was the way it was handled. Overall, the results showed (a) most participants disappointed with the lack of elimination criteria, the absence of participation and limited communication regarding the downsizing, (b) negative emotions were the most common reactions, (c) as a collectivist nation, participants inclined towards passive-aggressive destructive behaviour for instance, by withdrawing themselves from the situation through absenteeism, tardiness and focusing on non-work interests and activities, and d) one's personal resources serve as a beacon of light in an unpleasant downsizing situations.

Subsequently, preceded by qualitative findings in Study 1, eight hypotheses were formulated to clarify the relationship between survivors cognitions, emotions, behaviours and personal factors. By using an online survey, 244 self-reports and 125 co-worker-reports were completed by the remaining employees at a large oil and gas organisation in Malaysia. Overall, in both surveys, the findings showed that compared to the social exchange variables, emotions predominantly explained the relationship between one's justice perception on

one's work behaviours. Finally, in regards of moderated mediation model, only optimism was found to have significant impact on the mediation relationship between organisational justice and work behaviours either via social exchange variables or emotions.

In conclusion, results from Study 1 and Study 2 combined, show that survivors perceptions of justice are a crucial factor to consider when implementing downsizing. Consideration must also be given to survivors emotional needs as it showed to be powerful in explaining the impact of justice perceptions on work behaviours within a Malaysian context. This thesis is also hoped to pave the way and provides recommendations for a more culturally appropriate downsizing practice and also serve a guide for future scholars that is interested in this field.

**ABSTRACT****I****ACKNOWLEDGEMENTS****IV****LIST OF TABLES****X****LIST OF FIGURES****XIV****LIST OF ABBREVIATIONS****XXIII****CHAPTER 1: INTRODUCTION**

1.1	Background of the research	1
1.2	Research purpose and objectives	9
1.3	Rationale for the study	9
1.3.1	Theoretical significance	10
1.3.2	Methodological significance	11
1.3.3	Practical implications	11
1.4	Organisation of the thesis	13

**CHAPTER 2: THE ORGANISATIONAL JUSTICE FRAMEWORK**

2.1	Introduction	16
2.2	The organisational justice framework	18
2.2.1	Distributive justice	19
2.2.1.1	Relative deprivation	20
2.2.1.2	Economic and social exchanges theory	20
2.2.1.3	Equity theory	22
2.2.1.4	Multiple allocation norm	25
2.2.2	Procedural justice	27
2.2.2.1	The self-interest model	27
2.2.2.2	The procedural preferences model	29
2.2.3	Interactional justice	32
2.2.4	The Integrative Wave	36
2.2.4.1	Referent cognition theory	37



2.2.4.2	The group-value model	40
2.2.4.3	Fairness Heuristic Theory	42
2.2.4.4	Uncertainty Management Theory	43
2.3	Relating social exchange theory and organisational justice	45
2.4	Understanding organisational justice through cognitive appraisal theory	49
2.5	Summary	55

**CHAPTER 3: DOWNSIZING AS AN ORGANISATIONAL
CHANGE STRATEGY**

3.1	Introduction	58
3.2	Defining downsizing	58
3.3	Implementing downsizing	61
3.4	The effects of downsizing	62
3.4.1	Perceptions	64
3.4.1.1	Perceptions of justice	65
3.4.1.2	Social exchange quality	76
3.4.2	Emotion	81
3.4.2.1	Negative emotion	83
3.4.2.2	Positive emotion	87
3.4.3	Behaviours	90
3.4.3.1	Task performance	90
3.4.3.2	Organisational citizenship behaviour	94
3.4.3.3	Counterproductive work behaviour	98
3.5	Coping strategies	101
3.5.1	National culture	102
3.5.2	Locus of control	114
3.5.3	Optimism	117
3.6	Summary	120

**CHAPTER 4: METHODOLOGY**

4.1	Introduction	122
4.2	The philosophical orientation of the study	122
4.3	Mixed method approach	128
4.3.1	Designs of mixed methods research	132
4.4	Sampling strategy	138
4.5	Controlling for common method bias	139
4.6	Summary	141

CHAPTER 5: STUDY 1-THE INTERVIEWS: EXPLORING AND UNDERSTANDING SURVIVORS EXPERIENCES TO DOWNSIZING

5.1	Introduction	143
5.2	Interview guide	144
5.3	Sampling strategies	148
5.4	Data collection procedure	149
5.5	Data analysis procedures	150
5.6	Pilot study	156
5.7	Participant description	156
5.8	Results and emergence of the themes	159
5.8.1	Common message	160
5.8.2	Perceptions and interpretations of downsizing	164
5.8.3	Emotions and Feelings	181
5.8.4	Personal Resources	188
5.8.5	Survivor Behaviour	193
5.9	Reflexivity	202
5.10	Ethical consideration	204
5.11	Summary	205



CHAPTER 6: STUDY 2- VALIDATING CONCEPTUAL FRAMEWORK

6.1	Introduction	211
6.2	Sampling strategy	212
6.3	Pre-analysis	213
6.4	Data collection procedure	215
6.5	Measurement scales	218
6.6	Pre-test	225
6.7	Data analysis technique	225
6.8	Self vs coworker ratings of task performance, OCB and CWB	232
6.9	Sample characteristics	235
6.10	Preliminary analyses	237
6.10.1	Missing data and cleaning up	237
6.10.2	Normality and outliers	238
6.11	Descriptive statistics and correlations	240
6.12	CFA Analyses	243
6.13	Hypotheses testing	246
6.14	Summary	416

CHAPTER 7: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1	Introduction	422
7.2	Discussion of findings	422
7.3	Implications for theory and future research	435
7.4	Limitations and recommendations for further research	437
7.5	Conclusions	438

References	440
-------------------	------------

Appendix A	467
-------------------	------------

 05-4506832	 pustaka.upsi.edu.my	 Perpustakaan Tuanku Bainun Kampus Sultan Abdul Jalil Shah	 PustakaTBainun	 ptbupsi	468
					469
					482
					487

LIST OF TABLES



05-4506832



pustaka.upsi.edu.my

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Kampus Sultan Abdul Jalil Shah

