

8-1995

Organizational downsizing: Constraining, cloning, learning

William McKinley
Southern Illinois University

Carol M. Sanchez
Grand Valley State University, sanchezc@gvsu.edu

Allen G. Schick
Morgan State University

Follow this and additional works at: https://scholarworks.gvsu.edu/mgt_articles

 Part of the [Business Commons](#)

Recommended Citation

McKinley, William; Sanchez, Carol M.; and Schick, Allen G., "Organizational downsizing: Constraining, cloning, learning" (1995).
Peer Reviewed Articles. 15.
https://scholarworks.gvsu.edu/mgt_articles/15

This Article is brought to you for free and open access by the Management Department at ScholarWorks@GVSU. It has been accepted for inclusion in Peer Reviewed Articles by an authorized administrator of ScholarWorks@GVSU. For more information, please contact scholarworks@gvsu.edu.

Organizational downsizing: Constraining, cloning, learning

William McKinley, Carol M. Sanchez, and Allen G. Schick

Executive Overview

While downsizing rages through the U.S. economy, there is a great deal of uncertainty about its bottom-line effects. This uncertainty raises questions about why corporations have been so eager to engage in downsizing. In this article, we propose an answer to these questions. Three social forces, which we call constraining, cloning and learning, frequently provide a major impetus for downsizing. We describe these forces, and point out conditions that lead to the adoption of downsizing without due regard for its mixed consequences. We suggest methods to improve executives' downsizing decision routines . . . methods that should enhance the chances of achieving intended benefits.

The Queen possessed a magic mirror, and when she stood before it, gazing at her own reflection, she asked, "Mirror, mirror on the wall, Who is fairest of us all?" And it always replied, "Thou, Queen, art the fairest of all."

But one day when the Queen asked her mirror the usual question, it replied, "Thou art fair, my Queen, 'tis true. But Snow White is fairer far than you." Then the Queen flew into the most awful passion and turned green in her jealousy.

"Snow White shall die!" she cried. "Yes, though it cost me my own life."

*Snow White and the Seven Dwarfs,
by Jakob and Wilhelm Grimm*

We shall proclaim destruction—why? why?—well, because the idea is so fascinating! But—we must get a little exercise. We'll have a few fires—we'll spread a few legends. . . . And the whole earth will resound with the cry: "A new and righteous law is coming."

The Devils, by Fedor Dostoevsky

Downsizing, defined here as "intended reductions of personnel," has swept rapidly across the landscape of corporate America. Between 1987 and 1991, more than eighty-five percent of the *Fortune 1000* corporations downsized their white-collar staffs.¹ During the first seven months of 1993, more than 350,000 American workers faced layoffs. This represents an increase of about a third over the comparable layoff rate for recessionary 1991.² Despite strong evidence that the economy is robust, experts believe that downsizing is far from over. Over the next two years, companies like GTE, Westinghouse, Gillette, and Procter & Gamble will release thousands. In fact, the corporate job reduction rate for January 1994 surpassed the equivalent rate for any other month since 1989.³

Downsizing spreads, despite increasing evidence that it may not be effective in achieving goals of cost reduction, increased productivity, and greater profitability. Studies suggest that downsizing has a number of negative consequences for the morale, commitment, and work effort of survivors. In the face of this contrary evidence, why are American corporations downsizing in record numbers? It is the purpose of this article to address this question.

While downsizing has been viewed primarily as a cost reduction strategy, there is considerable evidence that downsizing does not reduce expenses as much as desired, and that sometimes expenses may actually increase.

We first discuss some of the problems with downsizing, and review its uncertain record in accomplishing bottom-line objectives. We then draw on an established theory of organizations—institutional theory—to develop an explanation for why downsizing has become so popular, despite ambiguity about its bottom-line effectiveness. At the core of this argument is the idea that firms feel pressure to downsize because being “lean and mean” has achieved the status of a valued attribute—an end in itself. Like the queen obsessed by beauty in the story of Snow White, corporations feel a powerful constraint to validate and display the trait of leanness. Viewed from a Dostoevskian perspective, American corporations are in danger of becoming fixated on job destruction, and on the proclamation of downsizing as the “new and righteous law.”

The Trouble With Downsizing

While downsizing has been viewed primarily as a cost reduction strategy,⁴ there is considerable evidence that downsizing does not reduce expenses as much as desired, and that sometimes expenses may actually increase. More than thirty years ago, James Lincoln warned that the costs of layoffs generally outweigh the payroll savings to be gained from them.⁵ More recently, a survey conducted by the Wyatt Company indicated that fewer than half of the respondents who were using restructuring as a cost reduction method actually met their cost reduction targets.⁶ Given that layoffs are the most common means of downsizing, estimates of the dollar costs of layoffs provide some indication of why cost reduction goals are elusive. By one calculation, the direct cost of dismissing an employee earning an average salary of \$30,000 per year is approximately \$7,000. Similarly, the cost of hiring replacements can range from \$5,000 per employee up to \$50,000, if relocation expenses are involved.⁷ Since companies have a tendency to replace some dismissed employees, it is clear that downsizing can be costly.⁸ To illustrate, Nynex will take almost \$3 billion in charges against earnings to cover severance packages.⁹

