

# “The Relationship between Downsizing and Financial Performance of Turkish Banks”

<b>AUTHORS</b>	Özlem Özkanlı Mete Bumin
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# THE RELATIONSHIP BETWEEN DOWNSIZING AND FINANCIAL PERFORMANCE OF TURKISH BANKS

Ozlem Ozkanli, Mete Bumin

## Abstract

Downsizing is the systematic reduction of work force which is often used during economic crisis in order to increase productivity, efficiency, profitability and competitiveness of firms. In literature many studies examine the positive and negative effects of downsizing on firms. The economic crisis in Turkey that emerged in November 2000 and February 2001 caused downsizing in banking sector broadly. The main aim of the study is to examine the relationship between downsizing and financial performance of Turkish banks. The scope of the study is deposit accepting banks operating in Turkey. There is a great amount of decrease in the number of employees working at banks between 2000 and 2003. In this study, the pre and after downsizing performance of the banks is measured by using Paired Samples T-Test. According to the hypothesis test results, there is no significant difference between the profitability of Turkish banks before and after downsizing. Four of the performance variables in hypotheses did not reveal any significant relation between downsizing and performance. Turkish banks could not achieve the intended results by downsizing between 2000 and 2003. In order to increase performance of the Turkish banks, it is necessary for the bank managers to consider alternative tools of Human Resources Management. Instead of downsizing different alternative methods such as reducing work hours/weeks, voluntary resignation, early retirement programs, low wages, natural attrition, salary cuts, mandatory vacation, voluntary sabbaticals, redeployment, freezing recruitment, disengaging contractors and other flexible workers, reducing overtime, secondments, career breaks and introducing more flexible working patterns such as job sharing and part-time work can be realized.

**Key words:** Economic Crisis, Downsizing, Financial Performance, Layoff Survivor's Syndrome.

**JEL Classification:** G21.

## 1. Introduction

The economic crisis in Turkey that emerged in November 2000 and February 2001 caused downsizing in banking sector broadly. Whether called downsizing, right sizing or layoffs massive job losses have shaken up the banking sector. Bad economic conditions of the country bring financial problems and lack of work to banks in Turkey. Downsizing has been an important reality for bank managers in order to decrease the costs and increase in profits through increase in productivity. Against economic crisis the primary strategy in downsizing is work force reduction. Most downsizing firms use work force reduction as a first resort (Cameron, Freeman and Mishra, 1991).

The paper is organized as follows. In the first section, it begins with an overview of downsizing and clarifies the concept in the light of the recent literature search. The second section briefly explains research methodology. In the third section, the findings of the study are summarized. Finally, some implications for this research along with the limitations are suggested and brief discussion of the findings is presented.

Downsizing has become one of the perpetual trends in the business world since the 1980s (McKee-Ryan and Kinicki, 2002; Landry, 2004). Downsizing can be defined as set of activities designed to improve organizational effectiveness and competitiveness. Downsizing describes the process in which firms remove temporarily or indefinitely a number of employees from their payroll. The general purpose is to reduce the firm's burden of excess labour costs. Amabile and Conti (1995) defined downsizing as an international management action involving a reduction in force and designed to improve a company's competitive position. The studies under core downsizing's technical-economic and human dysfunctions (De Meuse, Vanderheiden and Bergmann, 1994; Dougherty

and Bowman, 1995). Budros (1997) offered some systematic thoughts on the causes of downsizing. Previous research suggests that downsizing is affected by a variety of factors in a firm's internal and external environments (Bruton, Keels and Shook, 1996; London, 1996; McKinley, Sanchez, and Schick, 1995; Mirvis, 1997; Mishra and Spreitzer, 1998; O'Neill and Lenn, 1995). Scholars (Cascio, 1993; De Witt, 1993; Freeman and Cameron, 1993) have focused almost exclusively on rational causes of downsizing.

