



Cost-cutting actions, employment relations and workplace grievances: Lessons from the 2008 financial crisis

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ABSTRACT

Periods of economic recession are typically accompanied by the use of cost-cutting actions, such as wage cuts or freezes, increased workloads and reduced training expenditures. While such actions are expected to boost performance, at least in the short-term, their effects on employee attitudes and behaviours at work have been the subject of much research. In this study, we examine how management's use of cost-cutting actions could have a detrimental impact on two aspects of the employment relations climate—the quality of employee–management relations and the level of employees' trust in management; further, we investigate how these relationships might lead to an increase in employee complaints against their organisations. Using multilevel data from 21,981 employees in 1,923 workplaces, we show that the use of cost-cutting actions violates the psychological contract, which, in turn, contributes to strained relations between employees and management. However, in workplaces where employees are actively involved in decision-making, cost-cutting actions are less likely to have a negative impact. We discuss the theoretical and practical implications of our study using psychological contract theory.

1. Introduction

The Great Recession that followed the 2008 financial crisis had serious consequences for workplaces across the UK, including a significant drop in productivity, growth and financial performance (Datta et al., 2010; Wood & Ogbonnaya, 2018; Zagelmeyer & Gollan, 2012). Managers attempted to counteract these effects with various cost-cutting actions. For example, they reduced staff benefits and wages while suspending or abandoning training expenditures and recruitment plans. These cost-cutting measures are consistent with the downsizing approach in management, which is often implemented as a reactive organisational strategy for reducing costs and generating revenue during economic downturns (Cascio, 2005; Conti et al., 2020; Prouska & Psychogios, 2018; Roche & Teague, 2014). Although knowledge of the macroeconomic and organisational consequences of cost-cutting actions has grown significantly since the 2008 financial crisis, their impact on workers' own experiences remains open to further investigation (Wood et al., 2020). Specifically, we do not fully understand how economic

downturns and the resulting managerial responses can influence the quality of employment relationships between employees and their managers. These relationships are typically built on mutual trust, respect, and support; however, the use of cost-cutting actions creates a sense of insecurity that stifles the overall atmosphere of cooperation in the work environment. A crucial question, therefore, is whether and to what extent any negative effects of cost-cutting actions may damage the employment relations climate and encourage employees to file more complaints or grievances against their organisations (see Fig. 1).

Addressing this question is crucial given the importance of fostering a positive work environment where employees feel more comfortable, supported, and valued (Luthans et al., 2008; Ogbonnaya & Aryee, 2022; Robinson & Morrison, 2000). However, when the 2008 financial crisis hit, managers were forced to prioritise actions with short-term financial benefits over people management activities aimed at creating an employee-centric culture within their organizations (Knudsen, 2019). This type of trade-off remains relevant today as organisations face significant pressures, increased uncertainty (e.g. the COVID-19 pandemic)

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and greater global competition, all of which encourage a downsizing managerial response that may weaken the employment relations climate. The current study is particularly interested in two key aspects of this employment relations climate. The first is the overall quality of employee–management relations, characterised by a collaborative social context in which employees feel supported by their managers and thus inspired to perform their jobs well (McKnight et al., 2001). The second is the level of employees' trust in management, involving the principles of mutual fairness and honesty that motivate employees to go above and beyond for their organisations (Clark & Payne, 1997; Kähkönen et al., 2021). Our study focuses on both aspects of the employment relations climate to illustrate how a downsizing managerial approach can lead to unfavourable employee reactions during economic downturns.

Drawing on insights from psychological contract theory (Robinson, 1996; Robinson & Morrison, 2000), we argue that the use of cost-cutting measures weakens both the quality of employee–management relations and the level of employees' trust in management, leading to an increase in employee grievance filing behaviour. We recognise workplace grievance as a type of employment relations dispute that can be detrimental to productivity and operational performance (Cooke et al., 2016). It results from employees' perceptions that aspects of their employment terms and conditions have been violated—for example, via cost-cutting measures implemented by management. Research suggests that the nature of employment relations is generally governed by the notion of a psychological contract, an unwritten set of expectations that managerial actions towards employees will be based on mutual levels of fairness, support and trust (Atkinson, 2007; Robinson & Morrison, 2000). When these expectations are not met, employees may feel betrayed, making them less likely to uphold the core values of the organisation and unwilling to perform their jobs well. Cost-cutting actions are likely to violate the terms of the psychological contract given their emphasis on downsizing (e.g. through wage cuts and reductions in training expenditure). As a result, the quality of employee–management relations and employees' trust in management may deteriorate, which, in turn, might increase the number of employees' complaints about their working conditions. In this sense, the employment relations climate is considered to be particularly fragile during periods of economic uncertainty, and this fragility may increase grievance filing.

In the management literature, moreover, cost-cutting actions are typically seen as 'defensive' measures (Roche & Teague, 2014, p. 278), which contrast with more proactive and innovative methods, such as employee empowerment and involvement in decision-making. Involvement in decision-making (hereinafter, participatory decision-making, or PDM), for example, represents a key component of high-performance work systems (Appelbaum et al., 2000; Ogbonnaya et al.,

2017). Organisations generally promote PDM as a means of amplifying and listening to employees' voices and opinions and treating them as assets to be nurtured and sustained (Ogbonnaya & Valizade, 2015; Scott-Ladd et al., 2006). Among the important features of PDM are its potential benefits in the face of recessionary pressures (Godard, 2004; Iverson & Zatzick, 2011). The literature has thus argued that the increasingly positive experiences engendered by the use of PDM might offset any negative effects of cost-cutting actions. This may imply that employees in workplaces with PDM do not necessarily perceive management's use of cost-cutting actions as a breach of the psychological contract but simply as management acting in the organisation's best interest. In other words, PDM will act as a first-stage moderator such that any adverse effects of cost-cutting actions on the employment relations climate and, correspondingly, on workplace grievances will be lower when PDM is higher.

The current study (Fig. 1) makes notable contributions to the downsizing literature. First, extensive research reveals that many organisations have struggled or fared quite poorly in the aftermath of the 2008 financial crisis (Conti et al., 2020; Datta et al., 2010; Knudsen, 2019). When it comes to employees' actual experiences during economic downturns, however, important lessons remain to be learned (e.g., Wood & Ogbonnaya, 2018; Wood et al., 2020). To extend the current body of knowledge, we present a multilevel moderated-mediation model that examines the negative relationships between cost-cutting actions and two aspects of the employment relations climate; in addition, we explore the ways in which these negative relationships may contribute to an increase in workplace grievances. Our goal is to address a long-standing issue in the business and management discourse concerning the incompatibility between a downsizing managerial response to economic turbulence and the quality of relations between employees and managers (Iverson & Zatzick, 2011). Second, we emphasise the possibility that cost-cutting actions and PDM can coexist, with significant implications for the employment relations climate and workplace grievances. More specifically, we expect PDM to mitigate any adverse effects of cost-cutting actions on the quality of employee–management relations and employees' trust in management and thus reduce employee grievance filing behaviour.