There is also evidence that downsizing has limited effectiveness in enhancing productivity. The same Wyatt Company survey mentioned earlier found that only 22% of restructuring companies actually increased productivity to their satisfaction. Another survey, conducted by the American Management Association, put the equivalent figure at 34%.¹⁰ Also, in Cameron, Freeman, and Mishra’s study of automobile industry downsizing, only a few of the firms examined improved productivity relative to pre-downsizing levels. Supplementing the Cameron, Freeman, and Mishra findings is a point made by Perry: downsizing often eliminates employees with firm-specific skills, leading to an interruption in productivity.¹¹

One of the most important justifications for downsizing is an increase in profitability, but here again, the jury is out. One comprehensive study examined 210 layoff announcements, and collected information on firm financial performance in the years immediately preceding and following each layoff announcement.¹² On the average, net income relative to sales, return on assets, and return on equity increased in the first year following the layoff.

announcements, but not in the year after that. In no case did post-layoff performance match the maximum levels achieved prior to the announcements. These findings indicate that layoffs are followed by some improvements in profitability, but the improvements are temporary, and don't represent a recovery to pre-layoff levels. When combined with information available from surveys of managers, these results suggest that layoffs are at best a temporary stopgap for declining profitability.

Finally, studies demonstrate how downsizing has negative effects on the morale, commitment, and work effort of those employees who survive downsizing. When downsizing is accomplished through layoffs, the response of survivors is closely linked to the treatment received by the layoff victims. One study found that survivors tended to react most negatively to layoffs when they identified with the layoff victims who they perceived as having been poorly compensated.¹³ This study suggests that executives managing layoffs lie between a rock and a hard place. Without adequate severance pay, outplacement services, and other forms of support to employees being laid off, survivors will be alienated. On the other hand, support services to laid-off employees increase costs. Either way, costs mount, and managers find themselves engaging in repeated rounds of layoffs. Thus, executives become trapped in cycles of headcount reduction and declining financial performance.

Constraining, Cloning, Learning

Given the uncertainty about downsizing's effectiveness as a cost-reduction and profit-enhancing strategy, as well as the negative effects downsizing may have on the attitudes of surviving employees, the question arises: why are so many companies downsizing? With so many concerns about downsizing, why is it spreading like wildfire through the ranks of America's largest corporations?

We believe that institutional theory provides a compelling answer to this question.¹⁴ Institutional theory emphasizes the role of "institutional rules" in determining organizational form and process. Institutional rules are norms or expectations shared by members of a society or a particular industry. They specify how an organization should be structured and the kinds of managerial behavior considered legitimate. An example of an institutional rule would be the expectation that all large corporations should have a human resource management department. An important point made by institutional theory is that institutional rules often have little to do with technical or economic efficiency. Instead, they function as "myths" to which organizations conform in exchange for legitimacy, irrespective of whether conformity enhances efficiency. Thus, institutional theory can help us understand why corporations downsize, even though downsizing may be costly and may not lead to increased productivity or improved financial performance.

Institutional theorists have identified three specific social forces that explain why organizations adopt institutional rules. We use the terms "constraining," "cloning," and "learning" to describe these social forces.¹⁵ Constraining forces pressure organizations to conform to institutional rules that define legitimate structures and management activities—the right walk to walk, the right talk to talk, the right look to look. Cloning forces pressure organizations to mimic the actions of the most prestigious, visible members of their industry. Finally, learning forces emerge through the management practices taught in universities or professional associations throughout the corporate world. Each of these three forces plays a role in the spread of corporate downsizing, as we point out below.

Constraining. Social constraints concerning downsizing have shifted in recent years, at least in the United States. Downsizing, or workforce reduction, had been connected with the concept of decline.¹⁶ As such, downsizing was viewed negatively. In recent scholarly and practitioner-oriented writing, however, downsizing has been disconnected from the decline concept. As a result, downsizing is now interpreted positively, and seems to be attaining the status of an expectation. This status is strengthened by a parallel shift in the value placed on large size. Once regarded as an indicator of organizational effectiveness, large size is now shunned. As a recent *Fortune* article noted, "The chiefs of America's biggest companies seem caught in the grip of what might be called wee-ness envy—my company's workforce is smaller than yours."¹⁷

As a recent *Fortune* article noted, "The chiefs of America's biggest companies seem caught in the grip of what might be called wee-ness envy—my company's workforce is smaller than yours."

