

The Effect of Downsizing on Transformational Leadership, Organizational Climate, Organizational Commitment and Employee Performance

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Abstract: The research was aimed to analyze and explain the effect of downsizing on transformational leadership, organizational climate, organizational commitment and employee performance; transformational leadership on organizational climate, organizational commitment and employee performance; organizational climate on organizational commitment and employee performance; organizational commitment on employee performance of PT. Pindad (Persero). The research type is an explanatory research, which describes the influence among the research variables. The object of research units of PT. Pindad (Persero). The research population was the employees of PT. Pindad (Persero) who have experienced downsizing. The research sampling were 96 people. The research considers the Generalized Structured Component Analysis (GSCA) method to analyze the data.

The result indicated that there were effects among variables in all hypotheses. Five of 10 hypotheses proposed were significant and 5 other hypotheses were insignificant. Transformational leadership variable played an important role in effect of downsizing on other variables such as organizational climate, organizational commitment and employee performance. The result of research showed that downsizing through transformational leadership had positif and significant effect to organizational climate and organizational commitment. The other side the effect to employee performance was positif but insignificant. The research then concluded that the optimization of downsizing must involve transformational leadership as a mediator.

Keywords: Downsizing, Transformational Leadership, Organizational Climate, Organizational Commitment, Employee Performance

I. Introduction

Downsizing is a systematic effort by the company to reduce the amount of labor in order to improve the efficiency and performance (Appelbaum, et al, 1987, 1999), but some researchers define it in a way that is slightly different (McKinley et al, 2000; Cascio & Wynn, 2004). It is defined by Tsai & Yen (2008) by using the term downsizing, organization downsizing, business downsizing; reorganization, right-sizing, de-layering, restructuring, redundancy, rationalization, redesigning, revitalization etc. Which is essentially a series of managerial actions taken by the company that aims to adjust to changes in the environment, overcoming the difficulties of management, increase efficiency, improve productivity and competitiveness (Tsai & Yen, 2008). In streamlining the way used include cost reduction, restructuring and workforce reduction (employees). Of the three ways, the most important way, and as a last resort is a reduction in workforce. Robbins (1994) stated that downsizing is an organizational downsizing efforts or reduce the size of the organization by reducing the number of vertical levels. While Cascio (1993) states that the downsizing as a step to reduce the number of middle managers, expanding the range of organization control and encourage the delegation of authority. Thus downsizing refers to the planned elimination of positions or jobs.

Downsizing is a common euphemism referring to the purpose of reducing the size and cost of operating companies as well as by way of reducing the number of employees. For employees, downsizing can be very frightening and upsetting. This means that downsizing is necessary for management on the one side in a particular state, but so downsizing can also be a negative impact on organizational commitment (Theissen, 2004; Lee & Corbett, 2006; Ericson & Roloff, 2007) which is manifested in the form of underperformance (Lee & Corbett, 2006). Decreasing organizational commitment can also have an impact on the rising levels of absenteeism and decreased productivity (Meyer et al, 1997; Lamsa & Savolainen, 2000). In addition to giving effect to the commitment, downsizing can also impact the performance of the organization or company (eg Stassen et al., 2005; Tzafirir et al., 2006; Guthrie & Datta, 2007; Sheaffer et al., 2009; Sitlington & Marshall 2011). The negative impact of downsizing must be minimized to achieve the goal of implementation of downsizing itself. One of the method is through the role of transformational leadership. Because

transformational leadership is one kind of leadership that tends to increase with the subordinate role with active communication.

Turknett (2009) in an article titled *Revitalization after downsizing: A Briefing for Leaders*, stated that the leaders of the post-downsizing should be able to provide an assessment of the remaining employees, have a clear knowledge on every mood, giving the commitment, energy, morale, etc. Such knowledge is essential for planning interventions that will produce the desired culture. Work to improve security, not by promising a job, but by providing information, increasing engagement, helping people be responsible for themselves including responsible for their own careers.

