

**'DOWN-AND-OUT'<sup>1</sup> AND (CONTEMPORARY)  
DEVELOPMENT AMBIVALENCE**

**'DOWN-AND-OUT' I (SAVREMENE) RAZVOJNE AMBIALENCIJE**

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**Abstract**

*Considering that the "drama of industrial development" takes place in a given sociocultural context, anything that involves changes, especially in business processes, cannot be done without affecting the population, primarily the employees. If we add transition economy, devastation of industrial working class and population, mass immigration of young and qualified people, the situation becomes increasingly complicated. The restructuring of specific groups of industrial companies in Serbia, and the reindustrialization as a whole, become the 'new' strategic options, new programming concepts of development. Deindustrialization, reindustrialization, and downsizing and outsourcing in that context, have trapped and continue to trap employees between development options and existential needs. A conclusion can be derived that the source of (Serbian) industrial failure lies in missed opportunities, wrong decisions and late solutions.*

**Key words:** *downsizing, outsourcing, layoffs, offshoring, industrial development, deindustrialization, reindustrialization*

**Apstrakt**

*S obzirom da se "drama industrijskog razvoja" zbiva u datom sociokulturnom kontekstu, ništa na planu promena, naročito u procesima rada, ne može, a da ne dodirne stanovništvo, a nadasve zaposlene. Ako pridodamo tranziciju, razaranje industrijskog radništva i stanovništva, masovnu emigraciju mladih i kvalifikovanih ljudi, situacija se dodatno usložnjava. Restruktuiranje pojedinih grupa industrijskih preduzeća u Srbiji i reindustrijalizacija u celini, postaju 'nove' strategijske opcije, novi programski koncepti razvoja. Deindustrijalizacija, reindustrijalizacija, i u tom kontekstu downsizing i outsourcing, činili su i čine da se zaposleni nađu pritešnjeni između razvojnih opcija i egzistencijal-*

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1 Autori ovog rada su se poigrali rečima Downsizing and Outsourcing, metaforički koristeći englesko značenje kovanice Down-and-Out = beskućnik.

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*nih potreba. Nameće se zaključak da se izvorishte (srpskog) industrijskog neuspeha nalazi u propuštenim prilikama, pogrešnim odlukama i zakasnelim rešenjima.*

**Ključne reči:** *downsizing, outsourcing, layoffs, offshoring, privredni razvoj, deindustrijalizacija, reindustrijalizacija*

## 1. INTRODUCTION

*“Perhaps, the thing that we, people of the world, need the most is to use our imagination, to develop our ability to perceive things from a perspective that transcends our existential sphere in which we happen to be.”*

Chisholm Brock, 1957.

Ambivalences, aporias, and antinomies are only a few of the words that cast a shadow over the times we live in. A multitude of economical, political, civilizational, and spiritual turmoils, contradictions, tensions, conflicts, and paradoxes call for inspired contemplations about development. “The development process would be a simple thing, and we would determine its course quickly if life had described a single path, comparable to a path of a fired cannonball” (Bergson 1991), however, it had not.

There is a general accordance in one thing - the Serbian industry has lost the match (some say it never competed?!). Some find the reasons of this failure in outdated technology, bureaucracy, unreformed public sector, faulty liberalization of foreign trade, faulty privatization, overestimated dinar, but also underestimated intelligence, innovativeness, proactiveness of employees and of those who wish to be employed. The list of reasons of numerous imbalances and system deformities does not end there. A conclusion can be derived that the source of the (Serbian) industrial failure lies in missed opportunities, wrong decisions and late solutions.

The search for a cure that would help recover the ailing Serbian industrial (and economical) organism has been in progress for the last ten years or so. Without going into deeper analysis of the effectiveness of applicable strategic options, a conclusion can be made that the industrial development is becoming increasingly similar to a pendulum that oscillates between *deindustrialization*<sup>5</sup> and *reindustrialization*<sup>6</sup>. The direction in which the swing will be harder and the amplitude longer, depends completely on the *competence of employees* and the competitiveness of business systems, products and services.