In literature some studies examine the results of effective management in downsizing process. Downsizing should lead to lower overheads, less bureaucracy, faster and smoother decision-making and overall increase in productivity levels (Cascio, 1993; Kets de Vries and Balazs, 1996). One of the researches on downsized firms indicates that some of the firms could increase their operating performance (Espahbodi, John and Vasudevan, 2000). Ballester et al. (1999) found evidence that firms that downsized employees while increasing capital expenditures did improve their financial performance. Chalos and Chen (2002) reveal that changes in firm financial performance subsequent to layoffs generally corroborate. An institutional framework (McKinley, Sanchez, and Schick, 1995) suggests that firms do not adopt downsizing because of its "effectiveness". Downsizing, once viewed negatively, and then becomes interpreted positively and gains legitimacy. Other researches show that after downsizing financial performance of firms' decreases (De Meuse, Vanderheiden and Bergmann, 1999; Filardo, 1995; Godkin, Valentine and St. Pierre, 2002; Hitt et al., 1994; Abbasi and Hollman, 1998; Godkin, Valentine and St. Pierre, 2002; Kinnie, Hutchinson and Purcell, 1998; Karake, 1998; Raj and Forsyth, 2002). De Meuse, Vanderheiden and Bergmann (1994) examined Fortune 100 organizations' financial performance over 5 years and found that profitability and many financial figures had diminished. Downs (1995) showed that a large sample of downsized firms did not experience desired increases in profitability and productivity. In a downsizing study conducted by the American Management Association in 1994, a majority of the personnel managers surveyed claimed that downsizing did not enhance productivity or morale (Madrack, 1995). Downsizing may not necessarily raise levels of productivity, but rather lead to a decline or stagnation in productivity (Cascio, 1993). The study of Cascio et al. (1997) about the impact of downsizing over a period of 15 years on performance found that, in all firms studied, reduction in employment was not translated into improvement in performance. Here is thus little evidence that downsizing improves long-run profitability and financial performance (Cascio, 2002). Mentzer (1996) found no consistent association between post and future profits and magnitude of employee downsizing. Rowley and Warner (2004), Benson and Debroux (2004), Orawan and Tsang (2004) determined the impact of Asian financial crisis on human resource management. The study of Sahdev, Vinnicombe and Tyson (1999) suggests that downsizing has had a positive impact on the role and positioning of the human resource function. Bolulu (2001) investigated the role of human resource management in downsizing environment of Turkish banks. Coşkun (2001) examined the effects of downsizing on financial performance of firms traded on the Istanbul Stock Exchange and found out that most of the firms could not achieve expected outcomes.

Although layoff causes many problems, managers choose this method in order to improve competitiveness. Atwood, Coke and Copper (1995) found that most of the desired outcomes of layoffs are not achieved at firms.

Table 1

## Outcomes of Using Layoffs to Increase Organizational Competitiveness

Desired Outcomes	Percent of Firms that Achieved Desired Goals (%)
Reduced Expenses	46
Increased Profits	32
Improved Cash Flow	24
Increased Productivity	22
Increased Competitive Advantage	19

Table 1 (continuous)

Desired Outcomes	Percent of Firms that Achieved Desired Goals (%)
Reduced Bureaucracy	17
Improved Decision Making	14
Increased Customer Satisfaction	14
Increased Sales	13
Increased Market Share	12
Improved Product Quality	9
Technological Advances	9
Increased Innovation	7
Advance of a Takeover	6

Source: Jane Atwood, Ethel Coke, Christine Copper, "Has downsizing go far?", <http://www.brigadoon.com/iopsych/downsize.html>, 1995, p. 20.

The negative effects of downsizing on laid off and survivors are very important. A study of downsizing (Cameron, 1996) has shown that laid off people define downsizing as unfair, unethical and hurtful. Downsizing brings chaos not only to the employee, but also to the employee's family, eventually affecting the entire society. Nevertheless, losing valuable workers and loyalty of employees is a critical negative effect of downsizing for firms.

On the other hand, remaining employees are also affected by downsizing. Some researches indicate that downsizing effects psychological and physical health of employees negatively (Naumann, Bies and Martin, 1995; Mckee-Ryan and Kinicki, 2002; Kinicki, Prussia and McKee-Ryan, 2000; Armstrong-Stassen, 2006; Begley, 1998; Havlovic, Bouthillette and Van de Wal, 1998; Terry, Callan, Sartori, 1996; Terry and Callan, 1997; Laabs, 1999; Henkoff, 1994; Eby and Buch, 1994). Employee losses can adversely affect the performance of groups (Fisher and White, 2000). Kim (2003) deals with layoff survivor's syndrome after downsizing and the research focuses on the negative socio-psychological impact of downsizing on layoff survivors. Recent research has paid increasing attention to "survivors' syndrome" (Brockner, 1992; Kozolowski et al., 1993; Zeitlin, 1995). Research suggests that downsizing negatively influences job satisfaction and commitment among workers and creates communication barriers within the organization (Cole, 1993).

According to Fisher, Schsenfeldt and Shaw (1996), after layoffs remaining employees have feelings of job insecurity, depression, fear, anger and anxiety, lose their trust and loyalty to firms, and have lower job satisfaction, morale and performance. As a result of these feelings health problems occur, absenteeism and conflicts in social relations increase. How survivors cope with organisational downsizing has been shown to influence how adversely they are affected by the downsizing (Armstrong-Stassen, 1994 and 2006; Begley, 1998; Havlovic, Bouthillette and van der Wal, 1998; Teery and Callan, 1997).

Table 2 shows the negative attributes in firms after downsizing (Atwood, Coke and Copper, 1995). Negative employee attitudes affect the success of downsizing. Ferris, Rosen and Barunm (1995) found that nearly 68% of downsizing is not successful. In order to downsize successfully, the criterion of layoff is very important. The most common used criteria are employee seniority and ability.

Anthony, Perrewe and Kacmar (1996) defined employee seniority as the length of time that each employee has been with the firm. However, choosing seniority as a criterion has a serious disadvantage. According to Dubrin (1996), it ignores completely job performance and skills of employees.