1.1. Theoretical background and hypotheses

Scholars have widely assumed that cost-cutting actions are driven by an 'economic logic' of reducing workplace expenses and creating much leaner organisational operations when times are difficult or uncertain (Cascio, 2005, p. 80). The expectation is that such actions will improve organisational performance much more quickly than will alternative measures aimed at increasing revenue. The primary intention in

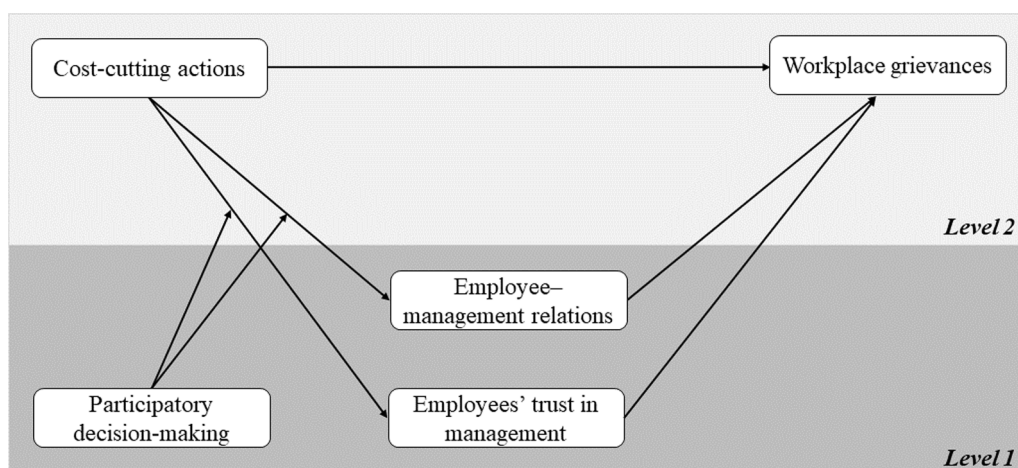


Fig. 1. Conceptual model.

implementing cost-cutting actions, at least from the managerial standpoint, is to curtail human capital expenditures as a way of increasing bottom-line performance (Prouska & Psychogios, 2018; Roche & Teague, 2014). In some circumstances, management may undertake explicit cost–benefit assessments before implementing cost-cutting measures, or if wage freezes or cuts are included, they may presume that the performance effects of such actions will be apparent to organisational members. In other words, unless they are implemented to accommodate a decrease in demand, cost-cutting measures are typically intended to boost productivity and/or lower operating costs by reducing organisational slack (Bohman & Lindfors, 1998; Datta et al., 2010).

While cost-cutting actions are more likely to increase productivity, at least in the short-term, they may adversely affect employee attitudes and well-being (Datta et al., 2010; Iverson & Zatzick, 2011; Ogbonnaya, Gahan & Eib, 2019). The literature has, for example, noted that cost-cutting actions increase employees' job insecurity, reduce their perceptions of income fairness, intensify their work demands, increase their feelings of being undervalued by their organisations, and amplify the sense of inconsistency between their work and personal lives. In this regard, psychological contract theory has achieved prominence as an investigative paradigm for understanding these effects (Wood & Ogbonnaya, 2018). At the core of this theory lies the notion of a psychological contract, comprising a set of unwritten employment rules that are distinct from the formal employment contract (Robinson, 1996; Robinson & Morrison, 2000). These unwritten rules specify the employer's responsibility to provide a conducive working environment for employees, provide adequate resources for them to complete work tasks and promote opportunities for effective knowledge exchange and skills development. Whether or not employers follow these unwritten rules can significantly impact employees' perceptions regarding the quality of their employment relationships.

Within the confines of psychological contract theory, management actions can have a positive or negative effect on employee attitudes and behaviours. When employees believe that management actions towards them are supportive, favourable and fair, they have a more positive perception of the organization's appreciation for their efforts. As a result, employees may become more productive, more committed to the organisation and more likely to engage in extra-role behaviours. However, when employees believe that the organisation has failed to fulfil one or more obligations as part of the psychological contract, the quality of employment relationships may break down, thereby affecting employees' sense of fairness, trust and support in the workplace (Richard et al., 2009; Robinson, 1996; Soares & Mosquera, 2019).

During pre-recessionary periods, organisational resources are typically abundant or at least greater than the bare minimum required to achieve higher levels of productivity and performance (Cascio, 2014; Knudsen, 2019). These excess resources can serve as a buffer, allowing organisations to successfully adjust to internal pressures while also maintaining an effective strategy for managing external pressures. Managers, for example, can afford to reduce employee workloads, hire new recruits to expand organisational operations and actively involve employees in decision-making. Managers can also invest heavily in training activities to improve employees' knowledge, skills and abilities and gain a competitive advantage. During economic downturns, however, psychological contract violations are practically unavoidable (Iverson & Zatzick, 2011). Employers are more likely to implement cost-cutting measures during these times, and employees may perceive their managers as failing to meet their obligations under the psychological contract. These perceptions, in turn, can lead to a breakdown in the levels of employee–management cooperation and trust (Ogbonnaya, Gahan & Eib, 2019; Wood & Ogbonnaya, 2018). Employees may feel that management is not necessarily acting in their best interests and that the organisation has failed to manage their employment expectations with integrity and sincerity. This could eventually lead to a deterioration in the employment relations climate.

1.2. Cost-cutting actions and the employment relations climate

The primary issue we address is whether the use of cost-cutting actions weakens the employment relations climate, thereby encouraging employees to lodge more complaints against their organisations. The employment relations climate is defined as a subset of the organisational climate that underpins existing levels of mutual support, respect and trust among members of an organisation (Pyman et al., 2010). It also represents the quality of employees' social interactions and experiences within the work environment, including whether they feel safe, valued and comfortable at work (Valizade et al., 2016). The current study focuses on two aspects of this climate: the quality of employee–management relations and the level of employees' trust in management. A positive employee–management relationship, measured from the employees' perspective, entails strong levels of cooperation and support between both parties, whereas a negative employee–management relationship entails reduced willingness between both parties to foster one another's work-related interests (O'Leary & Pulakos, 2011). Similarly, trust in management focuses on employees' perceptions of management's fairness, sincerity and honesty in attempting to safeguard their employees' interests (Clark & Payne, 1997; Gould-Williams, 2003). This trust, moreover, is characterised by a sense of vulnerability or risk resulting from employees' perceived uncertainty about the motives and prospective actions of the managers on whom they rely (Hu & Wang, 2014). This implies that while trust takes time to build, it can erode quickly if employees have doubts about the sincerity of managerial actions (Kähkönen et al., 2021).