Reflecting these basic ideological shifts, descriptions of excellently managed corporations emphasize the importance of "simple form, lean staff," and planned downsizers are described as "heroes."¹⁸ Managers are exhorted to shrink their organizations to become more competitive and to achieve revitalization. Linking terms like "hero," "competitive," and "revitalization" with downsizing helps establish downsizing as desirable. These descriptions function in the same way as the legends in the quote from Dostoevsky above—they rationalize downsizing as the new "law." The law-like status of downsizing is further reinforced by the many articles and books offering guidelines for effective downsizing. The social constraint that downsizing's taken-for-granted status exerts on CEOs was succinctly captured by Russell Baker in a recent *New York Times* column: "The boss of any large corporation that hasn't fired at least enough people to make up an army division has a lot of explaining to do to his buddies down at the CEO Club."¹⁹

As corporations conform to social constraints promoting "leanness," downsizing spreads more widely, and becomes attractive as a means of demonstrating legitimacy. The pressure to downsize is nowhere more evident than in the relationship between large U.S. corporations and the stock market. As noted in recent press reports, the investment community appears to have embraced downsizing with enthusiasm. These reports carry headlines like "Wall Street Hails Beat of Walking Feet" and "How Layoffs Pay Off."²⁰ The anecdotal evidence provided by such reports is consistent with findings from large-sample research on layoff announcements and stock price changes. One study of 194 layoff announcements by large corporations found that such announcements associated with restructuring or consolidation were followed by increased stock prices.²¹ These results suggest that investors and securities analysts respond favorably to downsizing and restructuring, and this can exert a powerful force on top managers to downsize. This force is likely to be especially strong if an executive's compensation package and bonuses are keyed to the performance of the corporation's stock. Even if a CEO doesn't have this kind of incentive package, she has to be vigilant about keeping stock prices high, as a defense against corporate raiders. The pressures to downsize, and announce it publicly, can become overwhelming.

Cloning. Downsizing spreads through imitation, or "cloning." Cloning is a reaction to uncertainty. In the face of the extreme uncertainty generated by global competition, rapid technological innovation, and a turbulent legal and political environment, organizations have a strong tendency to mimic the behavior of other organizations. This cloning behavior applies to downsizing as well as to other management techniques: total quality management, process reengineering, worker empowerment, self-managing teams, and so on. Like

these techniques, downsizing seems to have acquired the status of a fad, replicating swiftly through numerous corporate sectors. As is true for constraining, the incidence of cloning is not dependent on hard evidence that the practice being adopted enhances financial performance. Instead, cloning derives its appeal from similarity: corporations imitating the downsizing activities of other corporations demonstrate that they are in step with the crowd, that they are "with it," and that they are actively doing something to address problems.

An excellent example of how cloning operates to spread downsizing is the wave of restructuring currently sweeping through the oil industry. *The Wall Street Journal* recently reported that Texaco is restructuring and downsizing in response to similar moves by Mobil and British Petroleum. In all, ten oil companies—Texaco, Mobil, British Petroleum, Atlantic Richfield, Unocal, Royal Dutch/Shell Group, Elf Aquitaine, Exxon, Chevron, and Amoco—are in various stages of shrinkage. These corporations have made cost-cutting their "mantra," cloning each other and firms like General Electric and Xerox.²²

The spread of cost accounting techniques through business education and the professionalization of accounting therefore plays a role in rationalizing downsizing as a legitimate activity.

It might seem far-fetched to argue that a "hard" strategic decision like downsizing could be motivated by cloning. However, research on other strategic decisions is consistent with this interpretation. For example, the decision to acquire other companies is often justified in terms of bottom-line criteria like efficiency, increased market penetration, or shareholder wealth. But a recent empirical study found evidence that imitation played an important role in the acquisition activities of U.S. corporations. Corporations tended to mimic the acquisition behaviors of other firms to which they were linked by directorship ties. Similarly, a second study indicated that imitation was a factor in diversification by savings and loans into new markets. Thrifts tended to imitate the diversification patterns of large, successful competitors, so that the new market selections of these prestigious role models became self-replicating.²³

Learning. A third social force that helps spread standard management practices through the corporate world is learning. Learning takes place through a complex network of educational institutions and professional associations. Regarding the specific phenomenon of downsizing, an example of how learning promotes downsizing is found in the curricula of U.S. business schools. These schools teach successive cohorts of students standard methods of cost accounting. Such methods, when combined with decisions to outsource in a manufacturing environment, can encourage progressive downsizing of production. Given normal techniques of allocating overhead costs, initial outsourcing makes remaining components of a manufacturing operation appear more costly. This apparent "costliness" increases the motivation to outsource, and may set in motion a spiral of incremental outsourcing and downsizing of productive capacity. The spread of cost accounting techniques through business education and the professionalization of accounting therefore plays a role in rationalizing downsizing as a legitimate activity.

In addition, learning contributes to downsizing through the development of careers like that of Jack "The Ripper" Grundhofer.²⁴ Mr. Grundhofer, currently the Chairman of First Bank System, is an executive prized for his willingness to lay off employees. Grundhofer learned his firing skills at Wells Fargo, "where slashing jobs had been a religion." To the extent that downsizing is rewarded in

the early careers of U.S. managers like Mr. Grundhofer, and is seen as a route to upward mobility, corporate career paths became a context in which managers learn to downsize.