In the second system, firms layoff employees based on their skill levels and productivities. In this strategy, the aim of the managers is to keep best workers in the firm.

Table 2

## Negative Attributes of Downsizing

Attribute	Explanation
Centralization	Decision making is done by top management, employees do not commit in decisions.
Short-term Crisis Mentality	Focus is on immediacy and long-term planning is rejected.
Loss of Innovativeness	Gives less tolerance to make creative activities as they can face risk and failure.
Resistance to Change	Conservation and the "threat-rigidity" responses take place.
Decreasing Morale	Through organization a "mean mood" expands.
Loss of Trust	Distrust of subordinates increases within firm.
Restricted Communication	Information isn't shared properly, only good news is passed.
Lack of Team Work	Team work is difficult because of individualism.
Increasing Conflict	Internal competition grows and conflicts are seen more.

Source: Jane Atwood, Ethel Coke, Christine Copper, "Has downsizing go far?", <http://www.brigadoon.com/iopsych/downsize.html>, 1995, p. 21.

Outplacement programs, career counselling and severance pay are also essential to minimize these negative effects. Outplacement programs involve job coaching, resume preparations and outplacement services (Bernardin and Russell, 1998). Severance pay is a payment based on employees' years of servicing to organizations and salary in a lay-off situation (Anthony, Perrewe and Kacmar, 1996). Furthermore, effective communication with employees, empowerment, organizational justice, sharing the reasons of downsizing and firm's new vision can help survivors adapting to changing conditions. Bradford (1997) determines that effective communication before, during and after the downsizing will help to foster a sense of opportunity rather than relief.

Unfortunately, despite layoff should be considered as a "last resort", a study (Noe, Hellenbeck, Gerhart and Wright, 1997) shows that only 6% of 909 firms cut pay to reduce expenses, 9% reduced weeks, 14% developed job sharing plans.

## 2. Research Methodology

The main aim of the study is to examine the relationship between downsizing and financial performance of Turkish banks. The hypotheses developed are tested in the study. The scope of the study is deposit accepting banks operating in Turkey. The list of the banks is taken from "Banks in Turkey" published by the Banks Association of Turkey. It can also be found on the web site of the Association.

There is a great amount of decrease in the number of employees working at banks between 2000 and 2003. In literature, in order to be accepted as downsizing, a firm should decrease work force 10% or above annually compared with the previous year (Coskun and Bilgili, 2001). In the study, the banks that meet this condition are chosen. Between 2000 and 2003, 17 banks decreased their work force 10% or above. Since 5 banks performed downsizing two times in consecutive years, the sample of the study contains 22 observations.

To test the relationship between downsizing and the financial performance of Turkish banks, six hypotheses are defined. The hypotheses 1 and 2 aim to test the relationship between downsizing and employee efficiency, hypotheses 3 and 4 test the relationship between downsizing and profitability, hypotheses 5 and 6 test the relationship between downsizing and asset quality. The study attempts to analyse following hypotheses:

**Employee Efficiency**

Hypothesis 1: Downsizing increases the loans per number of employee ratio.

Hypothesis 2: Downsizing increases the deposits per number of employee ratio.

**Profitability**

Hypothesis 3: Downsizing increases the return on asset.

Hypothesis 4: Downsizing increases the return on equity.

**Asset Quality**

Hypothesis 5: Downsizing increases the loans to assets ratio.

Hypothesis 6: Downsizing decreases the non-performing loans to loans ratio.

By using the data of the Turkish banks extracted from their financial statements, following six variables are determined to test the hypotheses:

1. Loans/Number of Employee
2. Deposits/Number of Employee
3. Net Income/Assets
4. Net Income/Equity
5. Loans/Assets
6. Non-Performing Loans/Loans

The banks that experienced downsizing between 2000-2003 are stated in Table 3. The data of banks are deflated by price indexes in order to find out the real values.

Table 3

Downsized Banks Between 2000-2003

	Banks	Number of Employees	Number of Employees	Change (%)
		2000	2001	2000-2001
1	Alternatif Bank A.S.	738	635	13,96
2	Finans Bank A.S.	2.324	2.070	10,93
3	Mng Bank A.S.	332	147	55,72
4	Sekerbank T.A.S.	3.029	2.614	13,70
5	Tekstil Bankasi A.S.	1.033	649	37,17
6	Bayindirbank A.S.	486	414	14,81
7	Arap Turk Bankasi A.S.	197	172	12,69
8	Abn Amro Bank N.V.	145	127	12,41
9	Credit Lyonnais Turkey	40	35	12,50
	Banks	Number of Employees	Number of Employees	Change (%)
		2001	2002	2001-2002
10	T.C. Ziraat Bankasi A.S.	33.023	23.330	29,35
11	T. Halk Bankasi A.S.	14.956	9.228	38,30
12	Alternatif Bank A.S.	635	486	23,46
13	Banca di Roma S.P.A.	40	31	22,50
14	Credit Lyonnais Turkey	35	29	17,14
15	JPMorgan Chase Bank	54	43	20,37
16	WestLB AG	84	75	10,71

