

The Model of Negative Externality for Sustainable HRM

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Abstract Although human resource management (HRM) literature has provided abundant insight into strategies used to improve employee effectiveness for company performance, relatively limited research exists on the harm or negative externality that those HRM practices can have on employees and the community. This article explores the negative externality of HRM practices that is imposed by organizations on employees, their families and communities. A conceptual model of negative externality for Sustainable HRM is proposed to provide a framework for HRM practitioners and researchers to understand the resulting harm of some HRM practices on employees, their families and communities. To highlight the practical

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implications of the model, downsizing, a widely used business turnaround strategy to improve business efficiency, is analyzed for its negative externality. Subsequently, the role of Sustainable HRM practices which can minimize such harm is examined. Practical and empirical implications of the negative externality of HRM practices are explored.

1 Introduction

Employee downsizing is a common practice that organizations use for the planned elimination of positions or jobs as a response to market and technology changes. The expected competitive benefits of downsizing for organizations are lower overheads, faster decision making, increased productivity and better earnings (Kets de Vries and Balazs 1997). Many studies show that the actual benefits of downsizing are only short-term; it has been found that productivity either remained stagnant or deteriorated after downsizing (Henkoff 1990; Laabs 1999). Downsizing as a workforce reduction strategy has critical issues for organizations as well as for individual employees (victims and survivors).

Over the past two decades downsizing has become an increasingly common strategy used by corporate companies both in good as well as in harsh economic times. Downsizing during an economic downturn for a company's survival is understandable and it can be considered a sustainable practice for profitability from the management perspective (Ambec and Lanoie 2008). However, the question is whether downsizing implemented by a company during a temporary drop in demand be treated as a sustainable or unsustainable human resource management (HRM) practice from human sustainability perspective (Pfeffer 2010). The human sustainability perspective is about how organizational practices have profound impact of human health and mortality. Therefore, the unsustainable practices of downsizing may impose psychological, social and work related health harm on third parties, for example upon employees, their family members and communities (see Docherty et al. 2009; see also chapter "[Sowing Seeds for Sustainability in Work Systems](#)" in this volume). However, the Sustainable HRM practices within organizations have the potential to help employees to cope and minimize the harm on the third parties (Mariappanadar 2010).

Pfeffer (2010) suggests that downsizing is driven by a set of untrue myths (e.g. higher stock price than peers, increased company productivity, increased profit and costs cut) that drive managers to resort to downsizing during a temporary drop in demand for products or services. There is much research that highlights the unsustainable harm of downsizing on employees (both the victims and the survivors) as well as on wider communities. For example, Armstrong-Stassen and Cameron (2003) revealed the long term damage of hospital downsizing on nurses' intention to stay in the profession. Baran et al. (2009) indicated the plight of the retrenchment 'survivor syndrome' and the impact of perceived job insecurity on employees' mental and physical health. Further, Cascio (2002) has listed the direct

and indirect costs of downsizing for companies. However, there are very limited studies of the negative externality (NE) perspective of the unsustainable impact of downsizing on the victims, the survivors and communities. Externality is something that, while it does not appear to affect the organization that downsizes employees, does cost third parties who have to alleviate the harm imposed by the organization (Biglan 2009). The rationale for discussing externality from a Sustainable HRM perspective is because downsizing is a good example for how organizations internalize their actions with respect to maximizing labor flexibility disregarding the negative impact their practices have on the wellbeing of the victims, the survivors, their families, and the community. An organization's failure to assimilate the social cost of their business and HRM practices is explained as NE. The NE is something that costs the organization little for their actions or business practices, but those actions or business practices are costly to third parties. In a free market economy, organizations can maximize their profit by ignoring negative externality (Papandreou 1994), and hence many organizations choose not to make any real attempt to reduce NE of HRM practices unless the government, NGOs and labor advocacy groups step in to intervene and promote a more 'sustainable' HRM.

Although there is an emerging trend in publishing articles in the field of Sustainable HRM (see chapters in this volume), there is limited research in understanding the NE of HRM practices on the third parties from an institutional economics perspective. Kapp (1976) has indicated that government, labor relations and labor advocacy groups have an important role in addressing the social costs of production based on an institutional economics perspective. However, little effort has been seen in the literature to measure the NE of HRM and the social costs to the third parties. An understanding of the externalities of such HRM practices could help managers and researchers to evaluate the NE caused by HRM practices that predominately focus on profit maximization within organizations. By evaluating and understanding the NE of HRM practices, organizations can introduce Sustainable HRM practices to reduce such NE and also improve employees' engagement and Corporate Social Responsibility. Therefore, knowledge construction on NE of HRM practices is important to enrich our understanding of tensions, conflict, suppression, and the importance of language in shaping our understanding of Sustainable HRM. Sustainable HRM practices can enhance both profit maximization for the organization and also reduce the NE on employees and the community (Mariappanadar 2003; see also Ehnert 2009).

The aim of this chapter is achieved in two stages: Initially a conceptual framework of the NE of HRM is developed. The framework helps to understand the potential NE of HRM practices imposed by organization on third parties (e.g. employees, their family members and communities). Then the effectiveness of Sustainable HRM practices used by organizations and the individual employee differences to counter or cope with those NE are evaluated. Subsequently, the utility of the framework is explored by analyzing the psychological, social and work related health aspects to employees of using the specific context of organizational downsizing.