The three social forces described in this section—constraining, cloning, and learning—are related, but distinct, causes of downsizing. The distinction between them is highlighted by referring back to our oil industry example. Constraining forces operate in the oil industry through the promotion of a norm that downsizing is good, partly as a result of statements made by securities analysts. Cloning forces prompt petroleum companies to imitate one another's restructuring initiatives. Finally, an additional pressure for downsizing is being created by the positive reinforcement that often follows it—a powerful impetus for learning. Specifically, corporations such as Texaco and Mobil have experienced stock price increases following their restructuring announcements. The combination of constraining, cloning, and learning helps account for the wave-like progress of petroleum industry downsizing.

Constraining, Cloning, Learning—Where Are They Strongest?

While constraining, cloning, and learning are important drivers of downsizing, they do not operate with equal force in all situations. In this section, we identify four conditions that enhance the power of these social pressures for downsizing: 1) dependence; 2) ambiguous performance standards; 3) uncertain core technologies; and 4) frequent corporate interaction patterns.

Dependence. Firms dependent on other parties for critical resources experience constraints to conform to the norms advocated by the dominant partners. Conformity reduces the probability that a dependent firm will be viewed as undesirable, and it "greases the wheels" of the interaction between the parties. For example, if a publicly traded corporation has a large percentage of its stock held by institutional investors, the corporation is dependent on those investors and the securities analysts who advise them. Keeping the goodwill of the investors and the analysts is essential to maintaining the stock price, and guarding against corporate raiders. If the institutional investors and the analysts place a positive value on downsizing, the dependent corporation will experience strong constraints to downsize. Downsizing allows the dependent company to create a favorable impression, and tap into the positive "legends" that are associated with downsizing. Such short-term advantages are compelling, no matter what the long-term financial consequences of downsizing may be. In fact, the long-term financial results of downsizing are probably unknowable, while the myths connected with it—getting lean, strong, fast, and fit—are bright, powerful, and immediate. They are constantly repeated in the business press, and seem to be taken for granted in many investment circles. Thus, dependent firms are willing, even eager, to downsize.

Ambiguous performance standards. In some types of organizational units, performance standards, including standards of financial performance, are relatively clear. A good example of such a unit would be a manufacturing plant, where performance is assessed in terms of physical output goals, or the percentage of capacity utilized. In such units, performance is relatively easy to measure quantitatively, and can be used as a yardstick to guide decisions about when to downsize. Manufacturing plants, for example, typically downsize their workforce and sell off capital assets when the percentage of capacity utilized dips below a certain level. Here the zone of managerial discretion open to the social pressures of constraining, cloning, and learning is narrow, and we

expect downsizing to be determined primarily by changes in performance over time.

However, many organizational units lack clear performance standards. Units like corporate headquarters, R&D labs, and new product development teams often exhibit little consensus around goals. Given this lack of consensus, performance measurements are ambiguous. The uncertainty about performance assessment increases the pressure on managers to keep up appearances by demonstrating conformity with institutional rules. If those rules include norms for downsizing, constraining and cloning will be bolstered as determinants of the downsizing process.

Uncertain core technologies. Just as there are differences in the clarity of performance standards, so too are there differences in the uncertainty of core technologies.²⁵ Some firms, like brewers, automobile manufacturers, and chemical processors, have relatively certain technologies. Few exceptions occur in the manufacturing process, and when exceptions do occur, there are standard procedures for dealing with them. On the other hand, some businesses have to rely on technologies that are much more uncertain. Examples that illustrate this category would be consulting firms, advertising agencies, some types of retailing, and the film and popular music industries. Here technologies are non-routine and unpredictable, because many exceptions take place in the production or customer service process, and when exceptions occur, the reason for them often isn't clear.

When a firm's core technology is uncertain, the relationship between means and ends is ambiguous. Managers don't know exactly what inputs, or how many of them, are required to generate a particular amount and quality of output. For instance, uncertain technologies limit management's ability to accurately estimate required staffing levels. Therefore, decisions about whether to downsize are likely to be governed by what other companies are doing. Corporations will be more likely to use downsizing as a means of demonstrating legitimacy when they don't have a clear idea of what their optimal size level is. Finally, technological uncertainty helps explain why white-collar workers and middle managers have taken the big hits in recent episodes of corporate downsizing. These employees usually work with more uncertain technologies than blue-collar workers, and therefore they have been vulnerable to the bandwagon dynamics of downsizing in the 1990s.

Frequency of interaction. A fourth condition that magnifies the influence of constraining, cloning, and learning forces on downsizing is frequent interaction between firms. Frequent interaction between competitors, or between customers and their suppliers, facilitates imitation of downsizing initiatives. Also, frequent interaction encourages the creation of institutional rules that govern acceptable behavior and exert pressure toward conformity. The greater the interaction among firms, the greater the need for such rules to maintain order. In such an environment, a localized norm that "downsizing is good" can quickly become a powerful inducement for downsizing.