Table 3 (continuous)

	Banks	Number of Employees		Change (%)
		2002	2003	2002-2003
17	Tekfenbank A.S.	654	563	13,91
18	Bayindirbank A.S.	912	478	47,59
19	Pamukbank T.A.S.	4.974	4.040	18,78
20	Bnp-Ak Dresdner Bank A.S.	105	74	29,52
21	JPMorgan Chase Bank	43	35	18,60
22	WestLB AG	75	64	14,67

Table 4 shows the downsized banks between 2001-2003. During these years, 8 banks experienced downsizing. The percentage change of the number of employees of banks varies between 24% and 43% in this period.

Table 4

## Downsized Banks Between 2001-2003

	Banks	Number of Employees		Change (%)
		2001	2003	2001-2003
1	T.C. Ziraat Bankasi A.S.	33.023	22.138	32,96
2	T. Halk Bankasi A.S.	14.956	8.515	43,07
3	Alternatif Bank A.S.	635	482	24,09
4	Pamukbank T.A.S.	5.425	4.040	25,53
5	Bnp-Ak Dresdner Bank A.S.	106	74	30,19
6	Banca di Roma S.P.A.	40	29	27,50
7	JPMorgan Chase Bank	54	35	35,19
8	WestLB AG	84	64	23,81

To test the hypotheses, the data of the years that downsizing took place (t) and the following year after downsizing (t+1) are evaluated by using Paired Samples T-Test. This test compares the means of two variables. It computes the difference between the two variables for each case and tests to see if the average difference is significantly different from zero.

### 3. Findings

#### 3.1. Employee Efficiency

Findings reveal the relationship between downsizing and financial performance of Turkish banks and the results of hypotheses tests. Employee efficiency shows how the banks use their human resources effectively in performing banking activities. Many studies have been done to evaluate the efficiency of the Turkish banking system. Scholars analyzed the financial performance of Turkish banks between 1988-1993 by using 9 ratios, 3 of them measured the efficiency of the banks (Altunbaş and Molyneux, 1995). By taking into consideration that loans and deposits are the most important components of the balance sheets of the banks, loans/number of employee ratio (H1) and deposits/number of employee ratio (H2) are used to measure the employee efficiency in this study. Table 5 shows the employee efficiency of downsized banks by taking the loans/number of employee variable.

Table 5

## Employee Efficiency of Downsized Banks (H1: Loans/Number of Employees)

	Banks		Loans/No. Of Employees (t)	Loans/No. Of Employees (t+1)	Loans/No. Of Employees (Difference)
1	Alternatif Bank A.S.	t=2000	8,8987	6,6608	-2,2379
2	Finans Bank A.S.	t=2000	6,3805	8,8326	2,4521
3	Mng Bank A.S.	t=2000	2,5541	2,2186	-0,3356
4	Sekerbank T.A.S.	t=2000	2,4432	1,9443	-0,4989
5	Tekstil Bankasi A.S.	t=2000	3,9638	3,1746	-0,7892
6	Bayindirbank A.S.	t=2000	2,8245	7,6810	4,8565
7	Arap Turk Bankasi A.S.	t=2000	4,0282	3,5918	-0,4365
8	Abn Amro Bank N.V.	t=2000	5,0582	9,7045	4,6463
9	Credit Lyonnais Turkey	t=2000	0,7173	0,4784	-0,2389
10	T.C. Ziraat Bankasi A.S.	t=2001	2,4753	5,8633	3,3879
11	T. Halk Bankasi A.S.	t=2001	1,4984	4,3710	2,8726
12	Alternatif Bank A.S.	t=2001	6,6608	18,5376	11,8768
13	Banca di Roma S.P.A.	t=2001	6,5558	22,4308	15,8749
14	Credit Lyonnais Turkey	t=2001	0,4784	0,6142	0,1358
15	JPMorgan Chase Bank	t=2001	0,0303	0,0000	-0,0303
16	WestLB AG	t=2001	21,8047	72,1091	50,3044
17	Tekfenbank A.S.	t=2002	6,7548	15,7680	9,0133
18	Bayindirbank A.S.	t=2002	6,9087	3,6190	-3,2897
19	Pamukbank T.A.S.	t=2002	11,1943	9,1735	-2,0207
20	Bnp-Ak Dresdner Bank A.S.	t=2002	15,1993	16,5438	1,3445
21	JPMorgan Chase Bank	t=2002	0,0000	0,0000	0,0000
22	WestLB AG	t=2002	72,1091	74,0217	1,9126

Table 5 shows that downsizing improved the loans/number of employee ratio of 12 banks. During this period, 9 banks' employee efficiency ratio deteriorated after downsizing. However, to test the difference between two periods statistically, Paired Samples T-Test is applied. The results of the Paired Samples T-Test of employee efficiency can be seen in Table 6.