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<sup>5</sup> *Deindustrialization* – a relative decrease of the part of industry in the total number of employees and social product

<sup>6</sup> *Reindustrialization* – industrial development in altered conditions

## 2. THE FATE OF "LATE NATIONS" AND SERBIAN INDUSTRIALIZATION

The shadows of the fate of "late nations" still hang over the development space of Serbia. Opinions from the late 19th century which state that industry is "foreign" to Serbs (Vuco 1981) still echo, and Serbia feels all the hardships of "the late modernization of the European outskirts". At the end of the 19th century, the new industrial powers in Serbian society were "between rural and urban worlds, between countrified and manufacturing technology and modern machi-nism", remaining "an outskirt of Europe and its agrarian and raw reserve" (Indjic, 2009). Unfortunately, the 'tectonic' disruptions, such as international conflicts, civil an religious wars, did not stop in the 20th century, and the beginning of the 21st century is filled with doubts, anxiety and brittle development optimism.

Without going into the analysis of the genesis of Serbian industrialization, it is necessary to ponder that "modern technique, as well as a modern state, do not function in a world of localism, but in a world of global interdependence" (Indjic 2009).

If we add transition economy, devastation of industrial working class and population, mass immigration of young and qualified people, the situation becomes increasingly complicated. The restructuring of specific groups of industrial companies in Serbia, and the reindustrialization as a whole, become the 'new' strategic options, new programming concepts of development. Organizational practices would have to find ways of achieving business success by carrying out strategic options which were adjusted to times like these. The Missing development options or poorly chosen and/or poorly applied development options, fail to reduce entropy and pull the society along the development path. And in the same way "philosophy is not so much moved by problems, but by paradoxes" (Kozomara 2001), so too could the development adopt a similar moving mechanism.

## 3. MODERN ORGANIZATIONAL PRACTICES

Considering that the "drama of industrial development" takes place in a given sociocultural context, anything that involves changes, especially in business processes, cannot be done without affecting the population, primarily the employees.

Deindustrialization, reindustrialization, and *downsizing* and *outsourcing* in that context, have trapped and continue to trap employees between development options and existential needs. The primary goal of *downsizing* and *outsourcing* is to reduce a business system to the 'right measure'.

Finding the 'right measure' with *downsizing* demands surgical skill during the removal of workforce so that only the less successful and/or underqualified employees are removed. However, the result of a downsizing 'surgery' often fails to bring a business system to the desired state. Namely, "there are (arbitrary) dismissals of workers, unplanned delays, reductions in production scale, drastic reductions of financing in the areas of training, research, and development... The

business perspective fades out. The vision is drawing dangerously 'close' to us, whereas we should be approaching the vision" (Nikolic, Strak and Gujanica 2009).

It has become clear that the strategy of workforce reduction is frequently implemented in a reactive manner, as a means of reducing costs, and that it can serve as a short term reaction to an observed decrease in profit (Rayan and Macky 1998). Empiric research has shown that these "bomb-like" actions of *downsizing* are rarely successful and positive (Cameron 1994). It has been proven that the functioning of a business system deteriorates during and after conducting the process of *downsizing* (Cascio 1993), even though the business system should be very strong at that precise time. It has been proven that conducting the process of *downsizing* in business systems leads to an increase in rigidity (Cameron, Sutton and Whetton 1987), whereas it is the openness for new experience that is the priority in a time of crisis. The records suggest that the quality, productivity, and the level of service provided to customers often decrease, whereas financial performances often increase in the short term after conducting downsizing due to savings and lowered costs. However the performances decrease in the long term (Morris, Cascio and Young 1999). It has also been noticed that the trust within the organization decreases drastically (Buch and Aldridge 1991; Cascio 1993), and that this is directly connected with the increase of angst and insecurity with the employees (Buch and Aldridge 1991).