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Table 5.01: **Interview guide questions**

Table 5.02: Phases of thematic analysis

Table 5.03: Interviewees attributes

Table 5.04: Strength of discussion depending on the
number of sources

Table 6.01: Item modification

Table 6.02: Criteria for a model fit

Table 6.03: Multitrait-multirater matrix for ratings of task
performance, OCB and CWB

Table 6.04: Demographic data of the sample respondents

Table 6.05: Demographic data of the sample respondents

Table 6.06: Skewness statistics

Table 6.07: Skewness and kurtosis statistic

Table 6.08: Descriptives, correlations, and reliabilities of study
variables for self-report survey

Table 6.09: Descriptive, correlations, and reliabilities of study
variables for CR report

Table 6.10: AVEs and CRs for convergent validity assessment
of constructs

Table 6.11: PROCESS results of conditional indirect effects of
optimism, ILOC and ELOC on the relationship
between PJ on TP via SE quality and emotion

Table 6.12 PROCESS results of conditional indirect effects of
optimism, ILOC and ELOC on the relationship
between DJ on TP via SE quality and emotion

Table 6.13 PROCESS results of conditional indirect effects of
Optimism, ILOC and ELOC on the relationship
between IPJ on TP via SE quality and emotion

Table 6.14 PROCESS results of conditional indirect effects of
optimism, ILOC and ELOC on the relationship
between INJ on TP via SE quality and emotion

Table 6.15 PROCESS results of conditional indirect effects of
optimism, ILOC and ELOC on the relationship
between PJ on OCBI-C via SE quality and emotion

Table 6.16 PROCESS results of conditional indirect effects of
optimism, ILOC and ELOC on the relationship
between DJ on OCBI-C via SE quality and emotion

Table 6.17 PROCESS results of conditional indirect effects of
optimism, ILOC and ELOC on the relationship
between IPJ on OCBI-C via SE quality and emotion

Table 6.18 PROCESS results of conditional indirect effects of
optimism, ILOC and ELOC on the relationship
between INJ on OCBI-C via SE quality and emotion

Table 6.19 PROCESS results of conditional indirect effects of
optimism, ILOC and ELOC on the relationship



05-4506832



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Kampus Sultan Abdul Jalil Shah

PustakaTBainun



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	between PJ on OCBI-H via SE quality and emotion
Table 6.20	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on OCBI-H via SE quality and emotion
Table 6.21	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on OCBI-H via SE quality and emotion
Table 6.22	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on OCBI-H via SE quality and emotion
Table 6.23	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on OCBO via SE quality and emotion
Table 6.24	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on OCBO via SE quality and emotion
Table 6.25	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on OCBO via SE quality and emotion
Table 6.26	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on OCBO via SE quality and emotion
Table 6.27	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on CWBI via SE quality and emotion
Table 6.28	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on CWBI via SE quality and emotion
Table 6.29	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on CWBI via SE quality and emotion
Table 6.30	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on CWBI via SE quality and emotion
Table 6.31	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on CWBO via SE quality and emotion
Table 6.32	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on CWBO via SE quality and emotion
Table 6.33	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on CWBO via SE quality and emotion
Table 6.34	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on CWBO via SE quality and emotion



Table 6.20	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on OCBI-H via SE quality and emotion
Table 6.21	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on OCBI-H via SE quality and emotion
Table 6.22	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on OCBI-H via SE quality and emotion
Table 6.23	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on OCBI-H via SE quality and emotion
Table 6.24	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on OCBO via SE quality and emotion
Table 6.25	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on OCBO via SE quality and emotion
Table 6.26	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on OCBO via SE quality and emotion
Table 6.27	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on OCBO via SE quality and emotion
Table 6.28	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on CWBI via SE quality and emotion
Table 6.29	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on CWBI via SE quality and emotion
Table 6.30	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on CWBI via SE quality and emotion
Table 6.31	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on CWBI via SE quality and emotion
Table 6.32	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on CWBO via SE quality and emotion
Table 6.33	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on CWBO via SE quality and emotion
Table 6.34	PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on CWBO via SE quality and emotion
	between INJ on CWBO via SE quality and emotion

Table 6.35 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on TP via SE quality and emotion

Table 6.36 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on TP via SE quality and emotion

Table 6.37 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on TP via SE quality and emotion

Table 6.38 Process results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on TP via SE quality and emotion

Table 6.39 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on OCBI-C via SE quality and emotion

Table 6.40 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on OCBI-C via SE quality and emotion

Table 6.41 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on OCBI-C via SE quality and emotion

Table 6.42 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on OCBI-C via SE quality and emotion

Table 6.43 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on OCBIH via SE quality and emotion

Table 6.44 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on OCBIH via SE quality and emotion

Table 6.45 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on OCBIH via SE quality and emotion

Table 6.46 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on OCBI-C via SE quality and emotion

Table 6.47 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on OCBO via SE quality and emotion

Table 6.48 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on OCBO via SE quality and emotion

Table 6.49 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on OCBO via SE quality and emotion

Table 6.50 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on OCBI-C via SE quality and emotion

Table 6.51 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on CWBI via SE quality and emotion

Table 6.52 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on CWBI via SE quality and emotion

Table 6.53 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on CWBI via SE quality and emotion

Table 6.54 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on CWBI via SE quality and emotion

Table 6.55 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between PJ on CWBO via SE quality and emotion

Table 6.56 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between DJ on CWBO via SE quality and emotion

Table 6.57 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between IPJ on CWBO via SE quality and emotion

Table 6.58 PROCESS results of conditional indirect effects of optimism, ILOC and ELOC on the relationship between INJ on CWBO via SE quality and emotion

LIST OF FIGURES

Figure 2.01: Conceptual model of suggested integration of justice, social exchange and affect

Figure 4.01: Graphical representation of mixed methods research processes

Figure 5.01: Sample distribution by job position

Figure 5.02: Sample distribution by industry

Figure 6.01: Conceptual framework for Study 2

Figure 6.02a: The mediating effect of POS in the relationship between PJ and TP .