Table 6

## Paired Samples T-Test of Employee Efficiency (H1: Loans/Number of Employees)

	Paired Differences				t	df	Sig. (2-tailed)	
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower				Upper
Pair Loans/Employee (t)- 1 Loans/Employee (t+1)	-4,49105	11,251729	2,398877	-9,47978	,49769	-1,872	21	,075

According to the results of the Paired Samples T-Test, it is found that there is no significant difference between the loans/number of employee ratio of Turkish banks before and after downsizing.

H1: No support is found for the relationship between downsizing and the loans per number of employee ratio. The hypothesis is not supported.



Second variable for testing the employee efficiency is deposits/number of employees ratio. Table 7 shows the employee efficiency of downsized banks by taking this ratio.

Table 7

## Employee Efficiency of Downsized Banks (H2: Deposits/Number of Employees)

	Banks		Deposits/No. of Employees (t)	Deposits/No. of Employees (t+1)	Deposits/No. of Employees (Difference)
1	Alternatif Bank A.S.	t=2000	9,785	26,567	16,782
2	Finans Bank A.S.	t=2000	9,091	22,542	13,450
3	Mng Bank A.S.	t=2000	2,743	5,916	3,173
4	Sekerbank T.A.S.	t=2000	5,544	12,195	6,651
5	Tekstil Bankasi A.S.	t=2000	8,008	31,168	23,160
6	Bayindirbank A.S.	t=2000	10,260	48,609	38,349
7	Arap Turk Bankasi A.S.	t=2000	6,693	4,933	-1,760
8	Abn Amro Bank N.V.	t=2000	3,358	11,726	8,368
9	Credit Lyonnais Turkey	t=2000	1,306	2,287	0,981
10	T.C. Ziraat Bankasi A.S.	t=2001	11,872	40,348	28,476
11	T. Halk Bankasi A.S.	t=2001	13,077	41,839	28,763
12	Alternatif Bank A.S.	t=2001	26,567	58,965	32,399
13	Banca di Roma S.P.A.	t=2001	6,454	18,293	11,839
14	Credit Lyonnais Turkey	t=2001	2,287	4,693	2,406
15	JPMorgan Chase Bank	t=2001	1,520	4,969	3,449
16	WestLB AG	t=2001	5,856	59,813	53,957
17	Tekfenbank A.S.	t=2002	22,549	41,742	19,194
18	Bayindirbank A.S.	t=2002	34,934	27,607	-7,326
19	Pamukbank T.A.S.	t=2002	39,520	61,422	21,903
20	Bnp-Ak Dresdner Bank A.S.	t=2002	60,081	126,940	66,859
21	JPMorgan Chase Bank	t=2002	4,969	11,278	6,309
22	WestLB AG	t=2002	59,813	65,370	5,557

Table 7 shows that downsizing improved the employee efficiency sharply. 20 banks' deposits/number of employees ratio improved after downsizing. However, to test the difference between two periods statistically, Paired Samples T-Test is applied. The results of the Paired Samples T-Test of employee efficiency can be seen in Table 8.

Table 8

## Paired Samples T-Test of Employee Efficiency (H2: Deposits/Number of Employees)

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair Deposits/Employee (t)-1 Deposits/Employee (t+1)	-17,40614	18,42882	3,929051	-25,57705	9,23523	-4,430	21	,000

According to the results of the Paired Samples T-Test, it is found that there is significant difference between the deposits/number of employees ratio of Turkish banks before and after downsizing.

H2: Support is found for the relationship between downsizing and the deposits per number of employees ratio. The hypothesis is supported.

### 3.2. Profitability

In this study, profitability in banking system is measured by return on assets ratio (H3) and return on equity ratio (H4). Net income/assets ratio is a useful indicator of how profitable a bank is relative to its total assets. It also gives an idea as to how well the bank is able to use its assets to generate income. In a study, return on asset ratio is used to measure the profitability of the Turkish banks for studying the relationship between ownership structure and performance of Turkish banks (Dagli, 1995). Table 9 shows the profitability of downsized banks by taking the net income/assets variable.

Downsizing and profitability relationship has mixed records. As it can be seen from Table 9, the net income/assets ratios of 10 banks increased and the net income/assets ratios of 12 banks decreased between 2000-2003. The results of Paired Samples T-Test of profitability can be seen in Table 10.