2 Theoretical Background

2.1 *Externality*

Externality in a generic sense results in interdependence and inefficiency. The inefficiency is the action in respect to some business or HRM practice that has a negative impact on employees and the community, which somehow is not properly 'accounted for' by the initiator of the action (i.e., the organization). There are two types of externality, positive and negative. Positive externality is something that benefits society, but in such a way that the producer cannot maximize profit for the shareholders. The negative externality (NE) is something that costs the organization less for their actions or business practices than they save; however these actions or business practices have a negative impact on society in general. Biglan (2009) suggests that if the justification and support for capitalism is its contribution to human wellbeing, then wellbeing should be our ultimate goal. Further, it is important to understand if companies and HRM can evolve practices that retain the beneficial aspects of capitalism while reducing their negative externalities.

Kapp's theory of social costs provides an alternative to the neoclassical theory of externality. He defined social costs as "all direct and indirect losses sustained by third parties or general public as a result of unrestrained economic activities. These social losses may take the form of damages to human health, they may find their expression in the destruction or deterioration of property values and premature depletion of natural wealth; they may also be evidenced in an impairment of less tangible values" (1977, p. 13). He indicated that the social costs are imposed on the weaker section of the society, such as individuals, who could not defend themselves from the harm of economic activities and the cost shifting. He strongly believed that social costs are avoidable by organizations so as to make the society humane and improve real income for the employees. He further indicated that public and private sector with combination of public and private controls makes it necessary to define social costs as damages and harmful effects of public and private economic decision making (Kapp 1965).

2.2 *Sustainable HRM Strategy*

Sustainable HRM practices are those practices that are used to achieve business goals as well as minimize the harm of the NE of such practices on employees and the community (Mariappanadar 2003). However, the over-working or over-stretching of valued employees for the internally referenced efficiency for an organization's benefit, at the cost of the employees' and their family's wellbeing is an unsustainable HRM strategy. The NE of unsustainable practice of employee retrenchment is based on the post-organizational costs (Mariappanadar 2003) imposed by organizations on employees and communities.

Ehnert (2009) examined sustainability from a broader perspective to the negative externality perspective. She developed a paradox framework for Sustainable HRM, which is an extension of Strategic HRM with regard to the notion of success (performance). The paradox framework attempts to highlight the tensions between traditional economic reasoning and substance oriented decision making for organizational sustainability (see also chapter “Sustainability and HRM” in this volume). The traditional economic reasoning seeks to maximize output or to minimize input by deploying employees more efficiently and effectively. The substance-oriented sustainability focuses on balancing corporate resource consumption of human resources and the supply of resources from the community/society as well as their regeneration and development within the organization. Ehnert (2009) defined Sustainable HRM as

the pattern of planned or emerging human resource strategies and practices intended to enable organizational goal achievement while simultaneously reproducing the HR base over a long-lasting calendar time and controlling for self-induced side and feedback effects of HR systems on the HR base and thus on the company itself. (p. 74)

In summary, it is evident from the literature that currently the sustainability of HRM is examined from the NE and strategic management perspectives. In this chapter, the focus is to conceptually develop a model from the NE perspective, and to highlight the wider importance to human sustainability.

3 A Conceptual Model of Negative Externality for Sustainable HRM

There is evidence available in the Strategic HRM literature (see Delaney and Huselid 1996; Laursen and Foss 2003) highlighting the effectiveness of HRM practices in achieving internally referenced efficiency for organizations. Those HRM practices that are capable of achieving internal referenced effectiveness may also contribute to NE. In this chapter a conceptual model of the NE for Sustainable HRM practices (Fig. 1) is proposed to examine the impact of the NE on employees and third parties (e.g. employees, their family members and communities), and the effectiveness of Sustainable HRM practices and employee individual differences to reduce those NE.

3.1 HRM Practices with Potential Negative Externality

There is no research currently available in the literature on the NE of HRM practices and hence drawing from Lazarus (2000) stress process model the harmful consequences or NE of some HRM practices used in organizations on the third parties is explored. It is proposed in this model that downsizing, restructuring, work