A perceived breach of the psychological contract due to management's use of cost-cutting actions may exert a negative effect on both the quality of the employee–management relationship and the level of employees' trust in management. Cost-cutting actions typically entail visible changes, such as wage and benefit cuts, increased workloads and restricted access to training opportunities, which, when implemented, are less likely to go unnoticed in the work environment (Moore et al., 2004; Roche & Teague, 2014). The symbolic effect of managers taking such actions may, therefore, raise concerns for employees regarding their value within the organisation, the level of managerial support and the genuineness of management's motives or intentions during periods of economic uncertainty. Employees may also perceive management as unwilling to act in good faith or unable to fulfil their psychological contract obligations towards organisational members (Atkinson, 2007; Wood & Ogbonnaya, 2018). These negative feelings, in turn, may harm the employment relations climate, thereby undermining the levels of cooperation and trust between employees and management. This implies that a downsizing approach to people management will inevitably weaken the employment relations climate and undermine employees' positive attitudes towards the organisation as a whole (Iverson & Zatzick, 2011). With these arguments in mind, we formulate the following hypothesis:

Hypothesis 1: Cost-cutting actions are negatively associated with both (a) the quality of employee–management relations and (b) the level of employees' trust in management.

1.3. Cost-cutting actions and the indirect links to workplace grievances

Thus far, we have argued that the employment relations climate, including the degree to which employees and managers respect, support and trust each other, can be influenced by perceptions of the psychological contract (Richard et al., 2009). On the one hand, if employees perceive managers to be acting in the best interests of both employees and the organisation, the employment relations climate is more likely to be favourable (Valizade et al., 2016). However, if employees perceive managers to be acting in 'bad faith'—for example, when organisations implement cost-cutting actions during a recession—the employment relations climate is more likely to deteriorate (Pyman et al., 2010). Consistent with this assertion, Bamberger et al. (2008) argued that any

adverse changes in the nature of employees' working conditions, such as excessive work hours, reduced staffing levels and low task-related flexibility may create perceptions of an unsafe work environment. Bamberger et al. (2008) further argued that such changes contribute to a breakdown in mutual respect and trust between employees and management, thereby increasing the possible rate of employee grievance filing. This is especially true in the context of cost-cutting changes because employees may perceive managers to be acting in their own self-interest.

Our second hypothesis, therefore, predicts a positive indirect relationship between cost-cutting actions and workplace grievances via significant reductions in the quality of employee–management relations and the level of employees' trust in management. Workplace grievances are, by their nature, a form of employees' criticism of their employers (Bacharach & Bamberger, 2004; Bamberger et al., 2008; Klaas, 1989). They are associated with employees' levels of discontentment or dissatisfaction with key aspects of their employment terms and conditions and with management (Cooke et al., 2016, p. 2122). These feelings of discontentment may typically ensue from disputes regarding employees' wages and benefits, poor working conditions, work intensification and interpersonal conflict between employees and management, all of which are associated with the use of cost-cutting actions. The literature on strategic people management has identified a variety of factors influencing the likelihood of grievance filing behaviours among employees. These range from individual characteristics to general labour market conditions (Bacharach & Bamberger, 2004; Cappelli & Chauvin, 1991). Grievance filing behaviours may also be influenced by the perceived advantages of the filing procedure compared to other alternatives, such as quitting or simply suffering in silence. According to Bamberger et al. (2008), however, aversive or harmful workplace conditions and perceptions of unfair management treatment also play a significant role.

Although scholars have seldom applied psychological contract theory to the specific context of economic downturns, fragments of research on downsizing and organisational restructuring confirm that these approaches tend to increase employees' feelings of displeasure with key aspects of their employment conditions (e.g. Chadwick et al., 2004; Datta et al., 2010; Moore et al., 2004; Roche & Teague, 2014). Ogbonnaya et al. (2019, p. 379), for example, argued that a downsizing approach to economic distress leads to job deterioration (defined as the degree to which important job characteristics have declined over time). When the quality of employees' jobs deteriorates, they begin to perceive unfair treatment in the workplace, which, in turn, prompts them to engage in retaliatory actions against the organisation under employment protection legislation. Consistent with this assertion, Datta et al. (2010) reported a wide variety of possible employee reactions to organisational downsizing, including employee resistance to change, organisational conflict and allegations of unfair practices in the workplace. While additional research is required to investigate the impact of downsizing on workplace grievances, the existing evidence suggests a possible negative relationship between management's use of cost-cutting measures and the employment relations climate. More specifically, employees are likely to perceive a breach of the psychological contract, which leads to a breakdown in mutual trust and respect for management and, as a result, an increased number of employee complaints or grievances filed against the organisation.

Hypothesis 2: The positive relationship between cost-cutting actions and workplace grievances is mediated by significant reductions in both (a) the quality of employee–management relations and (b) the level of employees' trust in management.

1.4. Moderating effects of PDM

Assuming that cost-cutting actions and PDM can be used in tandem, the latter may offset any negative consequences on employees' workplace experiences. PDM involves a distinct form of psychological

contract between the employer and employees, which is based on mutual respect and cooperation (Ogbonnaya & Valizade, 2015). It is consistent with the concept of managerial support, which encourages employees to be more engaged and capable of making suggestions to improve the overall quality of their jobs (Ogbonnaya & Babalola, 2021). Under these conditions, employees are likely to experience more fulfilling jobs and perceive themselves to be valuable assets to the organisation. On the other hand, cost-cutting actions, such as work reorganisations, increased workloads, wage freezes and reductions in training, typically alter the effort–reward bargain, which may violate employees' expectations about workplace opportunities for personal growth and skills development (Cascio, 2005). Furthermore, because employees' expectations of reciprocal behaviours from management are unfulfilled when their organisations curtail human capital expenditures, cost-cutting actions also represent prima facie breaches of the psychological contract. When such actions are implemented alongside PDM, however, the latter should counteract these negative effects not in the least because PDM encourages employees to participate in the process of finding common ground that is acceptable to all.