Figure 6.02b: The mediating effect of NPC in the relationship between PJ and TP .

Figure 6.03a: The mediating effect of POS in the relationship between DJ and TP .

Figure 6.03b: The mediating effect of NPC in the relationship between DJ and TP .

Figure 6.04a: The mediating effect of POS in the relationship between IPJ and TP .

Figure 6.04b: The mediating effect of NPC in the relationship between IPJ and TP .

Figure 6.05a: The mediating effect of POS in the relationship between INJ and TP .

Figure 6.05b: The mediating effect of NPC in the relationship between INJ and TP .

Figure 6.06a: The mediating effect of POS in the relationship between PJ and OCBI-C .

Figure 6.06b: The mediating effect of NPC in the relationship between PJ and OCBI-C .

Figure 6.07a: The mediating effect of POS in the relationship between DJ and OCBI-C .

Figure 6.07b: The mediating effect of NPC in the relationship between DJ and OCBI-C .

Figure 6.08a: The mediating effect of POS in the relationship between IPJ and OCBI-C .

Figure 6.08b: The mediating effect of NPC in the relationship between IPJ and OCBI-C .

Figure 6.09a: The mediating effect of POS in the relationship between INJ and OCBI-C .

Figure 6.09b: The mediating effect of NPC in the relationship between INJ and OCBI-C .

Figure 6.10a: The mediating effect of POS in the relationship between PJ and OCBI-H .

Figure 6.10b: The mediating effect of NPC in the relationship between PJ and OCBI-H .

Figure 6.11a: The mediating effect of POS in the relationship between DJ and OCBI-H .

Figure 6.11b: The mediating effect of NPC in the relationship between DJ and OCBI-H .

Figure 6.12a: The mediating effect of POS in the relationship between IPJ and OCBI-H .

Figure 6.12b: The mediating effect of NPC in the relationship between IPJ and OCBI-H .

Figure 6.13a: The mediating effect of POS in the relationship between INJ and OCBI-H .

Figure 6.13b: The mediating effect of POS in the relationship between INJ and OCBI-H .

Figure 6.14a: The mediating effect of POS in the relationship between PJ and OCBO .

Figure 6.14b: The mediating effect of NPC in the relationship between PJ and OCBO .

Figure 6.15a: The mediating effect of POS in the relationship between DJ and OCBO .

Figure 6.15b: The mediating effect of NPC in the relationship between DJ and OCBO .

Figure 6.16a: The mediating effect of POS in the relationship between IPJ and OCBO .

Figure 6.16b: The mediating effect of NPC in the relationship between IPJ and OCBO .

Figure 6.17a: The mediating effect of POS in the relationship between INJ and OCBO .

Figure 6.17b: The mediating effect of NPC in the relationship between INJ and OCBO .

Figure 6.18a: The mediating effect of POS in the relationship between PJ and CWBI .

Figure 6.18b: The mediating effect of NPC in the relationship between PJ and CWBI .

Figure 6.19a: The mediating effect of POS in the relationship between DJ and CWBI .

Figure 6.19b: The mediating effect of NPC in the relationship between DJ and CWBI .

Figure 6.20a: The mediating effect of POS in the relationship between IPJ and CWBI .

Figure 6.20b: The mediating effect of NPC in the relationship between IPJ and CWBI .

Figure 6.21a: The mediating effect of POS in the relationship between INJ and CWBI .

Figure 6.21b: The mediating effect of NPC in the relationship between INJ and CWBI .

Figure 6.22a: The mediating effect of POS in the relationship between PJ and CWBO .

Figure 6.22b: The mediating effect of NPC in the relationship between PJ and CWBO .

Figure 6.23a: The mediating effect of POS in the relationship between DJ and CWBO .

Figure 6.23b: The mediating effect of NPC in the relationship between DJ and CWBO .

Figure 6.24a: The mediating effect of POS in the relationship between IPJ and CWBO .

Figure 6.24b: The mediating effect of NPC in the relationship between IPJ and CWBO .

Figure 6.25a: The mediating effect of POS in the relationship between INJ and CWBO .

Figure 6.25b: The mediating effect of NPC in the relationship between INJ and CWBO .

Figure 6.26a: The mediating effect of POS in the relationship between PJ and TP.

Figure 6.26b: The mediating effect of NPC in the relationship between PJ and TP.

Figure 6.27a: The mediating effect of POS in the relationship between DJ and TP .

Figure 6.27b: The mediating effect of NPC in the relationship between DJ and TP .

Figure 6.28a: The mediating effect of POS in the relationship between IPJ and TP .

Figure 6.28b: The mediating effect of NPC in the relationship between IPJ and TP .

Figure 6.29a: The mediating effect of POS in the relationship between INJ and TP .

Figure 6.29b: The mediating effect of NPC in the relationship between INJ and TP .

Figure 6.30a: The mediating effect of POS in the relationship between PJ and OCBI-C .

Figure 6.30b: The mediating effect of NPC in the relationship between PJ and OCBI-C .

Figure 6.31a: The mediating effect of POS in the relationship between DJ and OCBI-C .

Figure 6.31b: The mediating effect of NPC in the relationship between DJ and OCBI-C .

Figure 6.32a: The mediating effect of POS in the relationship between IPJ and OCBI-C .

Figure 6.32b: The mediating effect of NPC in the relationship between IPJ and OCBI-C .

Figure 6.33a: The mediating effect of POS in the relationship between INJ and OCBI-C .

Figure 6.33b: The mediating effect of NPC in the relationship between INJ and OCBI-C .

Figure 6.34a: The mediating effect of POS in the relationship between PJ and OCBI-H .

Figure 6.34b: The mediating effect of NPC in the relationship between PJ and OCBI-H .

Figure 6.35a: The mediating effect of POS in the relationship between DJ and OCBI-H .

Figure 6.35b: The mediating effect of NPC in the relationship between DJ and OCBI-H .

Figure 6.36a: The mediating effect of POS in the relationship between IPJ and OCBI-H .

Figure 6.36b: The mediating effect of NPC in the relationship between IPJ and OCBI-H .