Transformational leadership is a leadership approach that builds awareness about the importance of the value of their subordinates and the work of their task (Bass, 1985). Furthermore, transformational leaders are also making efforts to change awareness increase, excite and inspire subordinates or members of the organization to spend extra effort in achieving organizational goals, without feeling pressured or stressed. That leadership is needed to bridge the interests of the organization to the employees, so that downsizing is expected to be implemented as planned. Based on these descriptions can be said that transformational leadership will have a positive influence on organizational climate (McMurray, et al, 2010) as well as on employee performance (Sandbakken, 2006). In addition, organizational climate can be a positive influence on organizational commitment (De Clercq & Rius, 2007) as well as on organizational performance (Kangis & Williams, 2000).

II. Theory Frame Work

Downsizing, Organizational Climate, Organizational Commitment and Employee Performance

The existence of downsizing will occur less conducive working atmosphere, because the employee was filled with anxiety due to the lack of certainty about the continuity of work in the future. This happens to employees who survived downsizing (survivors) that may affect their performance. Thus the first hypothesis can be formulated as follows

H1: Downsizing has a significant negative effect on organizational climate.

The existence of downsizing will bring apathy as a result of changes in psychological contracts, and can lead to decrease in organizational commitment (Theissen, 2004; Lee & Corbett, 2006; Ericson & Roloff, 2007). Downsizing also results in delays long-term commitment (Hitt et al., 1994). The decline in organizational commitment can have an impact on the rising levels of absenteeism and decreased productivity (Meyer et al, 1997; Lamsa & Savolainen, 2000). Thus the second hypothesis can be formulated as follows.

H2: Downsizing has a significant negative effect on organizational commitment

Downsizing estimated to be the major cause of declining employee performance (Cameron et al., 1991). With the downsizing, the work that should be done by some people after any downsizing it must be done alone.

H3: Downsizing has a significant negative effect on the performance of employees

Transformational Leadership, Organizational Climate, Organizational Commitment and Employee Performance

From all sort of literatures, transformational leadership expressed a positive impact on organizational climate. As research conducted McMurray et al (2010) which uses a scale of transformational leadership states that the combination of transformational and transactional leadership had a positive influence on organizational climate.

H4: Transformational leadership has a significant positive effect on organizational climate.

Transformational leadership can have a positive impact on organizational climate (McMurray, et al., 2009). The combination of transformational and transactional leadership positively influence to organizational climate. Transformational leadership is able to provide peace, certainty and motivation to the follower which in this case is the employee. Thus providing a positive impact on organizational climate.

H5: Transformational leadership has a significant positive effect on organizational commitment

Transformational leadership can influence on organizational commitment (Ramachandran & Krishnan, 2009). Due to the transformational leadership, leaders will develop/empower people by creating an enabling environment, then also stimulate people to be creative and innovative to search through the assumptions, the formulation of the problem, and the adjustment of the old situation in a new way, in addition to the leader behaves in a way to motivate parties- those around them by providing meaning and challenge to subordinate then act as a role model

H6: Transformational leadership has a significant positive effect on employee performance

Downsizing and Transformational Leadership

Downsizing is done mainly in order to efficiency but in practice it often doesn't get the expected results (Cascio et. al., 1997). Therefore, if needs of a form of leadership that will support the implementation of downsizing (Turknett, 2009). The right leadership to support the implementation of the downsizing is transformational leadership. Transformational leadership is visionary leadership that invites followers to look

away. Both the future of the organization/company and the employees themselves. Thus the existence of downsizing will lead to transformational leadership or in other words, downsizing will affect positively to transformational leadership.

H7: Downsizing has a positive significant effect on transformational leadership

III. Methods

The research was conducted in PT. Pindad Indonesia. Number of questionnaires that were collected were 96 respondents from 2.014 employee who have experienced downsizing. The research was using Generalized Structured Component Analysis (GSCA) using GeSCA software online.

Measurement of research constructs (unobserved variables) performed through reflective indicator measurement scale using a Likert Scale technique. Downsizing construct adopt Robbins (1994), Cascio (1993) and Tsai Yen (2008) with 3 indicators. Measurement of transformational leadership adopt Bass (1985) with 4 indicators. Measurement of organizational climate using Organizational Climate Measure (OCM) based upon Quinn and Rohrbaugh's Competing Values model that developed by Patterson, et al. (2005) with 4 indicators. Organizational commitment measured using indicators adapted from Allen & Meyer (1991; 1997) with 3 indicators. Indicators used to measure employee performance adapted from Gomes (2002) with 4 indicators. All indicator will be shown in appendix 1.