Robinson and Morrison's (2000) reflections on psychological contract principles suggest several reasons why workers under PDM regimes may not perceive cost-cutting actions as a violation of the psychological contract. First, employees in PDM workplaces are more likely to accept management's adoption of cost-cutting actions as an inevitable response to economic uncertainty rather than as an instance of management acting in a dishonest manner. Second, under PDM regimes, employees and managers are more likely to have a shared perspective on the employment relationship precisely because employees are actively involved in the process of finding common ground or solutions acceptable to all (Ogbonnaya & Valizade, 2015). With more positive feelings towards the organisation and perhaps higher levels of organisation-specific knowledge, employees may perceive the risks of a contract breach through cost-cutting actions to be lower. Such employees, in turn, may be less vigilant in monitoring management's behaviour or at least less judgemental of management's actions towards the workforce. Thus, the combination of PDM with a downsizing approach is likely to lessen any ill feelings employees might have regarding workplace changes designed to help the organisation weather the effects of an economic recession.

Applying psychological contract principles, we thus argue that the negative effects of cost-cutting actions on both the quality of employee–management relations and employees' trust in management will be weaker in organisations practicing PDM. This is because employees in these workplaces are likely to view their managers as legitimate actors faced with the difficult choice between curtailing human capital expenditures to combat economic recession and maintaining organisational investments in human capital despite rising costs (Wood & Ogbonnaya, 2018). Facilitating this dynamic is the fact that employees in PDM workplaces have the opportunity to contribute to organisational decisions regarding the use of such cost-cutting actions (Probst, 2005, p. 322). Thus, if employees do not perceive cost-cutting actions as breaches of the psychological contract, or if they do perceive these actions as breaches, they do not interpret them as an example of management's mistreatment, then the positive outcomes of PDM may act as a buffer against the negative feelings engendered by the cost-cutting actions. The nature of this moderating effect will be such that any negative effects of cost-cutting actions on the employee relations climate will be weaker in workplaces where employees are actively involved in decision-making.

Hypothesis 3: The negative effects of cost-cutting actions on both (a) the quality of employee–management relations and (b) the level of employees' trust in management are moderated by PDM, such that these effects are weaker when PDM is higher.

Because employees in PDM regimes may not necessarily interpret management's use of cost-cutting actions as a major violation of the psychological contract, they are less likely to file complaints or grievances against their organisations. The reservoir of mutual trust and

respect built up through PDM may cause employees to be more cognisant of the challenges that their organisations face and of the need for management to take reactive actions to address such challenges. PDM may also imply that employees possess a stronger foundation of knowledge from which to gain better insights into the organisation's situation, irrespective of what grievances they might have regarding management's use of cost-cutting actions. Such awareness suggests that employees are more able and willing to align their workplace behaviours with organisational interests, which, in turn, may counteract the negative feelings often associated with a downsizing managerial approach (Iverson & Zatzick, 2011). Through PDM, employees are likely to have a more in-depth and realistic appraisal of the organisation's strategy such that any uncertainties about the consequences of recessionary pressures on their future employment may not culminate in workplace grievances. Thus, active employee involvement in workplace decision-making will reduce not only the negative effects of cost-cutting actions on the employment relations climate but also any possible increases in employee grievances against the organisation.

Hypothesis 4: The indirect positive effects of cost-cutting actions on workplace grievances via significant reductions in (a) the quality of employee–management relations and (b) the level of employees' trust in management are moderated by PDM, such that these effects are weaker when PDM is higher.

2. Methodology

This study utilised data from the management and employee portions of the 2011 British Workplace Employment Relations Survey (2011 WERS; Van Wanrooy et al., 2013). The management survey was conducted via face-to-face interviews with senior managers who had day-to-day responsibility for people management, employee relations or personnel matters. In workplaces without an employment relations manager, a senior person specialising in another area, such as finance, was interviewed. The information gathered during these interviews focused more on workplace characteristics than on the managers' personal views. The sample included 2,680 workplaces from both the private and public sectors as well as workplaces from all industries except primary industries. Establishments with fewer than five workers and those classified as private households with domestic staff were also excluded from the 2011 WERS. The sample was drawn from the Inter-Departmental Business Register, which is managed by the UK's Office for National Statistics. In total, data were obtained from 46 % of the workplaces approached to participate in the survey.

The employee survey comprised a self-completion questionnaire distributed to a random sample of 25 workers at the same workplaces where the management data were collected. The questionnaire focused on the personal characteristics, attitudes and behaviours of workers in the workplace. The median number of respondents to the employee survey was 12, and this number ranged from 5 to 24. A total of 21,981 questionnaires from 1,923 workplaces were completed and returned, for a response rate of 50 %.

2.1. Measures

Cost-cutting actions were measured at the workplace level based on 11 items from the management survey. The overarching question asked, 'Which, if any, of these actions were taken by your workplace in response to the recent recession?' The list of items included the following: 'temporary freeze on recruitment to fill vacant posts', 'postponement of plans for expanding the workforce', 'freeze or cut in wages', 'reduction in non-wage benefits', 'reduction in basic hours', 'reduction in paid overtime', 'employees were required to take unpaid leave', 'reduction in the use of agency staff or temporary workers', 'increase in the use of agency staff or temporary workers', 'reduction in training expenditures' and 'changes in the organisation of work'. These items are consistent with previous assessments of recessionary actions

using data from the 2011 WERS (e.g. Wood et al., 2020). Because no discernible pattern was available for combining these cost-cutting actions, we created an index, or formative scale, of the total number of actions taken by managers in the workplace.

Employee–management relations were measured at the individual level based on a single item from the employee survey. The question asked, 'In general, how would you describe relations between managers and employees here?' The five-point response pattern ranged from 'very poor' to 'very good'.

Employees' trust in management was measured at the individual level based on four items from the employee survey (Cronbach's $\alpha = 0.93$). The relevant items were as follows: 'Managers here'... 'can be relied upon to keep to their promises', 'are sincere in attempting to understand employees' views', 'deal with employees honestly' and 'treat employees fairly'. The five-point response pattern for these items ranged from 'strongly disagree' to 'strongly agree'. The items are consistent with previous assessments of management's trustworthy behaviour (e.g. Whitener et al., 1998).

Workplace grievances were measured at the workplace level based on eight items from the management survey. The overarching question asked, 'Which types of grievances, if any, have been raised in the past year whether through a procedure or not?' The list of items included the following: 'pay, terms and conditions', 'promotion, job grading and career development', 'physical working conditions, health and safety', 'working time', 'discrimination', 'unfair treatment, relations with line managers or supervisors', 'bullying at work and harassment' and 'selection for redundancy'. In the absence of a discernible pattern for combining these items, we created a formative scale of the total number of grievances raised in the workplace.