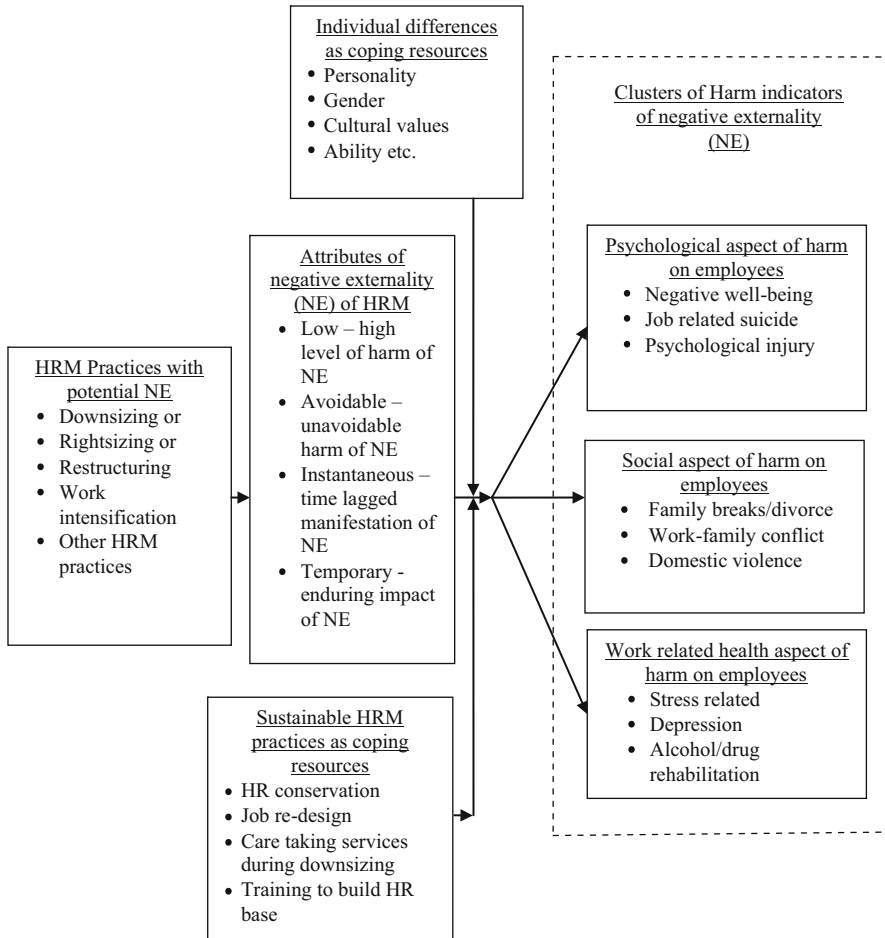


Fig. 1 A conceptual model of negative externality for Sustainable HRM

intensification etc. as HRM practices are identified as ‘HRM practices with potential NE’ or the antecedents for NE (Mariappanadar 2010). For example, employee retrenchment is capable of improving internally referenced efficiency of organizations and also capable of triggering a NE in that process. Furthermore, the post-organizational or social costs of HRM practices on employees and the community are explained as the NE (Mariappanadar 2003). In the next section a framework of attributes of NE is proposed to evaluate and understand the different types of NE related to HRM practices and to help researchers to collect evidence on the NE of these practices.

3.2 *A Framework of Attributes of Negative Externality of HRM Practices*

The proposed framework of attributes of NE of HRM explains the characteristics of harm that organization practices have imposed on third parties. The harm of NE of HRM practices is defined as *the profound, incomprehensible and negative impact on employees' and their family members' reduced personal outcomes, social and work related health wellbeing that are caused by work practices used by organisations to extract maximum skills, abilities and motivation of employees to achieve highly effective and efficient performance*. To understand the harmful aspects of HRM practices the attributes of NE of HRM are used in this model.

The attributes of NE of HRM practices are: (1) level of risk or severity of harm; (2) manifestation of harm; (3) impact of harm; and (4) avoidability of harm. The framework of the attributes of NE of HRM is based on the framework of social indicators. Armstrong and Francis (2003) explained that social indicators are statistics, which are intended to provide a basis for making concise, comprehensive and balanced judgments about the conditions in a specific society. Salvaris (2000) in reviewing various frameworks that are used to guide the selection of social indicators suggested that some communities develop social indicators within frameworks of sustainability, whereas others use frameworks describing a healthy community, quality of life or local democracy. He further indicated that the benefits of social indicators lie in their capacity to inform and guide appropriate authorities in policy-making and resource allocation choices. Here, the attributes of NE of HRM practices are used as social indicators to understand the impact of NE on employees' psychological, social and physical wellbeing so that organizations can develop Sustainable HRM policies and practices to improve the quality of life and create healthy communities.

It is proposed that each of the attributes of NE has a polarity of characteristics: (1) *low* and *high* risk or severity of harm for the attribute of level of harm of NE; (2) *avoidable* and *unavoidable* characteristics of the avoidability of harm attribute; (3) *temporary* and *instantaneous* as characteristics of the manifestation of harm attribute; and (4) *temporary* and *enduring* as characteristics of the attribute of impact of harm. Gibson (1979) argues that the senses evolved to respond to aspects of the environment relevant to adaptation, so that the positive or negative meaning of stimuli (viz. attributes of NE) is often immediate and becomes the basis for appropriate behavior. Therefore, the dimension of attribute of NE will determine the work behavior of employees, and in turn that will have appropriate consequences on the health and wellbeing of employees and the community. For example, if the appraisal of attributes of NE leads to employee disengagement, and employee disengagement leads to negative health and work/life balance consequences for employees (Musich et al. 2006), then the community will require a need for corrective action to be taken by an organization to minimize the impact of NE.

3.2.1 Level of Harm of Negative Externality

The level of risk or severity of harm of NE of HRM practices is concerned with an employee's evaluation of the *high* or *low* risk or severity of harm of NE on himself/herself, their family or the community. For example, an employee who evaluates their company's HRM practices as being of a high risk of harm of NE is less likely to engage in high organizational performance (see also chapter "[Corporate Human Capital and Social Sustainability of Human Resources](#)" in this volume). However, in reality, the internally referenced efficiency perspective of an organization will influence the employee to engage in high organizational performance in spite of their work disengagement. This tension or dissonance between an employee's evaluation of high risk or severity of harm of NE and the efficiency perspective of an organization lead to high stress; presenteeism, life dissatisfaction, and increased health risk among employees (Musich et al. 2006). Hence, a perceived high risk of harm of NE by employees and community should prompt action by the organization to minimize the impact of NE. However, a low level of harm of NE is perceived by employees and the community as a minimal risk to health or wellbeing. Therefore, the levels of harm have the capability to measure the harm of NE.

3.2.2 Manifestation of Harm of Negative Externality

The manifestation of harm appears *instantaneously* or *time lagged* after the introduction of a particular HRM practice. When NE of some nature happens as an immediate outcome of HRM practices then such externality gets significant attention within the community. For example, after the privatization of energy companies (owned by the state government of Victoria, Australia, in the Gippsland region about 160 km east of Melbourne, Victoria) between 1990 and 2002, many local employees lost their jobs from the power generation companies as well as from the ancillary industries. As an instantaneous consequence of the retrenchment there was a dramatic increase in alcohol related domestic violence, family conflict, and suicide in that community (Han and Phillips 2008). This harm of NE of retrenchment was noticed by the community as well as the government and resulted in the introduction of various welfare measures to minimize the harm of NE of retrenchment on the community. Although, the instantaneous NE impact on the community receives immediate political and organizational attention and hence actions are taken to minimize such impact the time lagged harm of NE manifests over a much longer period of time. For example, employee depression and work related psychosomatic disorders may be the time lagged manifestation of the NE of HRM practices. The difficulty is to identify the HRM practices that are the cause of the harm on employees due to the time lagged or delayed manifestation. Therefore, time lagged NE needs a different strategy to the instantaneous NE to counter its negative consequences. However, there is no research in the work stress literature to

suggest that a particular type of HRM practice causes time lagged manifestation of harm, such as depression and psychosomatic disorders on employees.