Last but not least, frequent interaction is a fertile breeding ground for the spread of corporate downsizing through learning. Corporations that hire one another's executives, rub elbows at conferences, and use the same consultants, tend to learn one another's problems and solutions. This interaction promotes learning about how to downsize, and facilitates dissemination of the bright, attractive myths that make downsizing so compelling.

Empirical studies support the idea that frequent interaction facilitates the spread of organizational practices through cloning and learning. One study showed that network ties among corporate contributions officers led them to mimic one another's patterns of contributions to non-profits.²⁶ The study of acquisitions referred to earlier indicated that directorship ties were an important channel for imitation of other corporations' acquisition activities. The strategy of acquisition became a model that was learned and imitated by executives through sitting on the boards of other firms that were practicing the strategy. If these interactions promote the cloning and learning of activities like charitable giving and acquisitions, it is reasonable to assume that such interaction also encourages the cloning and learning of downsizing.

Exhibit 1 summarizes the discussion in this section by showing the three social forces for downsizing and the conditions that promote each of them.

Promoted by:	Social Forces		
	Constraining	Cloning	Learning
Dependence	Yes		
Ambiguous Performance Standards	Yes	Yes	
Uncertain Core Technologies	Yes	Yes	
Frequent Interaction Between Firms	Yes	Yes	Yes

Exhibit 1. Social Forces for Downsizing and the Conditions That Promote Them

Implications for Managers

The preceding analysis has a number of implications for managers interested in evaluating the appropriateness of a downsizing strategy, and reducing the level of external force for downsizing. These implications can be summarized as follows: 1) *reduce dependence*; 2) *clarify performance standards*; 3) *moderate technological uncertainty*; and 4) *disrupt standard interaction patterns*.

The strategy of acquisition became a model that was learned and imitated by executives through sitting on the boards of other firms that were practicing the strategy.

Reduce dependence. We argued that dependence on other organizations enhances social constraints to downsize, if the dominant partner(s) have bought into the assumption that downsizing is good. To reduce such social pressures, executives might consider ways of lowering dependence on external stakeholders. One means of accomplishing this is the use of employee stock ownership plans (ESOPs) or outright employee buyouts of a company's stock. A recent example is the successful employee buyout of 55% of the stock of UAL Corp., the parent company of United Airlines.²⁷ Employees exchanged wage cuts, work rule concessions, and a cash payment for majority ownership of their company. The result has been a reduction of labor costs, and an apparent softening of the social constraints to downsize associated with stock ownership by outside investors. The loosening of such constraints has left the company freer to assess staffing levels on technical grounds, and United has recently announced its intention to hire more employees.

Clarify performance standards. Earlier we suggested that unclear performance standards increase the tendency of managers to imitate the downsizing activities of other corporations. Like the queen gazing into her mirror every day, managers seem to be infatuated with downsizing as an end in itself, rather than a means to other goals. To make the reasons for downsizing more apparent, managers must clarify performance standards, and question downsizing's effect on those standards.

Clear standards replace rationalized myths with specific performance targets. Goals like "becoming more competitive," "improving efficiency," "making better use of technology," and "becoming more flexible" are illusory targets, because they are difficult to measure quantitatively and never fully attainable. Managers should be skeptical of downsizing initiatives that are rationalized solely in such terms, if improvement in financial performance is the primary objective of downsizing. We recommend that executives formulate specific cost reduction targets for every downsizing program, paying close attention to the costs involved in achieving a given headcount reduction. Payroll costs to be saved should be compared with the costs of achieving those savings (e.g., early retirement incentives, outplacement support expenditures, continuing medical benefits, financial counseling for layoff victims, fees for downsizing consultants, etc.). A payback period should be computed, and assessed according to the same criteria that govern evaluation of investments directed toward growth.

Moderate technological uncertainty. Reducing the uncertainty of core technologies should help companies increase their understanding of the relationship between inputs and outputs.

Reengineering could be a powerful tool for moderating the uncertainty of core technologies, as long as "reengineering" is not just used as a label for programs that have downsizing as their primary goal. Our suggestion is that reengineering programs concentrate first on understanding the nature of the existing processes. This knowledge can then serve as a basis for redesigning processes to enhance specific output goals. Consistent with our emphasis on clear performance standards, the output goals should be stated in quantitative, measurable terms. As a return of reengineering, executives could hopefully obtain more accurate estimates of the number of employees required to "run" a particular process effectively. If those estimates implied that downsizing was warranted, a headcount reduction could be implemented with the knowledge that it was driven by technical criteria, rather than ideological constraints or cloning responses to uncertainty. If managers take an incremental, experimental approach to reengineering, they can increase their chances of achieving successful company-wide restructuring. Managers could begin by selecting a few organizational units that are similar in terms of important demographic and structural characteristics: customers served, geographical location, nature of core technology, and so on. Reengineering and any downsizing connected with it could be undertaken in one or two of the units, holding other units as controls. If the experiments work, then reengineering could be rolled out cautiously on a company-wide basis.