IV. Analysis and Result

Model Measurement (Outer Model)

This model specifies the relationship between the latent variable indicators or it can be said that the outer model defines how each indicator relates to the latent variables. Test conducted on the outer models include.

Convergent Validity

Convergent validity value is the value of loading factor on the latent variable indicators. The expected value of > 0.7 and significant. In table 1 shows that value convergent validity on each indicator.

Table 1. Convergent Validity

Indicator	Loading		Indicator	Loading		Indicator	Loading	
	Estimate	CR		Estimate	CR		Estimate	CR
DS.1	0.789	22.04*	OCL.1	0.726	15.48*	OCM.1	0.799	27.33*
DS.2	0.797	18.08*	OCL.2	0.737	15.71*	OCM.2	0.784	22.03*
DS.3	0.843	26.92*	OCL.3	0.715	12.89*	OCM.3	0.655	11.28*
DS.4	0.827	19.61*	OCL.4	0.736	15.52*	OCM.4	0.633	9.46*
DS.5	0.819	22.57*	OCL.5	0.835	30.16*	OCM.5	0.762	17.95*
DS.6	0.655	8.8*	OCL.6	0.761	14.03*	OCM.6	0.631	9.23*
DS.7	0.768	18.92*	OCL.7	0.795	18.95*	OCM.7	0.742	19.15*
DS.8	0.682	10.47*	OCL.8	0.705	13.08*	OCM.8	0.718	14.16*
DS.9	0.716	13.38*	OCL.9	0.662	11.1*	OCM.9	0.693	11.54*
DS.10	0.666	11.66*	OCL.10	0.773	22.38*	OCM.10	0.739	17.59*
DS.11	0.768	21.37*	OCL.11	0.778	23.36*	OCM.11	0.668	10.59*
DS.12	0.630	7.43*	OCL.12	0.674	9.59*	OCM.12	0.782	17.26*
DS.13	0.701	12.31*	OCL.13	0.717	14.99*			
						EP.1	0.770	20.57*
TL.1	0.760	25.72*	TL.14	0.623	8.7*	EP.2	0.809	25.56*
TL.2	0.691	14.71*	TL.15	0.649	12.84*	EP.3	0.730	15.48*
TL.3	0.755	19.51*	TL.16	0.698	16.13*	EP.4	0.752	17.35*
TL.4	0.686	11.35*	TL.17	0.669	12.22*	EP.5	0.759	19.37*
TL.5	0.800	21.45*				EP.6	0.807	25.47*
TL.6	0.628	9.29*				EP.7	0.734	16.42*
TL.7	0.784	19.86*				EP.8	0.686	13.3*
TL.8	0.739	16.68*				EP.9	0.776	18.47*
TL.9	0.748	16.48*				EP.10	0.815	27.14*
TL.10	0.726	13.84*				EP.11	0.694	13.75*
TL.11	0.682	12.02*				EP.12	0.659	14.38*
TL.12	0.679	11.91*				EP.13	0.646	10.62*
TL.13	0.746	17.48*				EP.14	0.716	15.51*

CR* = significant at .05 level

All the indicators have outer loading (loading estimate) greater than 0.5 and significant. All indicators can be used in testing the research model because adequate convergent validity.

Discriminant Validity

Discriminant validity test is used to see whether a specific indicator of the latent variable is completely different from indicators of other latent variables, so that the indicator is really worthy to explain the latent variables. Discriminant validity test is done by looking at the root of the average variance extracted value (AVE) for each latent construct and compare it with the correlation between the constructs. If the root of the AVE value of each construct was greater than the value of the correlation between the construct with other constructs in the model, then it is said adequate discriminant validity. To determine the discriminant validity of the test results in this study, can be seen in the following table:

Table 2. Discriminant Validity

Latent Variabel	Average Variance Extracted (AVE)
DS	0.557
TL	0.506
OCL	0.549
OCM	0.517
EP	0.550

Table 2 shows that the value of the entire construct AVE greater than 0.5, so it can be concluded that the entire construct is a good model, so that all the constructs in the model has adequate discriminant validity.