Table 9

Profitability of Downsized Banks (H3: Net Income/Assets)

	Banks		Net Income/Assets (t)	Net Income/Assets (t+1)	Net Income/Assets (Difference)
1	Alternatif Bank A.S.	t=2000	0,0174	-0,1827	-0,2001
2	Finans Bank A.S.	t=2000	0,0354	-0,0920	-0,1274
3	Mng Bank A.S.	t=2000	0,0005	-0,4148	-0,4153
4	Sekerbank T.A.S.	t=2000	0,0024	-0,0840	-0,0864
5	Tekstil Bankasi A.S.	t=2000	0,0313	-0,1342	-0,1655
6	Bayindirbank A.S.	t=2000	0,0035	-0,0616	-0,0650
7	Arap Turk Bankasi A.S.	t=2000	0,0186	-0,0244	-0,0430
8	Abn Amro Bank N.V.	t=2000	0,1615	0,0403	-0,1213
9	Credit Lyonnais Turkey	t=2000	0,1264	-0,0695	-0,1959
10	T.C. Ziraat Bankasi A.S.	t=2001	-0,0024	0,0041	0,0066
11	T. Halk Bankasi A.S.	t=2001	-0,0583	0,0341	0,0924
12	Alternatif Bank A.S.	t=2001	-0,1827	0,0081	0,1908
13	Banca di Roma S.P.A.	t=2001	-0,0440	-0,0264	0,0176
14	Credit Lyonnais Turkey	t=2001	-0,0695	-0,0797	-0,0102
15	JPMorgan Chase Bank	t=2001	-0,0421	0,0243	0,0664
16	WestLB AG	t=2001	-0,0322	0,0169	0,0491
17	Tekfenbank A.S.	t=2002	0,0299	0,0127	-0,0172
18	Bayindirbank A.S.	t=2002	0,1086	0,1282	0,0196
19	Pamukbank T.A.S.	t=2002	-0,2599	-0,0015	0,2584
20	Bnp-Ak Dresdner Bank A.S.	t=2002	0,0463	0,0820	0,0357
21	JPMorgan Chase Bank	t=2002	0,0243	0,1466	0,1223
22	WestLB AG	t=2002	0,0169	0,0052	-0,0117

Table 10

Paired Samples T-Test of Profitability (H3: Net Income/Assets)

	Paired Differences				t	df	Sig. (2-tailed)	
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower				Upper
Pair Income/Assets(t)-1 Income/Assets(t+1)	,02727	,145227	,030962	-,03712	,09166	,881	21	,388

According to the results of the Paired Samples T-Test, it is found that there is no significant difference between the return on asset ratio of Turkish banks before and after downsizing.

H3: No support is found for the relationship between downsizing and the return on asset. The hypothesis is not supported.

Second variable for testing the profitability is net income/equity ratio. Table 11 shows the profitability of downsized banks by taking this ratio.

Table 11

## Profitability of Downsized Banks (H4: Net Income/Equity)

	Banks		Net In- come/Equity (t)	Net Income/Equity (t+1)	Net Income/Equity (Difference)
1	Alternatif Bank A.S.	t=2000	0,090	-0,027	-0,117
2	Finans Bank A.S.	t=2000	0,074	0,079	0,005
3	Mng Bank A.S.	t=2000	0,255	0,242	-0,013
4	Sekerbank T.A.S.	t=2000	0,083	0,025	-0,058
5	Tekstil Bankasi A.S.	t=2000	0,094	0,008	-0,086
6	Bayindirbank A.S.	t=2000	0,138	0,381	0,243
7	Arap Turk Bankasi A.S.	t=2000	0,064	0,195	0,130
8	Abn Amro Bank N.V.	t=2000	0,136	0,329	0,193
9	Credit Lyonnais Turkey	t=2000	0,114	0,277	0,163
10	T.C. Ziraat Bankasi A.S.	t=2001	0,119	0,110	-0,008
11	T. Halk Bankasi A.S.	t=2001	0,061	0,105	0,044
12	Alternatif Bank A.S.	t=2001	-0,027	0,033	0,059
13	Banca di Roma S.P.A.	t=2001	0,196	0,167	-0,029
14	Credit Lyonnais Turkey	t=2001	0,277	0,302	0,024
15	JPMorgan Chase Bank	t=2001	0,554	0,388	-0,166
16	WestLB AG	t=2001	0,111	0,095	-0,016
17	Tekfenbank A.S.	t=2002	0,109	0,131	0,022
18	Bayindirbank A.S.	t=2002	0,167	0,409	0,242
19	Pamukbank T.A.S.	t=2002	-0,209	-0,353	-0,145
20	BNP-Ak Dresdner Bank A.S.	t=2002	0,216	0,305	0,089
21	JPMorgan Chase Bank	t=2002	0,388	0,732	0,343
22	WestLB AG	t=2002	0,095	0,088	-0,006

Downsizing and profitability relationship has also interesting records with the net income/equity ratio. As it can be seen from Table 11, the net income/equity ratios of 12 banks increased and the net income/equity ratios of 10 banks decreased between 2000-2003. The results of Paired Samples T-Test of profitability can be seen in Table 12.

Table 12

## Paired Samples T-Test of Profitability (H4: Net Income/Equity)

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. De- viation	Std. Error Mean	95% Confidence Interval of the Differ- ence				
				Lower	Upper			
Pair Net Income/Equity (t)- 1 Net Income/Equity (t+1)	-,04045	,132861	,028326	-,09936	,01845	-1,428	21	,168

According to the results of the Paired Samples T-Test, it is found that there is no significant difference between the return on equity ratio of Turkish banks before and after downsizing.