If managers take an incremental, experimental approach to reengineering, they can increase their chances of achieving successful company-wide restructuring.

Disrupt standard interaction patterns. Finally, our framework has suggested that frequent interaction among industry executives can accelerate the spread of downsizing (see Exhibit 1). To counterbalance these dynamics, we recommend that executives "disrupt" their normal interaction patterns from time to time. This is particularly important if an executive's social interactions revolve around close friendships or business associations with other executives whose firms are committed to downsizing. Executives may need to extend their networks. Anonymous visits to plants, retail outlets, and other working locations can generate different perspectives. Above all, the "disruption" process introduces variety and diversity into the flow of information that executives depend on, reducing the chances that downsizing decisions will simply be the product of conformity to what's fashionable in today's executive suites.

Conclusion

In conclusion, we would like to emphasize that we are not opposed to downsizing *per se*, or to corporations that are implementing downsizing programs. Instead, our purpose has been to alert managers to the possibility that downsizing may be partly driven by social forces, and not motivated entirely by predictable financial benefits. Managers engaged in downsizing may be sacrificing the long-term health of the corporation for short-term gains in shareholder perceptions and short-term illusions of control or certainty. Downsizing decisions prompted by ideology and mimicry are at best foolish, and at worst dangerous and unethical. Perhaps a nobler challenge to management is to make better use of their existing workforce to generate higher revenues and increased profits. In other words, executives need to recall the benefits of growth. As Wayne Calloway, CEO of PepsiCo, put it recently, "You can't save your way to prosperity. That alone won't get you there."²⁸

Endnotes

An earlier version of this paper was presented at the Decision Sciences Institute national meeting in San Francisco, November, 1992. The authors would like to thank Doug Baker, Carole Barnett, Barbara Bigelow, Thomas Laase, Brenda Massetti, Mark Mone, Reed Nelson, Hugh O'Neill, Jesus Ponce de Leon, Wayne Stone, Chuck Stubbart, and two anonymous *AME* reviewers for their comments. We are also indebted to Mark Terry for bringing the quotation from Dostoevsky to our attention. Partial support for this article was provided by the Research Fund of the School of Business and Management, Morgan State University, Baltimore, Maryland.

¹ K.S. Cameron, S.J. Freeman, and A.K. Mishra, "Best Practices in White-Collar Downsizing: Managing Contradictions," *The Academy of Management Executive*, 5(3), 1991, 58. See also S.J. Freeman and K.S. Cameron, "Organizational Downsizing: A Convergence and Reorientation Framework," *Organization Science*, 4, 1993, 10-29.

² L.S. Richman, "When Will the Layoffs End?" *Fortune*, September 20, 1993, 54-56.

³ These figures are drawn from a United Press International report distributed by Prodigy Services Company, January 16, 1994, and reported in an announcement by Challenger, Gray & Christmas, distributed by Prodigy Services Company, February 12, 1994.

⁴ See, for example, D.K. Robbins and J.A. Pearce II, "Turnaround: Retrenchment and Recovery," *Strategic Management Journal*, 13, 1992, 287-309.

⁵ J.F. Lincoln, *A New Approach to Industrial Economics* (New York, NY: Devin-Adair, 1961), 83.

⁶ A. Bennett, "Downsizing Doesn't Necessarily Bring an Upswing in Corporate Profitability," *The Wall Street Journal*, June 6, 1991, B1, B4.

⁷ These dollar estimates are drawn from E. Faltermayer, "Is This Layoff Necessary?" *Fortune*, June 1, 1992, 72.

⁸ W.F. Cascio, "Downsizing: What Do We Know? What Have We Learned?" *The Academy of Management Executive*, 7(1), 1993, 95-104. Cascio cites an estimate from one executive

recruiter that downsizing companies end up replacing ten to twenty percent of the employees they have dismissed.

⁹ J.A. Byrne, "The Pain of Downsizing," *Business Week*, May 9, 1994, 61.

¹⁰ The AMA survey result is reported in R. Henkoff, "Getting Beyond Downsizing," *Fortune*, January 10, 1994, 58.

¹¹ L.T. Perry, "Cutbacks, Layoffs, and Other Obscenities: Making Human Resource Decisions," *Business Horizons* 28(4), 1985, 68-75; and L.T. Perry, "Least-Cost Alternatives to Layoffs in Declining Industries," *Organizational Dynamics*, Spring 1986, 48-61.

¹² W. McKinley, A.G. Schick, H.L. Sun, and A.P. Tang, "The Financial Environment of Layoffs: An Exploratory Study," working paper, Southern Illinois University at Carbondale, 1994.