*Outsourcing* (**Outside Resource Using**) is an increasingly implemented organizational practice with the goal of reducing the company to the 'right measure', but unlike *downsizing*, the process of finding the right measure is based on relocating certain (critical) activities outside the company. This relocation refers to (or it should refer to) the *non-core* capabilities of the company. *Outsourcing* is the strategic use of outside resources for conducting activities which are under the authority of internal staff and internal resources.

Due to the ferocity of the global market, organizations accept these measures as a good way to improve their competitive positions. Namely, the business systems have discovered that they can reduce costs and maintain quality by relying on outside service providers to conduct additional activities of their basic functions.

The reasons for *outsourcing* implementation can vary, but the reduction of costs and the control of operational costs rank among the most frequent ones (Harland et al. 2005; Fill and Visser 2000). It is not possible to find fault with many of the aspects of these motives, but the key problem of the success of this strategic option lies in (faulty) recognition of activities that can be the subject of *outsourcing*. One of the biggest risks is the potential loss of competencies due to faulty identification of the "company's core competencies" (Harland et al. 2005). When staff members leave a company, they often take the intangible strategic capabilities which can be difficult to compensate (Anonymous 2005).

The human factor is the most critical determinant of a company's success. If the process of *outsourcing* is being conducted without a well-designed communica-

tion with the employees, the news of *outsourcing* will become a rumor which will increase insecurity among the employees, which in turn will lead to a decrease in the organization's motivation, and consequently, its productivity (Bonifazi, Desouza and Power 2004). Furthermore, certain studies on the successfulness of *outsourcing* give alarming results by indicating the "rate of discontent of companies concerning one or more aspects of their *outsourcing* relationship to be seventy percent. Today, the dominant impression among senior managers is that the negative consequences of outsourcing greatly exceed the advantages" (Kakabadse and Kakabadse 2002; According to: Popovic, Jasko and Prokic 2010).

The specified strategic options are the topic of numerous theoretical and practical deliberations and it would be questionable to shed light on deliberations that place these two options in a relation of close mutual connectivity. Furthermore, certain authors consider downsizing and outsourcing to be two closely connected activities where one can lead to the other, and vice versa (Elmuti 2003; Outlay and Ranganathan 2005; Maertz Jr. et al. 2010). According to their outlook, downsizing is not considered an "all or nothing" measure, and instead it appears in several forms: *layoffs*, *outsourcing*, and *offshoring*, where certain forms can endanger the employees' moral to a greater or lesser extent. One thing is certain: these restrictive measures have an equally negative effect, both on the laid off workers, and the workers who remain. In a situation like this, there are numerous factors that affect the employees' perception of their working environment and the hiring policies of a given organization. This relates to the management justness, empowerment, job satisfaction, job security, organizational performances, loyalty to the organization, etc. (Maertz Jr. et al. 2010).

The employees consider *outsourcing* to be a more benign measure than *offshoring*. The reason for this could be that *outsourcing* is perceived as a less dangerous business measure, or that *offshoring* is considered a less patriotic measure, or perhaps both. Also, Maertz emphasizes that employees who have been relocated to a different domestic (*outsourcing*) or foreign (*offshoring*) area, feel less motivated with a sense of undermined authority, and that they perceive the management's decisions as unfair (Maertz Jr., et al., 2010). The authors agree that, with preparatory planning, the implementatin of *outsourcing* can result in lowered costs, increased capacity and productivity, and that it sometimes leads to *downsizing* (Elmuti 2003; Outlay and Ranganathan 2005). The bulk of critiques directed at *outsourcing* concerns the question of change in the hiring pattern, workforce globalization, and the effect it has on individuals and organizations (Klass, McClendon and Gainey 2001).