3.2.3 Impact of Harm of Negative Externality

The harm caused by NE of HRM can have a *temporary* or *enduring* impact on employees and the community. The temporary psychosocial impact of NE on employees and the community are those that may result in no permanent harm for employees. For example, Lin et al. (2007) found that headaches are a reaction to stress at work among nursing staff in Taiwan. The common methods used to deal with headaches are sleep, taking medicine, taking a rest, or acetaminophen (panadol-500 mg). Therefore, employees who perceive that the NE is only a temporary phenomenon do not experience any alarm about the need for action to minimize the externality impact. The enduring harm of NE though has a detectable impact that causes greater discomfort, damage, or distress to employees, their families, and the community and the impact maybe permanent. For example, an increased workload due to downsizing can alienate a retained employee from their family which can lead to a break down in the relationship with their partner or to the neglect of the children resulting in enduring behavioural problems. The break down in relationships and neglect of children as outcomes due to increased workload due to downsizing in turn causes a relatively permanent impact of discomfort and distress for the employee and their family (Brannen and Moss 1998).

3.2.4 Avoidability of Harm of Negative Externality

A set of HRM practices implemented by an organization is an outcome of both internal and external environments. Hence, an avoidability attribute of NE attempts to identify whether the harm of NE of an HRM practice is due to *avoidable* or *unavoidable* internal or external environmental conditions. That is, if an organization implements certain HRM practices due to an avoidable environmental context then the externality caused by such practices can be perceived as harmful (psychosocial) by employees and the community. Therefore, the organization needs to take corrective action to minimize the harm done to employees and the community to boost their Corporate Social Responsibility reputation. For example, corporate company (A) diversifies either by a take-over or merger with company (B) identified as a 'cash cow'. Subsequently, A retrenches employees from company B to cut costs for further diversification of company A. Employees in company B feel that company A is retrenching employees due to self-interest and hence it is perceived as 'avoidable' and unacceptable to them. However, if company B is under-performing due to a prolonged recession and decides to retrench employees in the company then the employees and community may perceive this HRM strategy as 'unavoidable' and hence acceptable to employees.

To summarize, the level of harm as an attribute of NE focuses on an employee's perceived quantity of NE, the impact attribute relates to the permanence of the impact of NE, the manifestation attribute explores the temporal aspect of the manifestation of NE, and the avoidability attribute defines the environmental factors as the cause of NE of HRM practices. HR managers need to become more aware when they are confronted with conflicting employees' appraisals of tensions of low or high risk or severity of harm, and the manifestations of instantaneous or time lagged harm. Also, they are faced with the tension of enduring or temporary harm of NE, and the avoidable or unavoidable environment based harm of NE. These polarities of harm of NE as perceived by employees and the community trigger sustainable and unsustainable HRM strategy tensions in managers when making business decisions. Therefore, the polarities of harm of HRM practices provide a new perspective to understand the paradox they create for managers while making business decisions based on internally efficiency referenced criteria. Pool and Van de Ven (1989) define a paradox as a situation in which two seemingly contradictory, or even mutually exclusive, factors appear to be true at the same time. Further, they suggested that a paradox has no clear answer or set of answers – it can only be coped with as best as possible. Ehnert (2009) has also suggested that the tension created between the traditional notion of economic success and both a substance-oriented and an ethical understanding of sustainability needs to be acknowledged by HRM. The paradoxes and dualities between these different rationales for decision-making provide richer insight to justification of sustainability. Hence, the paradox created by the polarity of harm of NE can provide insight for managers to explore a new HRM strategic direction, such as Sustainable HRM, to minimize the impact of harm of NE on employees and the community.

3.3 Moderating Effects of External and Internal Resources for Coping with Negative Externality

It is proposed in the model that employees use coping strategies based on their individual personal characteristics and organizational practices such as Sustainable HRM practices to minimize the NE. For example, employees use problem-focused or emotion-focused coping strategies (Lazarus 2000) when they encounter downsizing in their organizations (for problem-focused and emotion-focused coping in Sustainable HRM see Ehnert 2009). Wilk and Moynihan (2005) suggest that the personal characteristics and the organizational practices used to cope with job-stressors have the potential to diminish the detrimental effects of these stressors on work-related outcomes. Sears et al. (2000) revealed that reduced levels of burnout and depression were associated with coping strategies that are tailored specifically to organizational and individual needs and that such strategies are likely to produce healthy and satisfied employees. Therefore, in this section the

effectiveness of Sustainable HRM practices (work context or external resources) and individual differences (personal characteristics or internal resources) are explored as coping strategies to minimize the harmful aspects of NE of HRM practices.