Participatory decision-making (PDM) was measured at the individual level based on three items from the employee survey (Cronbach's $\alpha = 0.91$). The relevant items were as follows: 'Overall, how good would you say managers at this workplace are at'... 'seeking the views of employees or employee representatives', 'responding to suggestions from employees or employee representatives' and 'allowing employees or employee representatives to influence final decisions'. The five-point response pattern for these items ranged from 'very poor' to 'very good'. The items are consistent with previous measures of employee involvement in workplace decision-making (e.g. Ogbonnaya & Valizade, 2015).

2.2. Control variables

To test our hypotheses, we selected a number of control variables at both the workplace and employee levels based on their significance in previous research (e.g. Gazioglu & Tansel, 2006; Jones et al., 2009; Ogbonnaya, 2019; Wood et al., 2020). We included the following employee-level controls: gender, educational attainment, age (in bands, ages 16–17, ages 18–21, ages 22–29, ages 30–39, ages 50–59, ages 60–64 and ages 65 and over, with ages 40–49 as the reference category), workplace tenure, contractual hours, total hours worked per week, contract type, weekly wages (total pay before tax deductions) and marital status.

We included the following controls at the workplace level: employment size of the workplace (logarithm of the total number of employees in the workplace), inclusion in a larger organisation (whether the workplace is part of a larger organisation or functions as a single site organisation), sector workplace (whether the workplace is in the private or public sector), trade union recognition (whether management recognises at least one trade union for collective bargaining), age of workplace (logarithm of the total number of years the workplace has been in operation) and impact of the recession (whether the workplace has been adversely affected by the recession).

2.3. Analysis procedure

Because the data in the current study included employees nested within workplaces and employee-level observations were not independent of each other, we applied multilevel analysis. Cost-cutting actions and workplace grievances were estimated at Level 2 (the workplace level), whereas both measures of the employment relations climate and PDM were specified at Level 1 (the employee level). This multilevel approach is consistent with the random intercept method that allows the intercepts of the regression lines to vary randomly across Level 2 units. This methodology has the benefit of splitting the overall residual variance into Level 1 and Level 2 model components without, however, separating the regression estimates (or slopes) for each variable. We employed the robust maximum likelihood estimator (MLR) Mplus software programme (version 8.1) due to its known efficacy in adjusting for errors in multilevel analytic procedures (Asparouhov & Muthen, 2008).

Given the multilevel nature of the data, we tested the intraclass correlation coefficients 1 and 2 (ICC1 and ICC2) to verify the relative consistency of employee-level data (Bliese, 2000, p. 354). ICC1 values for employee–management relations, employees' trust in management and PDM ranged from 0.06 to 0.18, implying that between 5 and 15 % of the variability in employees' responses is attributable to workplace characteristics. ICC2 values for these scales ranged from 0.45 to 0.65, implying up to 65 % consistency in employees' reports about their respective workplace experiences.

We also estimated the measurement component of the model (or confirmatory factor analysis, CFA) to ensure that the observed items for cost-cutting actions, employee–management relations, employees' trust in management, workplace grievances and PDM were appropriate indicators of the presumed constructs. To minimise measurement error problems associated with the use of single-item scales for cost-cutting actions, employee–management relations and workplace grievances, we fixed their factor loadings at one and their residual variances at a non-zero estimate of unreliability equal to '(1 – reliability) multiplied by sample variance' (Hayduk, 1987). Overall goodness-of-fit was adequate: $\chi^2 = 648.606$; $df = 28$; $p < 0.001$; $RMSEA = 0.03$; $CFI = 0.99$; $TLI = 0.98$; standardised root mean square residual (SRMR) = 0.01. All unrestricted factor loadings were significant and in the hypothesised direction. We examined a one-factor CFA to confirm that all observed items were not reducible to a single latent variable. As expected, this model did not fit the data adequately: $RMSEA = 0.11$; $CFI = 0.88$; $TLI = 0.85$; $SRMR = 0.06$. Furthermore, a two-factor CFA with cost-cutting actions and workplace grievances estimated as the first factor and the employee-level constructs as the second factor did not fit the data adequately: $RMSEA = 0.11$; $CFI = 0.87$; $TLI = 0.83$; $SRMR = 0.06$. The results of these alternative models confirmed the discriminant validity of our constructs.

We tested Hypotheses 1 to 2 simultaneously by (i) regressing employee–management relations, employees' trust in management and workplace grievances on cost-cutting actions, (ii) regressing workplace grievances on employee–management relations and employees' trust in management and (iii) estimating all indirect paths from cost-cutting actions to workplace grievances. We used the product-of-coefficients ($\alpha\beta$) method to estimate the indirect effects—i.e. the product of α , the regression coefficient between the predictor and the mediator, and β , the regression coefficient between the mediator and the criterion (MacKinnon et al., 2002).

To test Hypotheses 3 and 4, which examined the interaction between cost-cutting actions and PDM, we added an interaction term to the models that we had used to test Hypotheses 1 and 2. The moderation–mediation coefficient (Edwards & Lambert, 2007) was calculated by multiplying two sets of regression paths: ' $\alpha1*\beta1$ ' (where $\alpha1$ represents the path between the predictor and mediator and $\beta1$ represents the path between the mediator and outcome) and ' $\alpha2*\beta1$ ' (where $\alpha2$ represents to the path between the interaction term and the mediator).

3. Results

Table 1 presents the means of the variables in the analysis as well as the correlations among them. All bivariate correlations were significant and in the direction suggested by the hypotheses. Table 2 shows the results of all direct, indirect and moderated paths in the model. Accordingly, the test for Hypothesis 1 revealed that cost-cutting actions were negatively associated with both elements of the employment relations climate: employee–management relations ($\beta = -0.51$, $p < .001$) and employees' trust in management ($\beta = -0.59$, $p < .001$). These results suggest that management's use of cost-cutting actions might lead to a breakdown in the quality of mutual respect and cooperation between employees and management (full support for Hypothesis 1). The analysis also supported the direct negative effects of both employee–management relations ($\beta = -0.09$, $p < .01$) and employees' trust in management ($\beta = -0.17$, $p < .001$) on workplace grievances. These direct effects satisfied the necessary preconditions for the hypothesised indirect paths.

