December 2006

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ABSTRACT

Many firms are presently engaging in organizational downsizing (or downsizing) for different reasons such as cutting costs and increasing competitiveness. The holistic effects of downsizing are, however, not yet entirely clear. This is particularly true with respect to issues related to IS and this study is an attempt to understand this phenomenon better. We argue that downsizing affects IS strategy within an organization by impacting the organizational processes and social networks of a firm and present a conceptual framework. Implications of the study are discussed.

Keywords

IS Strategy, Downsizing, Social Networks

INTRODUCTION

Recent and past headlines in the business papers indicate that firms such as General Motors have been downsizing by laying off thousands of employees. This trend is not just limited to firms in the manufacturing sector but also to firms in the Information Technology (IT) sector, example: HP. While downsizing is done for different reasons such as cutting costs and increasing competitiveness, there is a limited understanding, both long term and short term, among Information Systems (IS) researchers of the holistic effects of such actions on IS related areas such as IS strategy. Hence, the sparse research done in this area points to a need for more research to understand how different aspects of IS strategy are impacted by downsizing.

This paper seeks to address the above mentioned shortcoming by contributing in the following ways: It seeks to add to the literature on IS strategy by presenting a conceptual framework on the proposed impacts of downsizing on IS Strategy. Secondly, through our framework, we aim to present insights into how downsizing affects IS strategy.

The rest of the paper is divided as follows: Section 2 develops the theoretical background, following which we present the model in Section 3. We then conclude by discussing the implications of our study in Section 4.

THEORETICAL BACKGROUND

IS Strategy

As indicated earlier, this paper primarily focuses on the effect of downsizing on IS strategy, where IS strategy is concerned with systems and/or business applications of IT, and their alignment with business processes. (Sabherwal and Chan 2001; Earl 1989). Since there are few studies that have looked at the impact of downsizing on IS strategy, we aim to address that shortcoming in this paper. One approach to better understand the effects of downsizing on IS strategy is to decompose IS strategy and examine the effects individually.

For the purposes of this study, we use the classification as laid out by Sabherwal and Chan (2001) and distinguish IS strategy into three types: IS for efficiency, IS for flexibility and IS for comprehensiveness. These three types of IS Strategy are based on four IS strategy attributes: operational support systems, market information systems, strategic decision support systems and inter-organizational information systems, and are explained next. Primarily, “IS for efficiency” strategy focuses on internal and organizational efficiencies and long term decision making. “IS for flexibility” strategy enables market flexibility and quick strategic decisions and “IS for comprehensiveness” strategy supports comprehensive decisions and quick responses through knowledge of other organizations. This study argues that each of these IS strategy types are impacted by downsizing and while we present our arguments along with the conceptual framework in the next section, it is important to first understand downsizing as a phenomenon.

Downsizing

Downsizing can be described as an intentional management action involving a reduction in workforce through a combination of organizational actions such as hiring freezes, layoffs, normal and induced attrition (Freeman and Cameron 1993). Downsizing may occur by reducing work (not just personnel), and by eliminating functions, hierarchy levels or units.

There are three types of downsizing strategies that firms can follow: workforce reduction, organization redesign, and systemic (Cameron., Freeman and Mishra 1991). Workforce reduction is a short-term implementation aimed at headcount reduction and organization redesign is a moderate term implementation aimed at organization change. Finally, systemic strategy is a long-term implementation aimed at culture change. For the purposes of this study, we include all these strategies under downsizing.

Effects of Downsizing

While it is clear that, in recent times, downsizing has gained strategic legitimacy as a reorganization strategy, there is still a debate concerning the effects of downsizing. A stream of research has indicated that downsizing is an intentional proactive management strategy aimed at making organizations more competitive through a variety of means such as reducing work or the workforce, simplifying work processes, eliminating structural hierarchies, functions or units (Chiravuri and Ambrose, 2003; Cameron *et al.*, 1991; Cascio, 1993; Freeman and Cameron, 1993; McKinley, Mone and Barker, 2000). In contrast, other studies have suggested that downsizing does not always ensure realization of the perceived benefits. For example, studies have argued that downsizing severs relationships and destroys a firm's existing network (Shah, 2000), damages learning and memory networks (Fisher and White, 2000), hinders innovation (Dougherty and Bowman, 1995) and negatively impacts creativity (Amabile and Conti, 1999). Although there is no clear consensus on the effects of downsizing on business processes, including IS strategy, we argue that the destruction of social networks during downsizing could impact the different types of IS strategy. In order to understand our arguments better, we must first look at the role of social networks in organizations.