3.3.1 Sustainable HRM Practices

It is proposed in the model that subsequent to evaluating the types of NE affecting employees using the attributes of NE, organizations may introduce appropriate HRM practices to counter the NE. Dollard et al. (1998) reported that work contexts are important factors in reducing the risk of psychological strain among employees. Ideally, organizations should introduce Sustainable HRM practices to help survivors to cope with the context of downsizing so that they can play an important role in the future success of the downsized organization. Theorists have suggested that empowerment and job enrichment are two such HRM practices that are used by organizations to help employees cope with downsizing as well as to stay loyal to the organization (Mishra and Spreitzer 1998). Niehoff et al. (2001) found that job empowerment does indeed have an indirect effect on loyalty through job enrichment during downsizing.

Ehnert's (2009) proposition of Sustainable HRM complements Mariappanadar's (2003) HR conservation strategy. HR conservation is a strategy used to develop the human resource base from within the organization to handle the unsustainable harm of downsizing. HR conservation is the extent that an employee has acquired company specific or transferable competencies (knowledge, skill and interpersonal skills) to perform a variety of jobs effectively in the future by retaining their membership in the same organization with additional, but not extensive, formal training.

3.3.2 Employee Individual Differences

It is proposed that individual employee differences, such as personality, gender, cultural value, ability etc., are used as internal coping mechanisms by employees in moderating the attributes of NE and the harm indicators of the model. For example, Lazarus (2000) indicated that primary appraisal of harm or threat of a stressful work context is mediated by employees' values, personality and belief about themselves in coping with the stressful situation. Furthermore, Bennett et al. (1995) found a positive relationship between self-efficacy (a personality characteristic) and coping strategies among 'layoff victims'. Several different industries (such as education/training, health/safety, retail/wholesale, and technology), suggest that employee work stressors are more strongly related to counterproductive work behaviour among those workers who were low in conscientiousness, or high in negative affectivity (NA) than among workers who were high in conscientiousness, or low in NA (Bowling and Eschleman 2010). Further, the interplay of cultural dimensions (e.g. individualism and collectivism) and coping with work stress in predicting psychological strain or distress on the job is established (Bhagat et al. 2010).

3.4 *Harm Indicators of NE of HRM*

It is important to understand the impact that attributes of the NE have on employees, their family members and the community. Hence, the harm indicators of NE are used to identify the presence or manifestation of psychosocial and health harm and can be used to raise awareness. The proposed indicators of harm of NE (Fig. 1) are grouped into three aspects of manifestation of harm. These are psychological, social and work-related health aspects. The psychological aspect of harm upon employees become manifest, for example, in negative wellbeing, job related suicide, drug/alcohol abuse, emotional pain and sufferings due to psychological injury. Social harm indicators are, for example, family breakdown/divorce, child neglect and increased domestic violence. Harm indicators such as work-related depression, neurotic and psychosomatic disorders and alcohol/drug rehabilitation are clustered within the work-related health aspect of harm upon employees and their family members.

The rationale for clustering the harm indicators such as work stress, negative wellbeing, and job related suicide within ‘psychological aspect of employees’ is explained by the effort-recovery (E-R) model (Meijman and Mulder 1998). The E-R model theorizes that effort expended at work has both benefits (e.g., productivity) and short-term psychological and physiological costs. These costs are thought to be reversible, as long as the individual has sufficient opportunities for recovery, both during work breaks and after work (see also chapter “[Corporate Human Capital and Social Sustainability of Human Resources](#)” in this volume). However, if there is insufficient opportunity for recovery from work due to increased workload and work stress caused by downsizing, then negative load effects may accumulate, resulting in prolonged fatigue and negative well-being (Geurts et al. 2003) leading to the psychological manifestation of harm upon employees. Hence, the E-R model can serve as a useful theoretical framework for explaining the mechanisms underlying the relationship between NE of HRM and the psychological aspect of harm for employees.

The aspect of harm indicators within the social aspect of employees is explained by the spillover model of work-to-family influences (Bolger et al. 1989). The spillover model explains how the daily tensions and satisfactions experienced at work by employees are assumed to shape an employee’s emotional state at the end of the work day, leading to either tension or satisfaction at home for that employee. Hughes and Parkes (2007) found in their study that participants working longer hours experienced greater spillover of work time and strain into their home life (viz. child neglect and domestic violence), and this interference, in turn, is negatively related to family satisfaction. The process of stress crossover (Sears and Galambos 1992) also explains how an employee’s stress at work results in stress for his or her spouse at home and subsequent negative marital interactions leading to family break downs and divorce, with obvious cost to employees and their families.

The aspect of harm indicators of work related health issues on employees can be explained by two different theoretical pathways: the physiological recovery

mechanism and life style factors (van der Hulst 2003). These two pathways are not mutually exclusive and they may operate simultaneously. The physiological recovery mechanism proposes that insufficient recovery disturbs physiological processes (blood pressure, hormone excretion, sympathetic nervous system activity) and leads to physical health complaints (Rissler 1977). The unhealthy life-style factors such as smoking and caffeine and alcohol consumption, unhealthy diet, and lack of exercise cause physiological changes (e.g., high blood pressure, high cholesterol) and increased risk for cardiovascular disease and adverse health in general (van der Hulst 2003). Hence, there is evidence to suggest that the attributes of NE of HRM may lead to negative work related health outcomes due to physiological or/and life style factors.

3.5 Psychological, Social and Work-Related Health Harm as NE

Why are the psychological, social and work related health aspects of harm of HRM practices considered to be NE? Within the definition of externality, are shown the cost that an organization's practices impose on the society or a third party (Biglan 2009). The cost refers to an estimate of expense or payment of money to alleviate the harm of NE of HRM practices by employees and the community. For example, the expense incurred by employees to alleviate the emotional pain undergone due to work related psychological injury or the expense relating to divorce caused by work-family conflict. Furthermore, in Australia the costs associated with negative work related health outcomes for employees and their family members are rendered by the community (government) through Medicare (an Australian government agency providing universal health care). Hence, the psychological, social and work related health harm of HRM practices are treated as NE because the associated costs of these harm are 'not' compensated by organizations that have triggered these harm but the costs (social costs) are incurred by employees and the community as third parties.