¹³ J. Brockner, S. Grover, T. Reed, R. DeWitt, and M. O'Malley, "Survivors' Reactions to Layoffs: We Get by With a Little Help for Our Friends," *Administrative Science Quarterly*, 32, 1987, 526-541. For a management-oriented summary of layoff survivor literature, the reader is referred to J. Brockner, "Managing the Effects of Layoffs on Survivors," *California Management Review*, 34(2), 1992, 9-28. See also D.M. Noer, *Healing the Wounds: Overcoming the Trauma of Layoffs and Revitalizing Downsized Organizations* (San Francisco, CA: Jossey-Bass, 1993).

¹⁴ Two of the seminal descriptions of institutional theory are J.W. Meyer and B. Rowan, "Institutionalized Organizations: Formal Structure as Myth and Ceremony," *American Journal of Sociology*, 83, 1977, 340-363; and P.J. DiMaggio and W.W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review*, 48, 1983, 147-160. See also W.W. Powell and P.J. DiMaggio, eds., *The New Institutionalism in Organizational Analysis* (Chicago, IL: University of Chicago Press, 1991).

¹⁵ The technical terms for these three forces are coercive isomorphism, mimetic isomorphism, and normative isomorphism. See DiMaggio and Powell, *op. cit.*, 150.

¹⁶ See, for example, D.A. Whetten,

"Sources, Responses, and Effects of Organizational Decline," in J.R. Kimberly, R.H. Miles, and Associates, eds., *The Organizational Life Cycle* (San Francisco, CA: Jossey-Bass, 1980), 342-374; and J.D. Ford, "The Occurrence of Structural Hysteresis in Declining Organizations," *Academy of Management Review*, 5, 1980, 589-598.

¹⁷ L.S. Richman, *op. cit.*, 54.

¹⁸ T.J. Peters and R.H. Waterman, *In Search of Excellence* (New York, NY: Harper and Row, 1982); R.M. Tomasko, *Downsizing: Reshaping the Corporation for the Future* (New York, NY: AMACOM, 1987), 3.

¹⁹ R. Baker, "The Big Sizing Down," *The New York Times*, September 7, 1993, A19.

²⁰ "Wall Street Hails Beat of Walking Feet," Reuters report, distributed by Prodigy Services Company, January 31, 1994; M.D. Fefer, "How Layoffs Pay Off," *Fortune*, January 24, 1994, 12.

²¹ D.L. Worrell, W.N. Davidson III, and V.M. Sharma, "Layoff Announcements and Stockholder Wealth," *Academy of Management Journal*, 34, 1991, 662-678.

²² Texaco's downsizing is described in A. Sullivan, "Texaco to Cut Its Work Force by About 7.8%," *The Wall Street Journal*, July 6, 1994, A3, A12. See C. Solomon, "Mobil to Drop 2,300 Workers and Close Plant," *The Wall Street Journal*, June 29, 1994, A4, for the complete list of petroleum companies that are restructuring. Amoco's restructuring is reported in J.N. Maclean, "4,500-Job Cut Set at Amoco," *Chicago Tribune*, July 22, 1994, 1-2.

²³ P.R. Haunschild, "Interorganizational Imitation: The Impact of Interlocks on Corporate Acquisition Activity," *Administrative Science Quarterly*, 38, 1993, 564-592; H.A. Haveman, "Follow the Leader: Mimetic Isomorphism and Entry into New Markets," *Administrative Science Quarterly*, 38, 1993, 593-627.

²⁴ C. Duff, "A CEO for New Era Prospers by Practicing Tough Art of Firing," *The Wall Street Journal*, January 11, 1993, A1, A4. Another example is the career of Chandrika Tandon, recently described in G. Smith, "Fleet's Can-Do Spirit: We Can Do Without," *Business Week*, March 21, 1994, 106-107. See also the description of Robert J. Thrasher ("Thrasher the Slasher") in Byrne, *op. cit.*

²⁵ The following discussion of technological uncertainty is based on C. Perrow, "A Framework for the Comparative Analysis of Organizations," *American Sociological Review*, 32, 1967, 194-208.

²⁶ J. Galaskiewicz and S. Wasserman, "Mimetic Processes Within an Interorganizational Field: An Empirical Test," *Administrative Science Quarterly*, 34, 1989, 454-479.

²⁷ "Employee Buyout of UAL OK'd," *The Baltimore Evening Sun*, July 13, 1994, 9C; also see C. Quintanilla, "United Airlines to Hire 1,700 by Year End," *The Wall Street Journal*, August 17, 1994, A3, A4.

²⁸ This quote appears in M. Magnet, "Let's Go for Growth," *Fortune*, March 7, 1994, 60.

About the Authors

William McKinley is an associate professor in the Department of Management at Southern Illinois University, Carbondale. He received his Ph.D. in organizational sociology from Columbia University. His current research interests include organizational decline, organizational downsizing, the sociology of organization science, and the effects of environmental regulation on organizational performance. His articles have appeared in *Administrative Science Quarterly*, *Academy of Management Journal*, *Academy of Management Review*, *Organization Science*, *Journal of Management Inquiry*, and *Management International Review*. He has served as Guest Editor of a special issue of *Organization Science* on organizational decline and adaptation, and he has also been a member of the editorial board of *Academy of Management Review*.