Figure 6.37a: The mediating effect of POS in the relationship between INJ and OCBI-H .

Figure 6.37b: The mediating effect of POS in the relationship between INJ and OCBI-H .

Figure 6.38a: The mediating effect of POS in the relationship between PJ and OCBO .

Figure 6.38b: The mediating effect of NPC in the relationship between PJ and OCBO .

Figure 6.39a: The mediating effect of POS in the relationship between DJ and OCBO .

Figure 6.39b: The mediating effect of NPC in the relationship between DJ and OCBO .

Figure 6.40a: The mediating effect of POS in the relationship between IPJ and OCBO .

Figure 6.40b: The mediating effect of NPC in the relationship between IPJ and OCBO .

Figure 6.41a: The mediating effect of POS in the relationship between INJ and OCBO .

Figure 6.41b: The mediating effect of NPC in the relationship between INJ and OCBO .

Figure 6.42a: The mediating effect of POS in the relationship between PJ and CWBI .

Figure 6.42b: The mediating effect of NPC in the relationship between PJ and CWBI .

Figure 6.43a: The mediating effect of POS in the relationship between DJ and CWBI .

Figure 6.43b: The mediating effect of NPC in the relationship between DJ and CWBI .

Figure 6.44a: The mediating effect of POS in the relationship between IPJ and CWBI .

Figure 6.44b: The mediating effect of NPC in the relationship between IPJ and CWBI .

Figure 6.45a: The mediating effect of POS in the relationship between INJ and CWBI .

Figure 6.45b: The mediating effect of NPC in the relationship between INJ and CWBI .

Figure 6.46a: The mediating effect of POS in the relationship between PJ and CWBO .

Figure 6.46b: The mediating effect of NPC in the relationship between PJ and CWBO .

Figure 6.47a: The mediating effect of POS in the relationship between DJ and CWBO .

Figure 6.47b: The mediating effect of NPC in the relationship between DJ and CWBO .

Figure 6.48a: The mediating effect of POS in the relationship between IPJ and CWBO .

Figure 6.48b: The mediating effect of NPC in the relationship between IPJ and CWBO .

Figure 6.49a: The mediating effect of POS in the relationship between INJ and CWBO .

Figure 6.49b: The mediating effect of NPC in the relationship between INJ and CWBO .

Figure 6.50a: The mediating effect of PE in the relationship between PJ and TP .

Figure 6.50b: The mediating effect of NE in the relationship between PJ and TP .

Figure 6.51a: The mediating effect of PE in the relationship between DJ and TP .

Figure 6.51b: The mediating effect of NE in the relationship between DJ and TP .

Figure 6.52a: The mediating effect of PE in the relationship between IPJ and TP .

Figure 6.52b: The mediating effect of NE in the relationship between IPJ and TP .

Figure 6.53a: The mediating effect of PE in the relationship between INJ and TP .

Figure 6.53b: The mediating effect of NE in the relationship between INJ and TP .

Figure 6.54a: The mediating effect of PE in the relationship between PJ and OCBI-C .

Figure 6.54b: The mediating effect of NE in the relationship between PJ and OCBI-C .

Figure 6.55a: The mediating effect of PE in the relationship between DJ and OCBI-C .

Figure 6.55b: The mediating effect of NE in the relationship between DJ and OCBI-C .

Figure 6.56a: The mediating effect of PE in the relationship between IPJ and OCBI-C .

Figure 6.56b: The mediating effect of NE in the relationship between IPJ and OCBI-C .

Figure 6.57a: The mediating effect of PE in the relationship between INJ and OCBI-C .

Figure 6.57b: The mediating effect of NE in the relationship between INJ and OCBI-C .

Figure 6.58a: The mediating effect of PE in the relationship between PJ and OCBI-H .

Figure 6.58b: The mediating effect of NE in the relationship between PJ and OCBI-H .

Figure 6.59a: The mediating effect of PE in the relationship between DJ and OCBI-H .

Figure 6.59b: The mediating effect of NE in the relationship between DJ and OCBI-H .

Figure 6.60a: The mediating effect of PE in the relationship between IPJ and OCBI-H .

Figure 6.60b: The mediating effect of NE in the relationship between IPJ and OCBI-H .

Figure 6.61a: The mediating effect of PE in the relationship between INJ and OCBI-H .

Figure 6.61b: The mediating effect of NE in the relationship between INJ and OCBI-H .

Figure 6.62a: The mediating effect of PE in the relationship between PJ and OCBO .

Figure 6.62b: The mediating effect of NE in the relationship between PJ and OCBO .

Figure 6.63a: The mediating effect of PE in the relationship between DJ and OCBO .

Figure 6.63b: The mediating effect of NE in the relationship between DJ and OCBO .

Figure 6.64a: The mediating effect of PE in the relationship between IPJ and OCBO .

Figure 6.64b: The mediating effect of NE in the relationship between IPJ and OCBO .

Figure 6.65a: The mediating effect of PE in the relationship between INJ and OCBO .

Figure 6.65b: The mediating effect of NE in the relationship between INJ and OCBO .

Figure 6.66a: The mediating effect of PE in the relationship between PJ and CWBI .

Figure 6.66b: The mediating effect of NE in the relationship between PJ and CWBI .

Figure 6.67a: The mediating effect of PE in the relationship between DJ and CWBI .

Figure 6.67b: The mediating effect of NE in the relationship between DJ and CWBI .

Figure 6.68a: The mediating effect of PE in the relationship between IPJ and CWBI .

Figure 6.68b: The mediating effect of NE in the relationship between IPJ and CWBI .

Figure 6.69a: The mediating effect of PE in the relationship between INJ and CWBI .

Figure 6.69b: The mediating effect of NE in the relationship between INJ and CWBI .

Figure 6.70a: The mediating effect of PE in the relationship between PJ and CWBO .

Figure 6.70b: The mediating effect of NE in the relationship between PJ and CWBO .

Figure 6.71a: The mediating effect of PE in the relationship between DJ and CWBO .

Figure 6.71b: The mediating effect of NE in the relationship between DJ and CWBO.