In summary, the objective of the proposed conceptual model (Fig. 1) of NE for Sustainable HRM is to provide a framework to understand the manifestation of the psychological, social and work related health harm on employees due to the attributes of NE of HRM practices. Subsequently, the NE of HRM practices is explained based on the costs rendered by employees and communities as third parties to alleviate the harm of NE imposed by organizations. Further, the model attempts to explore the performance effectiveness of Sustainable HRM practices that are introduced by organizations to counter the NE of unsustainable HRM practices.

Considering that Sustainable HRM research is in its early stages, it is important to be cautious when assuming, without evidence, that some of the HRM practices used in organizations have a sustainable impact on employees and communities.

For example, efficient, effective *and* sustainable HR deployment (Ehnert 2009) and HR conservation (Mariappanadar 2003) as Sustainable HRM strategies to counter downsizing can be empirically tested in the future. The proposed model provides a framework for managers and researchers to make informed, evidence based, decisions on the sustainable and unsustainable impact of HRM practices on employees, their family members and the community. Hence, the list of unsustainable HRM practices and the list of Sustainable HRM practices provided in Fig. 1 are only indicative. In future, researchers can examine any other HRM practices, which are not included in this list, for NE on employees and the community. Also, the list of Sustainable HRM practices may include any other HRM practices that are used by the organizations to counter the NE of those HRM practices with potential NE.

4 Analysis of the Link Between NE of Downsizing and Harm Indicators

In this section, the relationship between the NE of employee downsizing and the harm indicators is theoretically analyzed. Subsequently, the effectiveness of Sustainable HRM practices and individual differences used by employees as the external and internal coping resources to minimize the psychological and the social aspects of harm upon employees, and the employee work related health treatment costs to the community are also analyzed.

Most research on downsizing focuses on its organizational impact or effects on the survivors, and little has been studied about the victims of downsizing (Clarke 2007). However, in the European HIRE project (Kieselbach et al. 2007), there was found evidence that employee downsizing has a significant detrimental effect on the health of employees who are affected, including the so called survivors of restructuring. Therefore, the psychological, social and work related health harm of downsizing on employees and their families are explored in this chapter to better understand the issues involved (see also chapter “[Social Sustainability and Quality of Working Life](#)” in this volume).

An analysis of NE of downsizing is undertaken based on the theoretical relationships between the polarity of characteristics of NE of HRM and the harm indicators with each of the three aspects of harm. Also, an attempt is made, wherever possible, to discuss the impact of the selected harm indicators across the three aspects of harm of NE on the victims and the survivors. Subsequently, based on published secondary data, the costs associated with the psychological and social aspects of harm, and work related health treatment for the victims and the survivors and the community as third parties are estimated to indicate the NE of downsizing.

The downsizing literature clearly highlights that redundancies have negative impacts on victims as well as survivors. Devine et al. (2003) and Paulsen et al. (2005) in their respective studies of downsizing outcomes on the victim and the

survivors found that downsizing outcomes are different for the victims and the survivors. Therefore, in this chapter the harmful aspects of downsizing are explored from both (victim and survivor) perspectives as each has to render a price to overcome the harm. Employee downsizing is regarded as highly stressful by the victims (Kinicki et al. 2000) and the survivors (Devine et al. 2003), and in turn this stress has different negative effects on them. For example, strained family relationships (Leana et al. 1998) among survivors and reduced subjective wellbeing among victims (Laabs 1999). Hence, downsizing as a HRM practice triggers stress and subsequently leads to varied psychological, social and work related health aspects of harm on employees (Devine et al. 2003; Price et al. 2002) and former employees. Therefore, work stress is used as a surrogate variable for NE of downsizing because there is no research available in the literature to explain the NE of downsizing.

This section reviews the costs rendered by employees and the community to alleviate the harm caused by the attributes of NE. However, the availability of published information on the costs to alleviate the harm of NE of downsizing is limited. Hence, the costs used in this section are only indicative and the purpose is only to underscore the message about the potential NE of HRM practices.

4.1 NE of Downsizing on Victims and Survivors

As discussed earlier, published information on work stress caused by downsizing is used to extrapolate the impact of attributes of NE of HRM practices on a selective few harm indicators of NE. The selected harm indicators are high work stress and suicide from the psychological aspect, and work/life balance and family break-down/divorce from the social aspect of harm on the victims. Further, the work related health aspect of harm due to work stress on employees (both victims and survivors of downsizing) and their family members is also explained.

The high risk level of NE, as an attribute, caused by downsizing creates negative wellbeing upon the psychological aspect of harm for employees, and when negative wellbeing persists it can lead to job related suicide (Greenwald 2009). Keefe et al. (2002) found in their study of meat workers in New Zealand, who lost their jobs due to downsizing, that there was an increased risk of serious self-harm which led to hospitalization or death (suicide) when compared to the employed cohort. The high level harm of NE of downsizing increases the risk of work related illnesses such as depression (Price et al. 2002) and psychosomatic disorders (Kasl et al. 1998) among victims of downsizing.

The instantaneous manifestation attribute of NE of downsizing on victims explains the increase in the level of psychological strain due to the realization of job loss. Price et al. (2002) proposed in their study that a single discrete life event such as job loss due to downsizing triggers two different chains of adversities. These are as short-term (instantaneous) and long-term (time lagged) adversities. The occupational stress of downsizing among victims may have an instantaneous

effect on relationships with family members (Repetti 1989), which is the social aspect of harm. The instantaneous externality of expected job loss due to downsizing decreases the quality of interaction with the family members (social aspects of harm) due to negative mood swings (psychological aspect) from occupational stress.