Carol M. Sanchez is an assistant professor in the Management Department at the F.E. Seidman School of Business, Grand Valley State University, Allendale, Michigan. She received her D.B.A. in strategic management and organization theory from Southern Illinois University at Carbondale. Her research interests include organizational downsizing and the effects of environmental regulation on the performance of business organizations. She has a paper on regulation forthcoming in *Management International Review*. Her dissertation examines the influence of the 1990 Clean Air Act Amendments on innovation in electric utility companies. Prior to her doctoral studies, she worked for thirteen years in Latin America as program director for a U.S. international development organization. She has done private consulting work with business organizations in Central America and Southern Illinois.

Allen G. Schick is an associate professor in the Department of Accounting and Finance, School of Business and Administration, Morgan State University, Baltimore, Maryland. He is the author or coauthor of articles published in the *Academy of Management Journal*, *Academy of Management Review*, *Accounting, Organizations and Society*, *Auditing: A Journal of Practice and Theory*, and *Organization Science*. His current research interests are the accounting implications of organizational decline and downsizing, as well as the ethics of accounting practice. He received his Ph.D. from the University of Kansas.

Executive Commentary

A. Catherine Higgs, Allstate Insurance Company

As McKinley, Sanchez and Schick point out, companies are strongly influenced by the way other firms handle similar situations. In recent times, many phenomena have converged to make similarity of corporate action more rather than less probable. Ease and prevalence of communications such as print, television, radio, e-mail or the Internet have led to rapid deployment of information about trends. Business people attend the same conferences and seminars, participate in the same university-based executive education programs, and network with each other in the same professional organizations. Strategies which focus on quality and reengineering encourage companies to benchmark or do best practices studies. In the process, they come to know who's doing what and what they think works best. Most major corporations are, in the current buzz words, seeking to "cut cycle time," "reduce costs," and "satisfy the customer"—often in the same ways.

Despite these conforming forces, downsizing seems to me to go beyond a mere fad. It's become part of a continuing longer-term aspect of social and economic evolution. The current phase of this evolution has been referred to as the transition from the industrial to the information age. Not all downsizing is as simple as it may look to either the external observer or even to the internal executive who uses it. More than shrinking the workforce of an organization, much of the change we've seen represents a permanent shift in the social and economic structure. What follows are my reasons for drawing this conclusion.

Trends such as increasing automation of work started well over a decade ago with large robotic units installed in manufacturing and assembly plants. In the service sector, larger scale computing power meant that efficiency was achieved with larger processing centers. Rather than interfere, the shift in computing power from large mainframes to current client server networks has continued the trend. Work is more automated and tasks of former clerk forces are done by intelligent computing. Each new way of automating and streamlining tasks has meant that more work can be handled by fewer workers. What's more, the former clerk forces and their supervisors are not easily, quickly or affordably retrained as knowledge workers. When downsizing evolves as part of this industrial-to-information evolution, the primary driver is not simply imitation of other companies or response to the currently fashionable expectations of investment analysts.

Another driver of this shift is the aging of the large contingent of baby boomers in the workforce. Simply put, some companies who have downsized have found no other way of dealing with the quandary posed by the oversupply of candidates for the increasingly fewer managerial positions at the top in flattened organization structures. During the last ten years, middle and upper-level jobs in many firms have been populated with highly paid people ready for the next level but with nowhere to go. Companies are asking themselves whether this tenure capacity costs more than they can afford, particularly if these individuals' skills are more appropriate for the management style of a bygone era.

The authors' point that companies may downsize because other companies are, without anyone knowing if such an initiative really works, is an argument that could also be made about many other new business strategies or initiatives. The same criteria should be used to determine the viability of a downsizing approach as are used in any other business decision—the business case. Companies need to ask what they intend to accomplish, how implementation will be tracked, and what measures will determine ultimate success. As espoused by Mike Vitale of Ernst & Young, or David Norton of Renaissance Strategy, this "balanced scorecard" approach simply states that when you lay out your strategy, you also specify the key indicators of successful implementation from multiple perspectives, including what business payoff you anticipate. The multiple perspectives are more than financial; they include performance as viewed by customers, improvement of business processes, inventions for the future, and the impact on the workforce. Whether downsizing or other business fad, this framework of making a business case will at least enhance the possibility of success rather than leave you to pursue an untried and unproved course of action with indeterminable results.

Dr. A. Catherine Higgs is director of human resource research at the Allstate Research and Planning Center, Allstate Insurance Company. One of her most recent assignments was as a member of the reinvention (or reengineering) team for Allstate's home office organization. Dr. Higgs is a member of the AME Executive Advisory Panel

For permission to reproduce this article, contact: Academy of Management, P.O. Box 3020, Briarcliff Manor, NY 10510-8020