Composite Reliability

The third part of the outer model is composite reliability. Composite reliability showed the reliability values between blocks of indicators that established the constructs. Constructs expressed either reliable or if the value of composite reliability and Cronbach alpha above 0.7. Below is a table of the results of the reliability of the composite output GSCA:

Table 3. Composite Reliability

Variabel	Cronbach Alpha
DS	0.930
TL	0.938
OCL	0.929
OCM	0.915
EP	0.936

Based on the table above may be seen Composite reliability values for variables downsizing of 0.930, 0.938 for transformasional Leadership, Organizational Climate for 0.929, amounting to 0.915 Organizational Commitment, and Employee Performance for 0.936, where the value of the fifth Composite reliability constructs in the model are all greater than 0.70 , so it can be said that the outer measurement model or outer model with reflexive indicator has good reliability. Thus it can be said that the indicators of downsizing, transformasional Leadership, Organizational Climate, Organizational Commitment and Employee Performance, actually mutually reinforcing latent variables or actually being able to measure latent variables.

Structural Model (Inner Model)

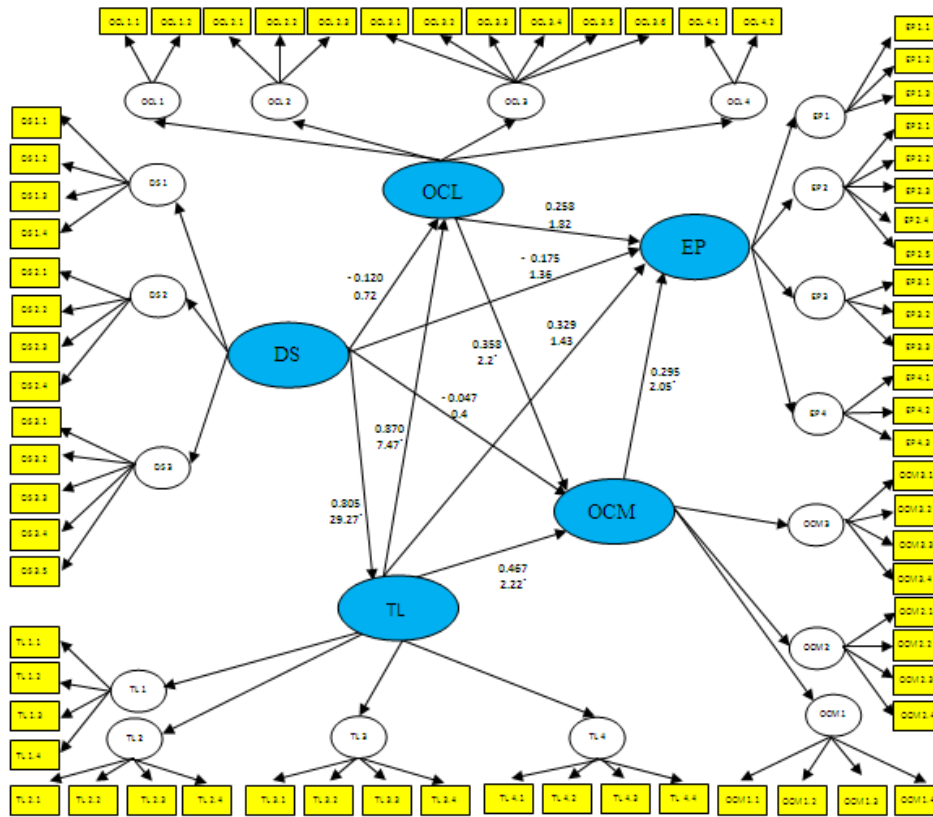


Figure 1. Overall Model

Table 4. Goodness of Fit

Model Fit	
FIT	0.529
AFIT	0.518
GFI	0.999
SRMR	0.077
NPAR	148

Tests showed FIT model fit was 0.529, so we can conclude that research model is able to explain about 52.9% variation in the data. Furthermore, both GFI and SRMR values indicate a good level of overall model fit or model fit both the GFI = 0.999 and SRMR = 0.077 (GFI > 0.90 and SRMR close to zero)