The time lagged attribute of harm of downsizing infers that the harm may manifest in victims after a period of time of implementing downsizing. Price et al. (2002) and Hamilton et al. (1993) revealed that among victims the job loss and financial strain over a period of time may influence depression and divorce (Bodenmann et al. 2007). Work related depression caused by downsizing maybe manifest only after a period of time following the beginning of downsizing incident.

The temporary and enduring harm are the two characteristics of the impact attribute of NE. In understanding the impact of these two characteristics on the harm indicators of victims of downsizing, initially the temporary harm is discussed followed by the enduring harm. Victims of downsizing experience a host of emotional and physiological problems as temporary harm. Kets de Vries and Balazs (1997) found that victims tend to neglect their appearance; they also tend to suffer from insomnia and loss of appetite along with preoccupation with negative thoughts. Victims of downsizing may be able to overcome this temporary harm once they regain employment.

The enduring impact attribute of NE refers to the permanence of harm. The enduring harm of downsizing may leave a permanent psychological scar on the victims due to the negative impact of depression etc. caused by job loss, and that negative impact upon victims' mental health remains even after they have regained employment. For example, Price et al. (2002) revealed that the chain of adversity appears to have a long lasting negative impact on victims' mental health, suggesting that even reversible life events such as job loss can have lasting effects upon those who experience them.

The avoidable and unavoidable characteristics of the avoidability attribute relates to the business environment context of downsizing. In the context based analysis of NE, it is assumed that the survivors have more negative exposure to the NE than the victims because irrespective of the business context the victims are displaced while the survivors continue their employment within the same organization.

The attribute of unavoidable externality of work stress triggers a 'wait and see' approach among survivors of downsizing due to learned helplessness (Waters 2007) which can lead to an increased level of anxiety (Kowske and Woods 2008) within the psychological aspect of work life. In turn, the increased level of anxiety results in a profound impact upon the survivors' health outcomes (Doby and Caplan 1995).

The avoidable attribute of NE relates to organizations that implement downsizing due to an avoidable environmental context. The avoidable attribute of NE impacts the survivors of downsizing more than the victims due to their increased workload after downsizing introduced as part of an organization's turn-around strategy to improve organizational performance. Likewise Cooper et al.

(2001) found that the survivors of downsizing experienced higher levels of occupational stress due to increased job demands.

Organizations may increase the survivors' workload to turn around an organization from performance failure by either using retrenchment or repositioning strategies. To illustrate, Boyne and Meier's study (2009) found that turnaround strategies work equally well as a repositioning strategy during an attempt to recover from the decline of failing school districts in Texas, a public service operating in the task environment. Further, Castrogiovanni and Bruton's (2000) study showed that retrenchment may not be a universally desirable strategy in the business turnaround process because retrenchment did not seem beneficial following the acquisition of distressed firms. In this context, the survivors may perceive an increased workload caused by retrenchment for turnaround strategy as avoidable and hence unacceptable to them because the organization operating in a task environment could have chosen the repositioning strategy instead of retrenchment. Therefore, the NE of increased workload due to retrenchment in an avoidable task environment context is envisaged to have harm on the survivors. For example, Armstrong-Stassen and Cameron (2003) revealed the long-term damage of hospital downsizing on nurses' intentions to stay in the profession. Baran et al. (2009) indicated the plight of the retrenchment 'survivor syndrome' and the impact of perceived job insecurity on the survivors' mental and physical health.

In summary, it can be inferred from the analysis of the link between the attributes of NE and the harm indicators of downsizing that there is a clear indication of NE. That is, downsizing leads to negative wellbeing, marital adjustment issues, depression, psychosomatic disorders due to the psychological, the social and the work related health aspects of harm on the victims and the survivors. The costs of work related health treatments therefore are borne by communities through the universal health care system in Australia as well as other countries with similar health care systems, and hence it can be inferred that downsizing has the potential of NE. For example, in the USA, the treatment of psychosomatic complaints with no organ damage among employees is equivalent to 25 % of outpatient treatment costs (Cummings 1993) to the community. The treatment costs for depression is USD 5,415 (Druss et al. 2000), and for psychosomatic disorders is USD 3,070 (Shaw and Creed 1991).

The harmful aspect of downsizing also impose costs on victims in terms of reduced average salary received (Mirvis and Hall 1996) when a change of profession is required after retrenchment. Furthermore, this section has discussed that divorce caused by the harm of time lagged attribute of downsizing is a cost to the victims and the survivors. Divorce in the USA costs approximately \$30,000 for an individual employee (Schramm 2006). Therefore, based on the costs imposed by organizations on the third parties due to downsizing as a turnaround practice, the existence of NE in downsizing practice is clearly highlighted. In the next section, the focus will be on exploring coping resources that individual employees and HRM have or can develop in order to reduce the harmful effects of downsizing.