Figure 6.72a: The mediating effect of PE in the relationship between IPJ and CWBO .

Figure 6.72b: The mediating effect of NE in the relationship between IPJ and CWBO .

Figure 6.73a: The mediating effect of PE in the relationship between PJ and TP .

Figure 6.73b: The mediating effect of NE in the relationship between INJ and CWBO.

Figure 6.74a: The mediating effect of PE in the relationship between PJ and TP .

Figure 6.74b: The mediating effect of NE in the relationship between PJ and TP .

Figure 6.75a: The mediating effect of PE in the relationship between DJ and TP .

Figure 6.75b: The mediating effect of NE in the relationship between DJ and TP .

Figure 6.76a: The mediating effect of PE in the relationship between IPJ and TP .

Figure 6.76b: The mediating effect of NE in the relationship between IPJ and TP .

Figure 6.77a: The mediating effect of PE in the relationship between INJ and TP .

Figure 6.77b: The mediating effect of NE in the relationship between INJ and TP .

Figure 6.78a: The mediating effect of PE in the relationship between PJ and OCBI-C .

Figure 6.78b: The mediating effect of NE in the relationship between PJ and OCBI-C .

Figure 6.79a: The mediating effect of PE in the relationship between DJ and OCBI-C .

Figure 6.79b: The mediating effect of NE in the relationship between DJ and OCBI-C .

Figure 6.80a: The mediating effect of PE in the relationship between IPJ and OCBI-C .

Figure 6.80b: The mediating effect of NE in the relationship between IPJ and OCBI-C .

Figure 6.81a: The mediating effect of PE in the relationship between INJ and OCBI-C .

Figure 6.81b: The mediating effect of NE in the relationship between INJ and OCBI-C .

Figure 6.82a: The mediating effect of PE in the relationship between PJ and OCBI-H .

Figure 6.82b: The mediating effect of NE in the relationship between PJ and OCBI-H .

Figure 6.83a: The mediating effect of PE in the relationship between DJ and OCBI-H .

Figure 6.83b: The mediating effect of NE in the relationship between DJ and OCBI-H .

Figure 6.84a: The mediating effect of PE in the relationship between IPJ and OCBI-H .

Figure 6.84b: The mediating effect of NE in the relationship between IPJ and OCBI-H .

Figure 6.85a: The mediating effect of PE in the relationship between INJ and OCBI-H .

Figure 6.85b: The mediating effect of PE in the relationship between INJ and OCBI-H .

Figure 6.86a: The mediating effect of PE in the relationship between PJ and OCBO .

Figure 6.86b: The mediating effect of NE in the relationship between PJ and OCBO .

Figure 6.87a: The mediating effect of PE in the relationship between DJ and OCBO .

Figure 6.87b: The mediating effect of NE in the relationship between DJ and OCBO .

Figure 6.88a: The mediating effect of PE in the relationship between IPJ and OCBO .

Figure 6.88b: The mediating effect of NE in the relationship between IPJ and OCBO .

Figure 6.89a: The mediating effect of PE in the relationship between INJ and OCBO .

Figure 6.89b: The mediating effect of NE in the relationship between INJ and OCBO .

Figure 6.90a: The mediating effect of PE in the relationship between PJ and CWBI .

Figure 6.90b: The mediating effect of NE in the relationship between PJ and CWBI .

Figure 6.91a: The mediating effect of PE in the relationship between DJ and CWBI .

Figure 6.91b: The mediating effect of NE in the relationship between DJ and CWBI .

Figure 6.92a: The mediating effect of PE in the relationship between IPJ and CWBI .

Figure 6.92b: The mediating effect of NE in the relationship between IPJ and CWBI .

Figure 6.93a: The mediating effect of PE in the relationship between INJ and CWBI .

Figure 6.93b: The mediating effect of NE in the relationship between INJ and CWBI .

Figure 6.94a: The mediating effect of PE in the relationship between PJ and CWBO .

Figure 6.94b: The mediating effect of NE in the relationship between PJ and CWBO .

Figure 6.95a: The mediating effect of PE in the relationship between DJ and CWBO .

Figure 6.95b: The mediating effect of NE in the relationship between DJ and CWBO .

Figure 6.96a: The mediating effect of PE in the relationship between IPJ and CWBO .

Figure 6.96b: The mediating effect of NE in the relationship between IPJ and CWBO .

Figure 6.97a: The mediating effect of PE in the relationship between PJ and TP .

Figure 6.97b: The mediating effect of NE in the relationship between INJ and CWBO.



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LIST OF ABBREVIATION

AVE	Average variance extracted
BCa	Bias-corrected and accelerated
BOS	Bristol Online Survey
CFA	Confirmatory factor analyses
CFI	Comparative fit index
CI	Confidence interval
CMIN/DF	Chi-square /degrees of freedom
CR	Coworker report
CRT	Core relational themes
CWB	Counterproductive work behaviour
CWBI	Counterproductive work behaviour directed towards the individual
CWBO	Counterproductive work behaviour directed towards the organisation
df	Degree of freedom
DJ	Distributive justice
ELOC	External locus of control
FHT	Fairness heuristic theory
FT	Fairness theory
HP	Hewlett Packard
ILOC	Internal locus of control
IPANAS-SF	International Positive and Negative Affect Schedule, short-form
INJ	Interactional justice
IPJ	Interpersonal justice
M	Mediator
MNC	Multinational company
NE	Negative emotion
NPC	New psychological contract
OCB	Organisational citizenship behavior
OCBI-C	Courtesy
OCBI-H	Helping

OCBO	Organisational citizenship behavior directed towards the organisation
ORB	Organisational retaliatory behavior
PE	Positive emotion
PCQ	Positive psychological capital questionnaire
PJ	Procedural justice
POB	Positive organisational behaviour
Psycap	Psychological capital
RCT	Referent cognition theory
SPOS	Survey of perceived organisational support
SPSS	Statistical Package for the Social Sciences
SR	Self report
SRMR	Standardized root mean square residual
TA	Thematic analysis
TP	Task performance
UMT	Uncertainty management theory
US	United States of America
UK	United Kingdom
VWB	Voluntary work behaviour
WLOC	Work locus of control scale