Table 2 shows two significant indirect paths. First, the indirect path from cost-cutting actions to workplace grievances via employee–management relations was significant and positive ($\alpha\beta = 0.05$, $p < 0.01$). This result implies that a poor sense of cooperation between employees and management, resulting from the latter's use of cost-cutting actions, may explain possible increases in workplace grievances. Second, the indirect path from cost-cutting actions to workplace grievances via employees' trust in management was also significant and positive ($\alpha\beta = 0.10$, $p < 0.01$). This result suggests that levels of workplace grievances are likely to increase when management's use of cost-cutting actions reduces employees' trust perceptions. Because a decline in the employment relations climate explains the positive link between cost-cutting actions and workplace grievances, Hypothesis 2 thus received support.

The interaction between cost-cutting actions and PDM offered full support for Hypothesis 3. As shown in Table 2, PDM buffered the negative effects of cost-cutting actions on both employee–management relations ($\beta = 0.52$, $p < .001$) and employees' trust in management ($\beta = 0.56$, $p < .001$). Thus, in workplaces where PDM exists, the use of cost-cutting actions is likely to result in less visible damage to the employment relations climate.

Hypothesis 4, which addressed the moderated indirect effects of cost-cutting actions on workplace grievances, also received supported. Thus, at higher levels of PDM, the positive indirect effects of cost-cutting actions on workplace grievances via employee–management relations and employees' trust in management were significantly weaker (Table 2). The simple slopes plots in Figs. 2 and 3 graphically illustrate the nature of these moderated indirect effects. These plots depict the precise regions of statistical significance based on three values (low, medium and high) of PDM. Thus, in workplaces that practise PDM, employees are less likely to experience a poor employment relations climate and to raise concerns about their working conditions despite management's use of cost-cutting actions.

4. Discussion

Following psychological contract theory, the current study sought to understand the nexus between management's use of cost-cutting actions and employees' reactions to such actions. The study thus explored the negative effects of these actions on two aspects of the employment relations climate—employee–management relations and employees' trust in management—and, correspondingly, on the number of employee grievances filed in the workplace. The study also explored the moderating role of PDM—specifically positing that PDM's more positive effects would offset any adverse consequences of cost-cutting actions on employees. The results can be summarised in three important points. First, any negative managerial treatment towards employees represents a breach of the psychological contract, which has the potential to damage

Table 1
Bivariate correlations between study variables.

Variables	Mean	SD	1	2	3	4
1 Cost-cutting actions	2.86	2.20				
2 Employee–management relations	3.62	1.03	-0.11***			
3 Employees’ trust in management	3.40	0.98	-0.11***	0.81***		
4 Workplace grievances	1.43	1.60	0.28***	-0.15***	-0.14***	
5 Participatory decision-making (PDM)	3.13	1.06	-0.10***	0.74***	0.78***	-0.11***

Sample size (N): 21,981 employees in 1,923 workplaces
SD = Standard deviation
*** = $p < .001$

Table 2
Results of direct, indirect and moderated effects.

Paths	Standardised coefficients (Residuals)	95 % Confidence intervals	
		Lower bound	Upper bound
Cost-cutting actions → Employee–management relations	-0.51*** (0.05)	-0.61	-0.41
Cost-cutting actions → Employees’ trust in management	-0.59*** (0.06)	-0.72	-0.48
Cost-cutting actions → Workplace grievances	-0.01 (0.05)	-0.11	0.08
Employee–management relations → Workplace grievances	-0.09** (0.03)	-0.15	-0.03
Employees’ trust in management → Workplace grievances	-0.17*** (0.05)	-0.26	-0.07
Cost-cutting actions → Employee–management relations → Workplace grievances	0.05** (0.02)	0.01	0.08
Cost-cutting actions → Employees’ trust in management → Workplace grievances	0.10** (0.04)	0.03	0.17
Cost-cutting actions*Participatory decision-making (PDM) → Employee–management relations	0.52*** (0.03)	0.47	0.57
Cost-cutting actions*Participatory decision-making (PDM) → Employees’ trust in management	0.56*** (0.03)	0.47	0.62
Cost-cutting actions*Participatory decision-making (PDM) → Employee–management relations → Workplace grievances	-0.01** (0.00)	-0.02	-0.01
Cost-cutting actions*Participatory decision-making (PDM) → Employees’ trust in management → Workplace grievances	-0.01* (0.01)	-0.02	-0.00

Sample size (N): 21,981 employees in 1,923 workplaces
Proportion of variance explained (R^2): Employee–management relations = 0.26; Employees’ trust in management = 0.35; Workplace grievances = 0.47
* $p < .05$, ** $p < .01$, *** $p < .001$

the employment relations climate. Second, active employee involvement in workplace decision-making should be considered an important factor for any workplace initiative and not only for cost-cutting actions. Third, the psychological contract should be central to any managerial considerations for building and maintaining harmonious workplace relationships.

4.1. Theoretical implications

The downsizing literature has long recognised the importance of cost-cutting actions in helping organisations to increase revenue and improve bottom-line performance while reducing human capital expenditures (Prouska & Psychogios, 2018; Roche & Teague, 2014). Although this assumption may be true in some cases, scholars have raised serious concerns about the potential impact on employee attitudes and behaviours (Wood & Ogbonnaya, 2018). We extend this literature by demonstrating that employees can indeed perceive cost-

cutting actions as a breach of the psychological contract and that such perceptions can reduce both the quality of employee–management relations and employee trust in management. Earlier, we explained that employees typically expect management to promote a psychologically safe work environment characterised by mutual support and respect (Atkinson, 2007). When these expectations are met, employees’ sense of dedication to the job is likely to increase as is their willingness to sacrifice personal interests in favour of organisational goals. As the current research demonstrates, however, management’s use of cost-cutting actions in response to recessionary pressures represents a significant breach of these expectations. Such actions, in turn, create the impression that management does not value employees’ efforts and/or that employees are disposable resources whose organisational contributions go unnoticed when times are difficult or uncertain (Datta et al., 2010). Employees may, therefore, perceive management as renegeing on their promise of protecting employees’ interests with integrity, and such perceptions are likely to have adverse effects on the quality of relationships and trustworthiness within the organisation.