H4: No support is found for the relationship between downsizing and the return on equity. The hypothesis is not supported.

### 3.3. Asset Quality

Asset quality is an important factor for the financial soundness of the banks. Various ratios are used to measure asset quality of the banks. One of them is the loans to assets ratio which shows how the banks perform their intermediary functions effectively. The other one is the ratio of non-performing loans to loans. Non-performing loans are defined as the loans whose collection of principal and interest has been delayed for more than a specified time from the due date. Non-performing loans/loans ratio is used in a research to analyze the performance of Turkish banks between 1988-1996 (Emir, 1999). In this study, asset quality is measured by loans/assets ratio (H5) and non-performing loans/loans ratio (H6). Table 13 shows the asset quality of downsized banks by loans/assets ratio.

Table 13

Asset Quality of Downsized Banks (H5: Loans/Assets)

	Banks		Loans/Assets (t)	Loans/Assets (t+1)	Loans/Assets (Difference)
1	Alternatif Bank A.S.	t=2000	0,397	0,201	-0,196
2	Finans Bank A.S.	t=2000	0,288	0,278	-0,010
3	Mng Bank A.S.	t=2000	0,497	0,234	-0,264
4	Sekerbank T.A.S.	t=2000	0,342	0,146	-0,197
5	Tekstil Bankasi A.S.	t=2000	0,279	0,087	-0,192
6	Bayindirbank A.S.	t=2000	0,207	0,083	-0,123
7	Arap Turk Bankasi A.S.	t=2000	0,127	0,180	0,053
8	Abn Amro Bank N.V.	t=2000	0,181	0,276	0,095
9	Credit Lyonnais Turkey	t=2000	0,066	0,064	-0,002
10	T.C. Ziraat Bankasi A.S.	t=2001	0,146	0,108	-0,038
11	T. Halk Bankasi A.S.	t=2001	0,076	0,069	-0,007
12	Alternatif Bank A.S.	t=2001	0,201	0,214	0,013
13	Banca di Roma S.P.A.	t=2001	0,254	0,314	0,060
14	Credit Lyonnais Turkey	t=2001	0,064	0,066	0,002
15	JPMorgan Chase Bank	t=2001	0,000	0,000	-0,000
16	WestLB AG	t=2001	0,593	0,560	-0,033
17	Tekfenbank A.S.	t=2002	0,231	0,271	0,040
18	Bayindirbank A.S.	t=2002	0,053	0,015	-0,039
19	Pamukbank T.A.S.	t=2002	0,285	0,138	-0,147
20	Bnp-Ak Dresdner Bank A.S.	t=2002	0,107	0,053	-0,053
21	JPMorgan Chase Bank	t=2002	0,000	0,000	0,000
22	WestLB AG	t=2002	0,560	0,234	-0,325

During this period, only 6 banks improved their asset quality. The results of Paired Samples T-Test of asset quality can be seen in Table 14.

Table 14

## Paired Samples T-Test of Asset Quality (H5: Loans/Assets)

	Paired Differences				t	df	Sig. (2-tailed)	
	Mean	Std. De- viation	Std. Error Mean	95% Confidence Interval of the Differ- ence				
				Lower				Upper
Pair Loans/Assets (t)- 1 Loans/Assets (t+1)	,06195	,112533	,023992	,01206	,11185	2,582	21	,017

According to the results of the Paired Samples T-Test, it is found that there is significant difference between the loans to assets ratio of Turkish banks before and after downsizing.

H5: Support is found for the relationship between downsizing and the loans to assets ratio. The hypothesis is supported.

Second variable for testing the asset quality is non-performing loans/loans ratio. Table 15 shows the asset quality of downsized banks by taking this ratio.

According to Table 15 the asset quality of 14 banks was deteriorated between 2000-2003. During this period, only 6 banks improved their asset quality. The results of Paired Samples T-Test of asset quality can be seen in Table 16.

According to the results of the Paired Samples T-Test, it is found that there is no significant difference between the non-performing loans to loans ratio of Turkish banks before and after downsizing.

H6: No support is found for the relationship between downsizing and the non-performing loans to loans ratio. The hypothesis is not supported.