4.2 *External and Internal Coping to Minimize Harm of Downsizing*

4.2.1 Effectiveness of Sustainable HRM Practices as a Coping Resource

In the Sustainable HRM literature, Mariappanadar's (2003) definition of sustainability includes that downsizing should be used to achieve business goals without harming third parties, such as employees, their families and the community. Further, Ehnert's (2009) definition of Sustainable HRM explains that HRM practices should enable organizational goal achievement while not depleting the HR base of the organization. Therefore, in this section, those practices used by organizations to counter the NE of downsizing that are similar to the Sustainable HRM strategies proposed by Mariappanadar and Ehnert are explored. For example, Ehnert suggested that sustainable practices can make the best of a precarious situation as well as not deplete the HR base for the organization. Mariappanadar (2003) indicated that HR transformation, where organizations invest on downsizing survivors to encourage them to acquire new skills to maximize output, can reduce the harm of downsizing on employees and the community. Further, Kets de Vries and Balazs (1997) suggested providing the victims with tangible caretaking services (such as outplacement consulting and psychological and career counseling), actively trying to help them find new jobs, and assisting them in bridging the transition period. These Sustainable HRM practices can make the best of a difficult situation as well as not depleting the HR base for the organization.

4.2.2 Individual Differences of Victims and Survivors as a Coping Resource

The psychological sense of personal control plays an important mediating role between the attributes of NE and the harm indicators of downsizing upon the victims and the survivors. Personal control is characterized as locus of control, efficacy, hardiness and helplessness (Price et al. 2002). Price et al. found that a reduction in personal control as a coping resource leads to elevated symptoms of depression and adversely impacts on role and emotional functioning among the victims of downsizing. However, for the victims, Paulsen et al. (2005) found that issues of personal control appear to be less important in the aftermath of downsizing either because the benefits of change are apparent or the change situation is no longer uncertain. Further, they also found that job uncertainty in the lead-up to downsizing and throughout such an event is stressful for survivors because it weakens their sense of personal control, which in turn, reduces their ability to cope with job uncertainty.

In summary, it is indicated in the literature that Sustainable HRM practices and individual differences of the victims and the survivors of downsizing have the potential to moderate the impact of NE on the victims and the survivors. However,

the model of NE for Sustainable HRM practices provides a new framework of attributes to NE to explore in future if the Sustainable HRM practices, such as care taking services, HR transformation and work design, organizations can still achieve their business goals and also reduce the harm of NE of downsizing on the victims and the survivors. Furthermore, the model proposes future research to examine if individual differences of the victims and the survivors have the potential to moderate the harm of NE of downsizing along with the Sustainable HRM practices introduced by organizations to minimize the harm of downsizing.

5 Conclusion

The Sustainable HRM practice suggests that organizations should implement strategies and practices that help organizations to achieve effectiveness as well as cause less harm to third parties, such as employees, their families and communities. As there is very little research available in the HRM literature from the institutional economics perspective on the harmful aspects of HRM practices on employees, their families and communities, this chapter has identified the importance of early identification of the harm of NE and costs associated. Ideally, this would lead to the introduction of Sustainable HRM strategies before the harm of NE depletes the HR base for the affected organizations as well as of other organizations that will depend on this HR base for future engagements.

In this chapter, an attempt has been made to highlight the NE of HRM practices. To understand the costs of harm of HRM practices imposed on the third parties, the model of NE for Sustainable HRM practices has been proposed. The model includes the attributes of NE and the harm indicators of NE of HRM practices. The attributes of NE are the level, manifestation, impact and avoidability, which are used to measure the NE of HRM practices. The harm indicators are used to identify the harmful aspects of HRM practices, and are clustered into the psychological, social and work related health aspects of harm.

The proposed model of NE for Sustainable HRM can help HRM practitioners and researchers to identify the attributes of NE of HRM practices that have harmful consequences on employees, former employees and the third parties (i.e. families and the community). Managers with information on the harmful consequences of NE can determine the priority for corrective actions, such as Sustainable HRM practices, to minimize the impact of NE on the third parties. Therefore, it is important to develop concepts to understand the harm of NE of HRM practices. Future research can focus on validating the attributes of NE of HRM and its relationship with the harm indicators, and the associated costs for the third parties. Investigations should also be undertaken to discover the impact of the attributes of NE of HRM practices on the other harm indicators not analyzed in this chapter, and by including additional new harm indicators to the model.

An attempt has been made to analyze the costs of NE of downsizing on the victims and the survivors of downsizing using the model of NE for Sustainable

HRM practices. There is mixed evidence in the literature suggesting the benefit of downsizing that organizations have used as a turnaround strategy. However, the analysis of published information on downsizing revealed that NE of downsizing exists and impacts upon employees, their families and the community. Communities have to bear the costs to treat the victims, the survivors, and their family members who suffer from work related health issues, such as depression and psychosomatic disorders caused by downsizing. It was also revealed that the survivors and the victims have to bear the social costs of NE, such as divorce caused by downsizing. Further, the victims of downsizing may have to change their career due to the harm of downsizing and hence may earn a lower salary.

The Sustainable HRM practices introduced by organizations to counter the harm of downsizing, and individual differences of the victims and the survivors seem to have a moderating effect on the harm of downsizing. However, it is suggested that the model of NE for Sustainable HRM practices is used to empirically examine whether the Sustainable HRM practices and individual differences of employees do have a moderating effect on the harm of downsizing. Therefore, the model of NE for Sustainable HRM practices is a useful tool to measure the harm of HRM practices used by organizations, as well as help to evaluate the effectiveness of the Sustainable HRM practices introduced to counter the harmful aspects of NE.

There are limitations to this chapter, the information used to analyze the attributes of NE of downsizing have been extrapolated from the occupational stress literature. The costs of harm of downsizing for the victims, the survivors and communities are estimated based on available information in the literature and hence it has to be used with caution. However, these two limitations form compelling reasons to conduct more theoretical and empirical research on the NE of HRM practices. Finally, many concepts used in this chapter are not common in management or HRM literature and they are drawn from the field of social economics, environmental science, social indicators for public policy and public management. Hence, there is a need for more interdisciplinary research to develop Sustainable HRM perspective in HRM and management fields.

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