Many of the efforts made produced devastating results and unplanned consequences that destroyed numerous systems. The list of negative effects of *downsizing* is long, and it inexorably points out that the effectiveness of this strategy's implementation is not at all impressive, and that not even the effects of *outsourcing* are exempt from this rule. The results of the *outsourcing* strategy can lead to a significant decrease in the employees' morale (Kennedy et al. 2002). The relocated and

unemployed workers are more likely to have family issues, instances of abuse, alcoholism, bankruptcy, divorce, etc. (Weidenbaum 2004).

On the other hand, there is an opinion that the main reasons of *outsourcing* activities (e.g. the reduction in workforce costs) are often exaggerated compared to other risks and problems (e.g. the protection of intellectual property, the quality and capability of providers) (Kumar and Eickhoff 2006). These trends result in the loss of capabilities for permanent employment, with the increasing number of workers with part-time jobs, contracts of lesser wages, without health or life insurance, severance pay, pension, etc. (Charara 2004). This leads to gradual changes in the structure of the working population where the majority of workforce will be under part-time, temporary, free, or independent contracts (Klass et al. 2001).

Therefore, *outsourcing* entails dramatic changes in the nature of business, control, and organizational design (Lever 1997; Klass et al. 2001), and it usually results in the loss of productivity. This kind of lowered productivity can deteriorate the already unacceptable level of performances and lead the organization to additional *outsourcing* (Lever 1997). The employees start to feel insignificant, useless, and the participation in their work groups gradually decreases, which can cause higher levels of anxiety and stress (Kennedy et al. 2002). Certain empiric research has shown that there is a high probability that dissatisfied workers will leave the organization after the implementation of the *outsourcing* strategy (Charara 2004).

The terms such as corporate *outsourcing*, *restructuring*, and *downsizing*, are just “euphemisms used by management which concedes it has to lay off individuals” (Outlay & Ranganathan, 2005).

The authors do not deny that there are certain positive effects of the overturn and fluctuations with the employees, or the wise reduction of the organization by relocating *non-core* activities. Each organization needs ‘refreshing’ from time to time, which is often done by hiring new people with new ideas and new experience, or by reducing the level of responsibility and effectively focusing on key activities. However, the arguments against the high overturn and fluctuations with the employees, or the loss of competencies, are equally persuasive. When the notion that this state of affairs is considered equal to bad management is added, the image of the business system becomes seriously jeopardized. One thing is certain: conducting every strategic option, including *downsizing* and *outsourcing*, perceived as independent or interdependent strategic option, must be a result of deliberation placed in a wide development frame, by contrasting multidisciplinary attitudes, keeping in mind that people are the key development capital.

#### 4. CONCLUSION

Considering the given strategic options, *downsizing* and *outsourcing*, imply the application of a high level of knowledge and organization, the employees and their competencies come into focus of business success. Business system becomes all the more vulnerable, which is no surprise when we know that, as a rule, restrictions hit

the "brain of the company". Wealth is not made by non-selective expenses reduction and employee sacking. What the strategic options that have not been thought through actually do, like a luggage they carry with them or leave behind, is the irreversible destruction of "intangible" advantage sources. On the other hand, as soon as the moral and the motivation of people fail, all the perplexities, tensions and problems we have not even dreamed about surface, come out in the open and present barriers to the development processes. One thing is certain, carrying out of every strategic option, even *downsizing* and *outsourcing*, must be a result of thinking done with a broad developmental frame in mind, confronting multidisciplinary attitudes among themselves, and not forgetting that it is the people who are the key capital for development.

There is one thing that everyone agrees on - Serbian industry has lost the game. There is a long list of imbalances and system deficiencies. A conclusion intrudes that claims the source of (Serbian) failure is, in its essence, a matter of *missed opportunities, wrong decisions and late solutions*. Considering that, as Titus Lucretius Carus was writing (1938), "the whole of human civilization was created by intellect", then "the intellect should preserve it as well".

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