The results further reveal a positive indirect link between cost-cutting actions and workplace grievances, which is mediated by the negative effects of employee–management relations and employees’ trust in management. Consistent with previous research (e.g. Moore et al., 2004; Wood et al., 2020), this implies that a perceived breach in the psychological contract due to management’s use of cost-cutting actions is likely to increase the number of grievances employees raise against the organisation. Though scarce, particularly in the downsizing literature, the topic of workplace grievances remains of great interest to both researchers and practitioners alike. Grievance filing is a manifestation of employees’ criticism regarding their employer’s inability to encourage and maintain harmonious workplace relationships (Klaas, 1989). Whether employees raise workplace grievances formally or informally, these complaints signal employees’ displeasure over aspects of their employment conditions, the quality of their jobs and the nature of organisational policies (Walker & Hamilton, 2011). The current analysis strengthens these arguments by depicting management’s use of cost-cutting actions as a key precursor to increased employee concerns and complaints against the organisation. During periods of economic recession when managers are likely to increase staff workloads and reduce human capital investments, employees may perceive such actions as a breach of the psychological contract, which, ultimately, increases the likelihood that they will file additional grievances.

Another important theoretical contribution is our finding that the indirect effect of cost-cutting actions on workplace grievances is significantly weaker in workplaces that practise PDM. While the use of cost-cutting actions may indeed violate the psychological contract and seriously damage the quality of employment relations, these effects appear to be less pronounced in situations where employees are actively involved in workplace decision-making. This has ramifications for understanding the psychological contract breach thesis (Richard et al., 2009; Soares & Mosquera, 2019). More specifically, it suggests that any positive experiences generated by employee involvement initiatives will mitigate the perceived negative effects of actions that would otherwise cast management in a negative light (Wood & Ogbonnaya, 2018). Of course, employees in PDM regimes tend to view themselves and their

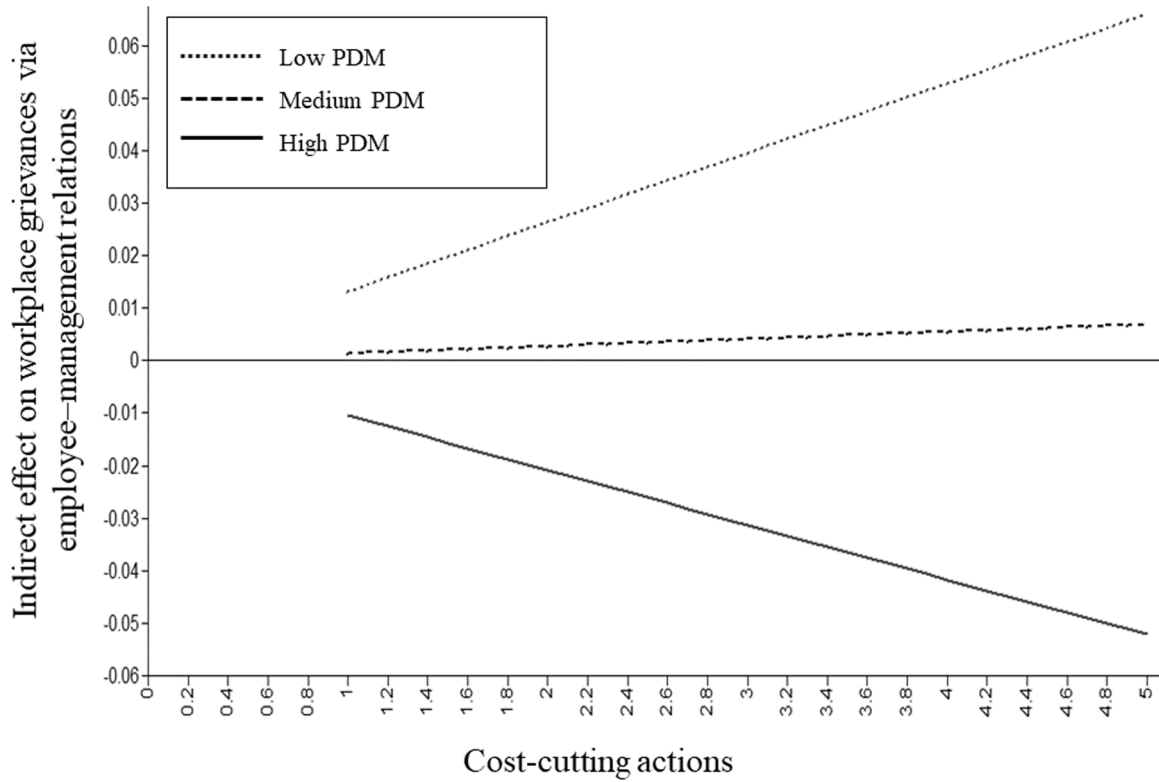


Fig. 2. Moderated indirect effect on workplace grievances via employee-management relations.

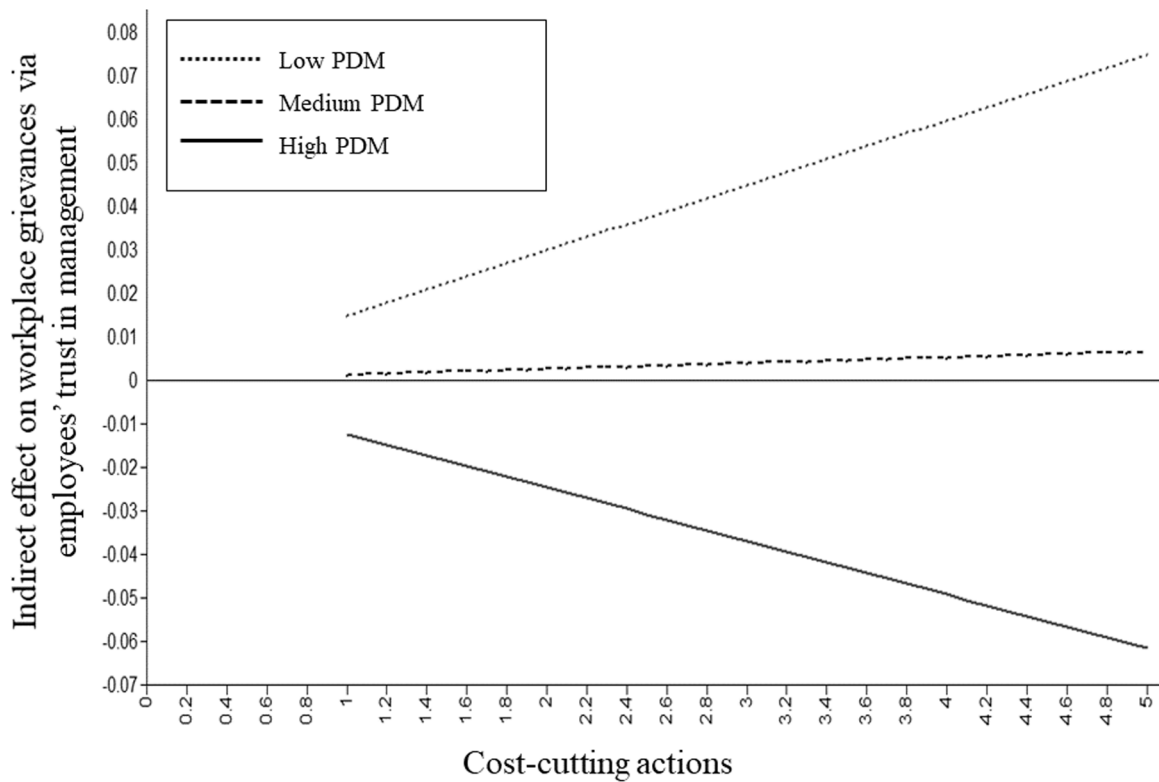


Fig. 3. Moderated indirect effect on workplace grievances via employee' trust in-management.