CHAPTER 1: INTRODUCTION



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1.1 Background of the research

I first heard the term 'Downsizing' back in 2013, when the CEO of Hewlett Packard, the place where I started my career after graduation announced the 5 years restructuring plan. The interest was then materialised via master dissertation. Throughout that process my interest have become more intensified because I was exposed to more studies revolving this matter. The reality is, downsizing has become a norm as companies struggle to cut costs and adapt to changing market demands (Campbell, 1999). Since the 1980s, there have been a growing number of publications on the impact of organisational change, especially on the downsizing effect on survivors' psychological state, attitude and behaviour (e.g. Mishra & Spreitzer, 1998; Lavelle et al., 2009; Smollan, 2009; van Dierenonck & Jacobs, 2012). Pioneered by corporate America, downsizing practice most commonly refers to the state where an organisation reduces the staff in an effort to increase organisational efficiency (Budros, 1999).

Though we already passed 'The Great Recession' in 2008, many large organisations still engage in large-scale downsizing; for example, stretching from the 2008 layoffs, Hewlett Packard (HP) announced the downsizing plan in 2012 due primarily to revenues tanking. The initial plan was for the downsizing to end by the end of 2014 fiscal year. As of September 2015, before they split into two public listed companies (i.e. HP Inc and Hewlett Packard Enterprise (HPE)), HP have laid off more than 55,000 employees worldwide (Bort,



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2016). In Malaysia, downsizing has been relatively common since the major economic turmoil in 1997 and 2008. The most controversial downsizing in the Malaysia history was by the national carrier, Malaysia Airlines Berhad (MAB) or formerly known as Malaysia Airlines System Berhad (MAS). In 2015, they initiated the biggest layoff in Malaysia's corporate history (Gabriel, 2015), which involved 30% of workforce reduction. The downsizing trend has made a comeback in Malaysia and the number of cases has been rising since the third quarter of 2014 (Suhaimi et al., 2015). Datuk Shamsuddin Bardan, the executive director of Malaysian Employers Federation (MEF) predicted the trend will be extended in 2018 and that automation will continue to be a prominent factor to job losses in 2018 (Rajvinder, 2018).

Today, we live and work in an age of rapid technological change, as a result, automation and digitalization further infuse the work environment. McKinsey Global Institute reported, by 2055, virtually half of all the work we do will be able to be automated (Manyika et al., 2017). This new industrial revolution age, termed Industry 4.0, (first coined by the German government in 2012) is expected to present tremendous opportunities for businesses, however it also poses a severe threats to the workforce. The trend has already affected the Malaysian workforce, when in 2015 and 2016 more banks increased use of IT resulted in 18,000 job losses in Malaysia (Ruban, 2017).

On a separate but related note, this time around, the Malaysia public service which would usually be considered immune from such purse tightening initiatives didn't manage to escape from downsizing. In 2013, the Public Service Department of

Malaysia (JPA) decided to cut thousands of public sector posts mainly to make for cost savings (JPA,n.d). Therefore, this research is pertinent to the on-going scenario in Malaysia.

In regards to what happened in HP, downsizing was not just a reaction towards economic strain. A 15 year long case study on HP found that their downfall was primarily due to employee distrust , in which HP management signaled through various below the belt practices and one of them is unfairness in employee treatment (Elsbach *et al*, 2012). Meanwhile for MAB, despite the disaster yang involved MH370 and MH17, they were also known for engaging in union busting (Izwan, 2014). The situation in MAB is not much different from what happened in HP. Given the unjust treatment, no empirical data needed to prove that employee trust had long been gone in MAB. Aforementioned from the HP case study, employee's perceived of justice is the main key if the organisation were serious to return to profitability as scheduled.

Studies have identified organisational justice as a key ingredient in the development and decline of trust in management (Chory & Hubbell, 2008; Colquitt & Rodell, 2011). Consistent with that, Elsbach *et al*. (2012) found that management's unfair practice was responsible in instilling distrust among HP employees. Organisational justice is a "dominating theme" in organisational life (De Cremer, 2005). It's fundamental in understanding organisational behaviour (Bos, 2002). Downsizing is often perceived by individuals as threatening (Sverke *et al*.,2002), and it's largely contributed to the lack of trust (Mishra & Spreitzer, 1998). This is when perception of fairness comes into play, studies found justice information help facilitates employees to determine whether

the organisation and its management can be trusted (Brockner & Greenberg, 1990; Saunders & Thornhill, 2004).

Despite being a go-to practice especially in the corporate world, there is speculation about the success rate of downsizing, and research suggested half of organisations that had implemented downsizing reported dissatisfaction with the outcome (Kinnie et al., 1998). Additionally, a longitudinal study indicated that downsizing often results in psychological and physical damage to survivors (Moore et al., 2003). Downsizing survivors are the most important consideration when ensuring the future success of an organisation (Brockner et al., 1995). They are required to carry forward the new objectives, adapt to the new environment and manage the increased workloads and the new job function (Schaeffer, 2012). As aforementioned, studies have shown that employee's perception of fairness is a key ingredient in understanding organisational issues, it helps foster various sources competitive advantage, hence improve organisational performance and lead to a successful downsizing (Cascio & Wynn, 2004). In short, survivors must perceive downsizing as fair for the intended results to be achieved.