Hypothesis Testing

Table 5. Path Coefficients

	Path Coefficients		
	Estimate	SE	CR
DS->TL	0.805	0.027	29.27*
DS->OCL	-0.120	0.167	0.72
DS->OCM	-0.047	0.118	0.4
DS->EP	-0.175	0.129	1.36
TL->OCL	0.870	0.116	7.47*
TL->OCM	0.467	0.210	2.22*
TL->EP	0.329	0.230	1.43
OCL->OCM	0.358	0.163	2.2*
OCL->EP	0.258	0.141	1.82
OCM->EP	0.295	0.144	2.05*

CR* = significant at .05 level

Inner estimation results for the model the direct effect of downsizing on transformational leadership is 0.805 and shows the value of CR was 29.27*, which means it shows that the direct effect of downsizing on transformational leadership is positive and significant.

Inner estimation results for the model the direct effect of downsizing on organizational climate at -0.120 and showed the value of CR was 0.72, which showed that the direct effect of downsizing on organizational climate is negative and not significant.

Inner estimation results for the model the direct effect of downsizing on employee performance at -0.175 showed the value of CR was 1.36, so it shows that the direct effect of downsizing on employee performance is negative and not significant.

Inner estimation results for the model the direct effect of downsizing on organizational commitment at -0.047 showed CR value was 0.4, which shows that the direct effect of downsizing on organizational commitment is negative and not significant.

Inner estimation results for the model the direct effect of transformational leadership on organizational climate at 0.870 shows the value of CR at 7.47*, which shows that the direct effect of transformational leadership on organizational climate is positive and significant.

Inner estimation results for the model the direct effect of transformational leadership on organizational commitment at 0.467 shows the value of CR at 2.22*, which shows that the direct effect of transformational leadership on organizational commitment is positive and significant

Inner estimation results for the model the direct effect of transformational leadership on employee performance at 0.329 showed the value of CR at 1.43, so it shows that the direct effect of transformational leadership on employee performance is positive and not significant.

Inner estimation results for the model the direct influence of organizational climate on organizational commitment at 0.358 shows the CR value at 2.2*, which shows that the direct effect of organizational climate on organizational commitment is positive and significant.

Inner estimation results for the model the direct influence of organizational climate on employee performance was 0.258 showed CR value was 1.82, which shows the direct influence of organizational climate on employee performance is positive and not significant.

Inner estimation results for the model the direct effect of organizational commitment on employee performance was 0.295 showed the value of CR was 2.05*, which shows that the direct effect of organizational commitment on employee performance is positive and significant.

Hypothesis testing of that indirect effect can use the Sobel formula, as follows:

$$Sab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

a = b1 to b2

b = b2 to b3

Sa = standard error b1 to b2

Sb = standard error b2 to b3

Then to test the significance of the indirect effect, it is necessary to calculate the value of t from the ab coefficient as follows:

$$t = \frac{ab}{Sab}$$

ab = (b1 to b2) * (b2 to b3)

The results of the calculation for the indirect effect and the value of t are as follows:

Table 6. The results of t value in the indirect effect

No	The path of indirect effect	a	b	ab	sa	sb	sab	t
1.	DS-TL-OCL	0.805	0.870	0.700	0.027	0.116	0,096	7,270
2.	DS-TL-OCM	0.805	0.467	0,376	0.027	0.210	0,170	2,216
3.	DS-TL-EP	0.805	0.329	0.265	0.027	0.230	0,185	1,428
4.	DS-OCL-OCM	-0.120	0.358	-0,043	0.167	0.163	0,069	-0,627
5.	DS-OCL-EP	-0.120	0.258	-0.031	0.167	0.141	0,052	-0,596
6.	DS-OCM-EP	-0.047	0.295	-0.014	0.118	0.144	0,039	-0,353
7.	TL-OCL-OCM	0.870	0.358	0.311	0.116	0.163	0,149	2,091
8.	TL-OCL-EP	0.870	0.258	0.224	0.116	0.141	0,127	1,763
9.	TL-OCM-EP	0.467	0.295	0.138	0.210	0.144	0,096	1,431
10.	OCL-OCL-KK	0.358	0.295	0.106	0.163	0.144	0,074	1,421

Indirect effect coefficient between downsizing on the climate of the organization through leadership transomasional was 0.700, then it can be seen the value of t-statistics was 7.270, where the value is greater than t-table 1.985 (n = 96, α = 5%), suggesting an indirect effect downsizing of organizational climate through transformational leadership is significant.