Table 15

## Asset Quality of Downsized Banks (H6: Non-Performing Loans/Loans)

	Banks		Non-Perf. Lo./Lo. (t)	Non-Perf. Lo./Lo. (t+1)	Non-Perf. Lo./Lo. (Difference)
1	Alternatif Bank A.S.	t=2000	0,033	0,326	0,2934
2	Finans Bank A.S.	t=2000	0,019	0,158	0,1390
3	Mng Bank A.S.	t=2000	0,029	0,741	0,7126
4	Sekerbank T.A.S.	t=2000	0,113	0,398	0,2848
5	Tekstil Bankasi A.S.	t=2000	0,011	0,056	0,0449
6	Bayindirbank A.S.	t=2000	0,061	0,091	0,0299
7	Arap Turk Bankasi A.S.	t=2000	0,150	0,397	0,2473
8	Abn Amro Bank N.V.	t=2000	0,173	0,337	0,1634
9	Credit Lyonnais Turkey	t=2000	0,285	0,799	0,5144
10	T.C. Ziraat Bankasi A.S.	t=2001	0,527	0,609	0,0816
11	T. Halk Bankasi A.S.	t=2001	0,947	0,953	0,0060
12	Alternatif Bank A.S.	t=2001	0,326	0,247	-0,0789
13	Banca di Roma S.P.A.	t=2001	0,217	0,137	-0,0802
14	Credit Lyonnais Turkey	t=2001	0,799	0,189	-0,6104
15	JPMorgan Chase Bank	t=2001	0,000	0,000	0,0000
16	WestLB AG	t=2001	0,030	0,017	-0,0125

Table 15 (continuous)

	Banks		Non-Perf. Lo./Lo. (t)	Non-Perf. Lo./Lo. (t+1)	Non-Perf. Lo./Lo. (Difference)
17	Tekfenbank A.S.	t=2002	0,102	0,044	-0,0577
18	Bayindirbank A.S.	t=2002	1,714	4,141	2,4273
19	Pamukbank T.A.S.	t=2002	0,968	1,017	0,0485
20	Bnp-Ak Dresdner Bank A.S.	t=2002	0,152	0,000	-0,1524
21	JPMorgan Chase Bank	t=2002	0,000	0,000	0,0000
22	WestLB AG	t=2002	0,017	0,032	0,0148

Table 16

Paired Samples T-Test of Asset Quality (H6: Non-Performing Loans/Loans)

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair Non-Perf.Lo/Loans (t)- 1 Non-Perf.Lo/Loans (t+1)	-,18255	,561730	,119761	-,43160	,06651	-1,524	21	,142

#### 4. Discussion

In this study whether Turkish banks achieved the intended results by downsizing is examined. The findings focus on that certain forms of downsizing (e.g. layoffs) may not necessarily bring about the profitability, employee efficiency and asset quality gains that downsizing strategy is intended to achieve. According to the Paired Samples T-Test results, there is no significant difference between the profitability of Turkish banks before and after downsizing. There are six hypotheses and performance variables in the statistical analysis. The hypotheses of the present study are not statistically supported except for two of them. Four of the performance variables did not reveal any significant relation between downsizing and performance, only for two performance ratios which are (2- Deposits/Number of Employees) and (5-Loans/Assets); it is found that there is significant difference. However, generally most of the Turkish banks could not achieve the intended results by downsizing between 2000 and 2003. The statistical analysis of downsized banks generally indicates that the difference between two periods is not significant.

Managers have to ensure that they develop appropriate and well thought-out plans before and after the downsizing process. For banks to practice effective downsizing the managers must follow the following steps: education, reinforcement of company goals and values, honesty and dignity, planning and communication. Besides, setting a clear vision and goals, managing the transition effectively, insight, teamwork, compassion and skills are very important points. The banks must more concern about employee training and job enrichment programs. The bank managers must be quality oriented and use appraisal and reward systems to remaining employees.

Downsizing may be implemented by a combination of strategies such as delayering, restructuring, organization redesign and by the introduction of systemic change processes. These points suggest that if downsizing is carried out by taking a strategic perspective, with corporate transformation as a key underpinning reason, then the overall outcomes should not be detrimental to the company as a whole. Organizational structures, job design, organization culture, employee expectations, motivation and the related human resources systems required to implement new ways of working. Also, it is necessary for the bank managers to consider alternative tools of Human Resources Man-

agement. Instead of downsizing different alternative methods such as reducing work hours/weeks, voluntary resignation, early retirement programs, low wages, natural attrition, salary cuts, mandatory vacation, voluntary sabbaticals, redeployment, freezing recruitment, disengaging contractors and other flexible workers, reducing overtime, secondments, career breaks and introducing more flexible working patterns such as job sharing and part-time work can be realized.

The research has particular limitations. One of the limitations is related to the scope of the study. The results come from deposit accepting banks operating in Turkey. Although the findings may be specific, they could be interesting for future research. Further long-term comparative studies in various countries and several industries are recommended. Future research could aim to investigate the impact of institutional and economic factors in a long term period as well. Turkey experience is educational for both practitioners and academics in the field; other researchers can consider their own country in the context of this study format. This study is a starting point in the subject, not a conclusion. Future research needs to further address both theoretically and empirically the relationship outlined in this study.

This study intends to make important contributions to the literature, because the experience of Turkey is a good example for the subject. The contribution of this paper includes its focus on the patterns of downsizing and financial performance in Turkish banking sector. Beyond the analysis of the changes in financial performance of banks, theoretical and practical perspectives of the subject are explained in detail. The article contributes to theoretical areas as well. This paper has presented a widely based discussion on the subject which may offer a basis of understanding for managers. Management should give importance to the downsizing process in order to solve the related problems. Also, the results of the study have a great number of implications for policy-makers and practitioners in banking sector.

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