Downsizing survivors experience a wide variety of negative emotions such as stress, uncertainty, shock, confusion, insecurity and frustration (Campbell, 1999). Emotions help people make sense of their world (Antonacopolou & Gabriel, 2001; Lundberg & Young, 2001) and can affect their sense of loyalty to the organisation and encourage or discourage them to behave positively. In Equity theory, Adams (1965) suggested that inequity impacts affect and Homans (1961) stated that injustice leads to anger. Although both of them

didn't provide an extensive discussion on emotions in their writings, they clearly believed that emotional states were the outcome of injustice perceptions. Consistent with that, Folger (1984) argued employees respond to unfair relationships by displaying certain negative emotions such as dissatisfaction, anger, resentment and disappointment. To restore psychological equity, employees engage in absenteeism, decreased productivity, resistance to change and turnover (Smollan, 2012). Unfortunately, downsizing normally happens very rapidly, which often drives survivors in an acutely anxious emotional state, such that increased counterproductive work behavior (CWB) and decreased organizational citizenship behavior (OCB) can be expected (Spector & Fox, 2002). On the other hand, there are cases where employees would otherwise behave positively even when job insecurity was high. For instance, Brockner et al. (1985) and Probst (2002) showed employees were more productive when feeling threatened by organisational changes. However, in both studies, the output quality was showed to be below expectations. In the context of this study, emotions are the product of how the downsizing event being perceived, therefore it's important to pay attention to how survivors feel about downsizing since it will determines their attitudes and behaviour towards the organisation (Sahdev et al.,1999; Cascio, 1993; Noer, 1993).

Downsizing has occurred in most industries and is seen at all levels of the workplace (De Meuse et al., 2011) breaking the traditional employment relationship of a lifelong job with mutual loyalty between the employer and the employee. To better understand the new employment relationship, many researchers employed the social exchange theoretical

framework (SET) (e.g. Coyle-Shapiro & Conway, 2005). SET is based on a norm of reciprocity that dictates mutual obligations between employees and employers (Rousseau, 1989). It entails the notion of one person does another a favour and while there is an expectation of some future return, its exact nature is never specified in advance but must be left to the discretion of the one who makes it (Blau, 1964). In an employment relationship SE may be started through an organisation's fair treatment to its employees and this instigates an obligation on the part of employees to reciprocate the good deeds of the organisation. Two main SE facets have been widely adopted to explore the employment relationship, namely psychological contracts (PCs; e.g., Millward & Hopkins, 1998; Stoner & Gallagher, 2010) and perceived organizational support (POS; e.g., Karatepe, 2012; Susskind et al., 2000). PC, entail beliefs about what employees believe they are entitled to receive, or should receive, because they perceive that their employer conveyed promises to provide those things (Robinson, 1996). These implied promises typically include the exchange of time, skills, and effort for pay, job security and respect (Kalimo et al, 2003). Employees today find themselves in a different organisational environment which means the expectation between the employer and employee has also changed. Historically, employers were expected to provide long term employment for good performance and offered training and career development for promotion purposes. However, in the new PC, employees are increasingly responsible for their own career development, and can no longer expect long-term employment for loyalty and good work (Stroh, Brett & Reilly, 1994; Kisller, 1994; O'Reilly, 1994; Parks and Kidder, 1990).

As aforementioned, downsizing has many negative effects on

survivors, including non-commitment to long-term employment, so it might benefit both organisation and employee to adopt the new PC, as it may help decrease downsizing's negative effects, avoiding PC breaches and damaging deteriorations to employee's job performance (Robinson & Morrison, 1995).

Secondly, POS engenders an employee obligation to help the organisation; therefore, employees with higher levels of POS are more willing to engage in behaviour that contributes to the organisation (Eisenberger et al., 1986; Kurtessis et al., 2015). Employee's POS are based on global beliefs concerning the extent to which the organisation values their contributions and cares about their well-being (Eisenberg et al., 1986; Shanock & Eisenberger, 2006). The perceptions of being valued and cared about by the organisation would encourage employees' to help the organisation reach its objectives. Survivors are often neglected during downsizing (Amudson et al., 2004). As a consequence, this led to unfavorable reactions among the survivors such as reduction of work performance (Travaglione & Cross, 2006; Reinardy, 2010). Regardless how hectic and chaotic the act of downsizing may seem, it's very important for a downsized organisation to ensure remaining employees feel valued, as it helps foster positive organizational outcomes.

Malaysia has been a hub for international trades in the South East Asia and a home to hundreds of multinational companies (MNCs). Studies found that individuals from different cultural backgrounds react differently to new ideas (Coulson-Thomas, 1992), which in turn determines the extent to which they accept change (Hofstede, 1984). Malaysian culture is not only differ from the western culture but despite being a

neighbouring country, there is a huge difference in uncertainty avoidance score between Malaysia and Singapore (Hofstede, 2001) where Singaporean are more acceptable of risk and change as opposed to Malaysian. Thus, strategic approach must consider the element of national culture for the downsizing or any sort of changes to be efficient.

The research literature has also claimed that fairness and justice definitions are culturally determined (Kidder & Muller, 1991; Lind et al, 1997; Zhang, 2006). Although, culture shapes the behaviour and perceptions of its members, people are not passive recipients of their culture, therefore the effects are varied and some individuals may deviate from their nation's cultural norms. Theorists suggested that individuals vary in the degree to which they internalise cultural influences (Trompenaars & Hampden-Turner, 1998) whereby individuals select cultural norms that best fit their lifestyle according to their underlying temperaments and personalities (Matsumoto, 2007). If there were differences within cultures and these differences were ignored, the organisation could be establishing practices that were detrimental in a long run. Therefore, it is important to understand individual variation within a cultural context, as it is absolutely useful to help managers to deal with downsizing efficiently. Fortunately, some of the positive personal resources like optimism be trained through learning, development, change and management in the workplace (Luthans, 2002), thus organisation should perhaps consider incorporating it into their training and development program.

In summary, this research aims to study how Malaysian employees perceive the fairness of overall downsizing event

and how it affects their responses by looking at the situation through two different lenses, namely SET and affect. The current study will also explore the role of cultural and individual differences in shaping survivors' responses.

1.2 Research purpose and objectives

1.2.1 Research purpose

The purpose of this research is to investigate employees' perceptions on organisational downsizing within a Malaysian context and the influence of individual differences on their responses to such perceptions.

1.2.2 Research objectives

In line with the research purpose described above, and prompted by the literature, the following research objectives were devised for investigation through the studies of this thesis:

1. To explore and understand Malaysian employees' perceptions, emotions and behaviours as a result of their personal organisational downsizing experiences.
2. To explore the possible personal or cultural factors in shaping survivor's perceptions, feelings and responses to organisational downsizing.
3. To identify the best practices an organisation can employ to promote positive downsizing experience among employees.