Indirect effect coefficient between downsizing on organizational commitment through leadership transomasional was 0.376, then it can be seen the value of t-statistics was 2.216, where the value is greater than

t-table 1.985 ($n = 96$, $\alpha = 5\%$), suggesting an indirect effect downsizing on organizational commitment through transformational leadership is significant.

Indirect effect coefficient between downsizing on employee performance through leadership transformational was 0.265, then it can be seen the value of t-statistics was 1.428, where the value is smaller than t-table 1.985 ($n = 96$, $\alpha = 5\%$), suggesting an indirect effect downsizing on employee performance through transformational leadership is not significant.

Indirect effect coefficient between downsizing on employee performance through organizational climate at -0.031, then it can be seen the value of t-statistics at -0.596, where the value is smaller than t-table 1.985 ($n = 96$, $\alpha = 5\%$), indicating the indirect influence downsizing on employee performance through organizational climate is not significant.

Indirect effect coefficient between downsizing on employee performance through organizational climate at -0.043, then it can be seen the value of t-statistics at -0.627, where the value is smaller than t-table 1.985 ($n = 96$, $\alpha = 5\%$), indicating the indirect influence downsizing on organizational commitment through organizational climate is not significant.

Indirect effect coefficient between downsizing on employee performance through organizational commitment at -0.014, then it can be seen the value of t-statistics at -0.353, where the value is smaller than t-table 1.985 ($n = 96$, $\alpha = 5\%$), indicating that indirect effect of downsizing on employee performance through organizational commitment is not significant.

Indirect effect coefficient between transformational leadership on organizational commitment through organizational climate was 0.311, then it can be seen the value of t-statistics at 2.091, where the value is greater than t-table 1.985 ($n = 96$, $\alpha = 5\%$), indicating that indirect effect of transformational leadership on organizational commitment through organizational climate is significant.

Indirect effect coefficient between transformational leadership on employee performance through organizational climate was 0.224, then it can be seen the value of t-statistics was 1.763, where the value is smaller than t-table 1.985 ($n = 96$, $\alpha = 5\%$), indicating that indirect effect transformational leadership on employee performance through organizational climate is not significant.

Indirect effect coefficient between transformational leadership on employee performance through organizational commitment at 0.138, then it can be seen the value of t-statistics at 1.431, where the value is smaller than t-table 1.985 ($n = 96$, $\alpha = 5\%$), indicating that indirect effect transformational leadership on employee performance through organizational commitment was not significant.

Indirect effect coefficient between organizational climate to employee performance through organizational commitment was 0.106, then it can be seen the value of t-statistics was 0.690, where the value is smaller than t-table 1.985 ($n = 96$, $\alpha = 5\%$), indicating that indirect effect organizational climate to employee performance through organizational commitment is not significant.

V. Conclusions and Discussion

The result showed the fact that downsizing had a negative impact on organizational climate, organizational commitment and employee performance, even though insignificant. The negative impact of downsizing can be minimized through transformational leadership role.

Transformational leadership has an important and decisive role in mediating the effects of downsizing on organizational climate, organizational commitment and employee performance. Thus, in managing downsizing need to use the important role of transformational leadership to optimize the achievement of organizational goals. In addition, transformational leadership in this study is a new thing that has not been previously studied mainly associated with downsizing.

Organizational climate is a variable that is susceptible to both positive and negative influences. When downsizing occurs organizational climate variables have the greatest negative effect as well as to the transformational leadership also has the greatest influence, be a positive influence. Thus, when there is downsizing, leaders need to pay attention to this variable. Because it can become opportunities and threats in achieving the objectives for the implementation of downsizing.

Implication for management

Application of downsizing will be more effective if it is supported by practices of transformational leadership that is able to build a conducive organizational climate and be able to improve organizational commitment. Prominent indicators of transformational leadership is effective communication between employees and supervisors.

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