colleagues as valuable organisational assets and perceive management to be sincere in attempting to understand their perspectives on work quality (Robinson, 1996). Thus, employees in such workplaces are likely

to have a much more nuanced and realistic understanding of any actions the organisation takes to combat recessionary pressures.

It is worth mentioning that we were able to replicate the above

results using an alternative index measure of cost-cutting actions, which we derived from the employee component of the 2011 WERS. While the effects were slightly stronger with this index than with the workplace-level measure, we had, in fact, anticipated these differences based on the more proximal nature of the employee-level index measure to employees' workplace experiences. Nevertheless, the value of using a workplace-level index of cost-cutting actions rather than the employee-level alternative lies in the former's ability to reflect the organisational nature of recessionary measures and to minimise the risk of common method variance (Podsakoff et al., 2003).

4.2. Implications for managers and practitioners

On the surface, the implication for managerial practice would appear to suggest that managers avoid cost-cutting actions, especially because employees tend to regard such actions as a violation of the psychological contract. We know that cost-cutting actions can improve performance during periods of severe economic shock by lowering labour costs and increasing profitability. Nevertheless, as our study reveals, these actions also have the potential to degrade the quality of employee–management relations within an organisation and thus increase workplace grievances. In particular, employees are more likely to feel that they are treated unfairly and lose confidence in management's ability to protect their employment interests. With this in mind, managers contemplating downsizing as a means of tackling economic uncertainty should also consider various best practices to mitigate the negative effects of such an approach on employees. For example, actively involving employees in workplace decision-making is critical to foster a positive employment relations climate. Managers should also communicate organisational updates to their employees in a transparent manner and encourage a social atmosphere in which individuals feel free to speak up or ask questions.

For practitioners and policymakers, our findings do not necessarily refute the assumption that cost-cutting actions can improve performance in difficult or uncertain times; rather, in some workplaces, the negative effects of cost-cutting actions on employee attitudes do increase the number of grievances and complaints brought against the organisation. Furthermore, our findings do not rule out the possibility that some organisations are constrained from implementing cost-cutting measures due to concerns about employee well-being and existing employment protection laws. Indeed, evidence suggests that some organisations in Europe have avoided at least one type of action—wage cuts—because of the potential negative effects on employee attitudes and well-being (Du Caju et al., 2015). Overall, however, we urge organisations that do undertake cost-cutting initiatives to exercise caution.

4.3. Strengths, limitations and future research

The strength of this study lies in its use of a large, distinctively matched management–employee dataset that includes workplaces spanning the entire British labour force, with the exception of smaller establishments, such as those in mining or agriculture. The study thus responds to Iverson and Zatzick's (2011, p. 40) call for scholars studying recessionary changes to incorporate employee- and organisational-level data. The inclusion of cost-cutting items in the 2011 WERS (unlike previous versions) is a crucial feature for analysing the impact of the 2008 financial crisis on workplaces.

Despite these strengths, one limitation of our research is the reliance on cross-sectional data, a common problem in the downsizing literature. However, the nature of the 2011 WERS data implies a lower possibility of a reciprocal relationship between cost-cutting actions and workplace grievances. Specifically, the measure of workplace grievances reflects the number of grievances raised in the past year, while the measure of cost-cutting actions is based on actual actions management has taken in response to the 2008 financial crisis.

We propose that future empirical research examine whether

management's use of cost-cutting actions has comparable negative consequences when used in conjunction with other human resource management strategies. Of particular interest is the psychological contract associated with Dyer and Holder's (1998) so-called investment and inducement approaches to employee involvement, which contrast slightly with PDM and raises important questions. For example, 'Are wage cuts and long working hours indicative of the psychological contract associated with piecework or other pay-for-performance regimes?' More qualitative research is required to understand the intricacies of employees' perceptions of psychological contract violations and their impact on organisational performance levels. Replication of the present study in other countries and in the post-COVID-19 recessionary context (associated with socioeconomic lockdowns and government austerity programmes) are, of course, required.

Ways of reducing the negative effects of cost-cutting actions may be available, and the current study highlights the important role of PDM in this regard. Employee involvement in workplace decision-making sends positive signals that the organisation values its workforce and remains committed to increasing employees' sense of job security (Dyer et al., 1985), even during periods of economic uncertainty. Seriously applying the employee involvement approach when designing organisational responses to recessions (and not merely when handling them) seems the most plausible way of resolving the tension between cost-cutting actions and employees' perceptions of the psychological contract. Finally, scholars should consider investigating the extent to which engagement in decisions about cost-cutting initiatives can offset any negative impact on the employment relations climate.

5. Conclusions

Overall, our results confirm that cost-cutting actions have negative effects on key aspects of the employment relations climate and that, by lowering the quality of employee–management relations and employee trust in management, such actions have the potential to increase the number of complaints and grievances employees raise in the workplace. The rationale is that employees are likely to interpret cost-cutting actions as a breach of their psychological contract expectations and thus as a manifestation of management's maltreatment of them. However, we observed that these effects are weaker when managers practise PDM, which seems to counteract the adverse consequences of cost-cutting actions. On balance, though, the research supports the identification of a tension between cost-cutting actions and PDM, with the former representing a low-trust mechanism and the latter representing a high-trust mechanism for improving employment relationships.

CRediT authorship contribution statement

Chidiebere Ogbonnaya: Writing – review & editing, Writing – original draft, Formal analysis, Data curation, Conceptualization. **Amandeep Dhir:** Writing – review & editing, Writing – original draft, Conceptualization. **Alexander Maxwell-Cole:** Writing – review & editing, Writing – original draft, Data curation, Conceptualization. **Tomasz Gorny:** Writing – review & editing, Writing – original draft, Methodology, Conceptualization.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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