1.3 Rationale for the study

1.3.1 Theoretical significance

According to Colquitt et al (2013), the potential synergies between exchange-based justice research and affect-based justice research remain unknown because justice scholars tend to choose one lens or the other when planning and executing their work. The present study intends to fill the gap by integrating the two main perspectives within a justice model.

As aforementioned, cultures shapes one's fairness and justice perceptions. What is seen as a fair conduct in one culture might be against the norm in a different culture (refer to subsection 3.5.1). Furthermore, the knowledge and strategy of organisational downsizing were mostly based on the North American and European sample. As downsizing has become a common practice in every part of the world, strategy that works in America might give a different result in different cultures. For example, from the reward allocation perspective, Bond et al. (1982) found out that collectivists prefer the outcomes to be equally distributed among group members rather than based on individual performance. Therefore, this thesis intent to explore what is considered a fair conduct of downsizing in Malaysia.

Downsizing has many negative effects on employees, especially survivors. Nowadays, organisations can no longer promise long-term employment and it may be beneficial for both organisation and employee to adopt the content of the new PC. The adoption of the content of the new PC may help



diminish the negative downsizing effects experienced by employees. Despite being written in many management and HR articles, to date there has been little research applying new PCs in the workplace (Baker, 2008). This study intends to fill the gap by looking at the agreement level to the new PC in a downsized Malaysian organisation.

1.3.2 Methodological significance

A qualitative approach can help understand what constitutes fairness perceptions among survivors of the downsizing event within a Malaysian context, by giving participants the opportunity to describe the phenomenon in their words rather than forcing a closed answer. Subsequently, the results will be tested in large, representative samples, which also allows one to test theoretical hypotheses (Fassinger & Morrow, 2013). Literature on the costs of downsizing in Malaysia are indeed scarce (Junaidah & Anizah, 2003), therefore by testing the justice model within a Malaysian context with a mixed-methodology approach will help to understand what constitutes fair downsizing practice in Malaysia from survivors' perspectives, which in turn will benefit future local researchers keen on exploring this issue.

1.3.3 Practical implications

Despite being practised among government (public sectors privatisation) and private agencies since the 80s, we still do not know the extent of organisational change, particularly downsizing impact on Malaysian workers. Most empirical studies and established frameworks on organisational change were derived from Western societies. Malaysian culture is

different, and people's attitude, perception and receptive towards change vary by culture. Therefore, this research will help in identifying organisational downsizing management approaches that congruent with Malaysian culture.

Downsizing often significantly increases voluntary turnover among survivors (Trevor & Nyberg, 2008). Given how crucial their role is in the post-downsizing phase, the propensity would be damaging for organisations. Not to mention, employee turnover is expensive because organizations not only lose valuable employees, but also have to spend time and money replacing those who leave (Mishra & Spreitzer, 1998). In "2017 Hays Asia Salary Guide" , talent retention was mentioned as one of the challenges faced by 97% Malaysian employers (Hays, 2017). With all the rapid changes and challenges happening globally, employee is the best asset to help carry forward organisation's effort. Thus, this study hopes to help the management to improve their employee retention strategy.

The Code of Industrial Harmony 1975 is a guide for employers considering workforce reduction. However, up until now it's still not legally binding , therefore there is no legal obligation on the part of employer to adhere to the contents. The weak employment practices were also 'recognised' internationally by receiving a 4rating in the International Trade Union Confederation Global Rights Index 2017. Countries in this rating are exposed to systematic violation in which the government and/or organisation engaged in serious efforts to go against the employees from voicing their opinions, as aforementioned, union busting in MAB. Hopefully, the outcome

of this study will act as an impetus towards the official enforcement of Malaysia retrenchment law.

Beyond financial considerations and chaos, the downsizing process also exacts a heavy emotional and mental toll on employees. By 2020, depression will be the second leading cause of world disability (WHO, 2001) and by 2030; it is expected to be the largest contributor to disease burden (WHO, 2008). On top of that The National Health and Morbidity Survey (NHMS) 2015 had revealed some staggering facts about the state of mental health in Malaysia in which the prevalence of mental health problems among adults increased from 10.7% in 1996, to 11.2% in 2006, to 29.2% in 2015. Mental health problems, if untreated, may hinder employees from realising their full potential and looking at the bigger picture, could lead to a more serious social issue. Evidence from Japan, Hong Kong, South Korea, Taiwan, Singapore and Thailand (Chang et al 2009) indicates that severe financial losses due to the economic crisis in Asia and especially unemployment have resulted in increases in suicide. For Malaysia to be a developed and high-income nation, the people must not lose sight of the importance of sound mental health development – and addressing the issue should be a priority.

1.4 Organisation of the thesis

This thesis consists of eight chapters including this Introduction. The remaining chapters are organised in the following manner.

Chapter 2 provides a critical review of relevant literatures. It begins by exploring the literature of organisational justice, followed by the two theoretical lenses used to explain the effect of employees justice perceptions namely 1) Cognitive approach via Social Exchange Theory and 2) Affective approach via Appraisal Theory.

Chapter 3 outlines the research context of this study, organisational downsizing. It begins by reviewing the downsizing literatures mainly on the psychological impact.

Chapter 4 elaborates on the methodological approach used in the study. It begins by explaining the rationale of the mixed methods approach, followed by the elaboration for each study, which consists of methods and data analysis techniques and finally the ethical considerations.

Chapter 5 discusses the findings of Study 1, a qualitative study. By using an organisational justice framework, the objective of this chapter is to provide insights into the downsizing experiences among Malaysian employees. In particular, the study is trying to find the emergent themes from the lived experiences, which encompasses perceptions, emotions and behavioural outcomes. In addition this study intent to identify possible influence of personal factors on responses to organisational downsizing.

Chapter 6 and 7 focuses on the findings from Study 2, the quantitative study. By using a survey, this chapter investigates the association of all the emergent themes resulted in Study 1.

The thesis concludes in Chapter 8 with the conclusions, implications and limitations of of this study.



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