Social Networks

Organizational social networks play a critical role in transporting information and facilitating work duties (Shah, 2000). There are two different mechanisms of influence, namely cohesion and structural equivalence, that social networks exert (Burt, 1987). The *cohesion* research states that people are influenced by their direct ties or friends (Galaskiewicz and Wasserman, 1989) because of the frequency, intensity and proximity of interaction (Burt, 1987). On the other hand, the *structural equivalence* research states that people are influenced by others occupying the same position in the social structure that the individuals themselves occupy. Structurally equivalent actors share a similar pattern of relationships and therefore an inherent rivalry exists because one actor can be substituted for the other.

There is support for both these concepts as mechanisms of influence in the literature. More importantly, these actors do not merely have influence when they are present; their absence also has an important effect on individual behavior (Shah, 2000). According to Shah, the loss of cohesive actors (friends) impacts a survivor's attitudes and behaviors. Dissatisfaction also sets in from greater layoff exposure and social isolation, and is further intensified by the loss of social contacts.

In short, downsizing leads to disruption of social networks and loss of actors. We argue that this impacts IS strategy and its types and explain it next.

CONCEPTUAL MODEL

When a firm engages in downsizing, we argue that each of these types of IS strategy is affected and present our arguments next.

"IS for Efficiency" and Downsizing

When organizations engage in downsizing, they tend to reorganize the workplace into canonical groups. This can disrupt the highly functional non-canonical and therefore invisible communities (Brown and Duguid, 1991). Similarly, another study found that restructuring at General Motors destroyed informal networks that were critical to formal operational networks (Keller, 1989). Destruction of such informal networks and communities could adversely affect story telling and case based learning, an important aspect of organizational learning. Consequently, IS employees may have to "reinvent the wheel" each time they encounter a problem, leading to time delays and inefficiencies in developing and deploying IS solutions within a firm. In addition, loss of such informal networks affects organizational memory, which forms the context for long-term IS decisions. Hence, we propose:

P1: Downsizing adversely affects "IS for efficiency" strategy.

"IS for Flexibility" and Downsizing

Literature also indicates that creativity and most creativity supporting aspects of the work environment were also found to decline significantly during downsizing (Amabile and Conti, 1999). Studies indicate that downsizing severed relationships with senior managerial sponsors thereby leaving many innovations unsupported (Dougherty and Bowman, 1995). Decline of creativity and lack of support for innovative IS solutions could seriously affect an IS department's ability to adapt to continually changing environments. Therefore, we posit:

P2: Downsizing adversely affects "IS for flexibility" strategy.

"IS for Comprehensiveness" and Downsizing

Shah (2000) also talks of two types of networks: instrumental and expressive. *Instrumental* networks provide advice, information, expertise, resources and political access. In contrast, *expressive* networks provide friendship and social support (Ibarra, 1993). Downsizing results in the destruction of networks that include both instrumental and expressive. This is detrimental to IS strategy because instrumental and expressive networks of an IS professional consist of peers not only from within an organization but also from other organizations in the industry. When firms other than the one in which an IS professional is working downsize, he/she would no longer be able to interact and capture knowledge from his/her peers (who were working at those downsized firms). This lack of knowledge from others in the industry could adversely affect benchmarking at different levels: technology and IS department, making a firm less nimble to adapt to technology advancements and changes and be competitive. Therefore, we propose:

P3: Downsizing adversely affects "IS for comprehensiveness" strategy.

Based on these propositions, we now present our conceptual model in Figure 1.

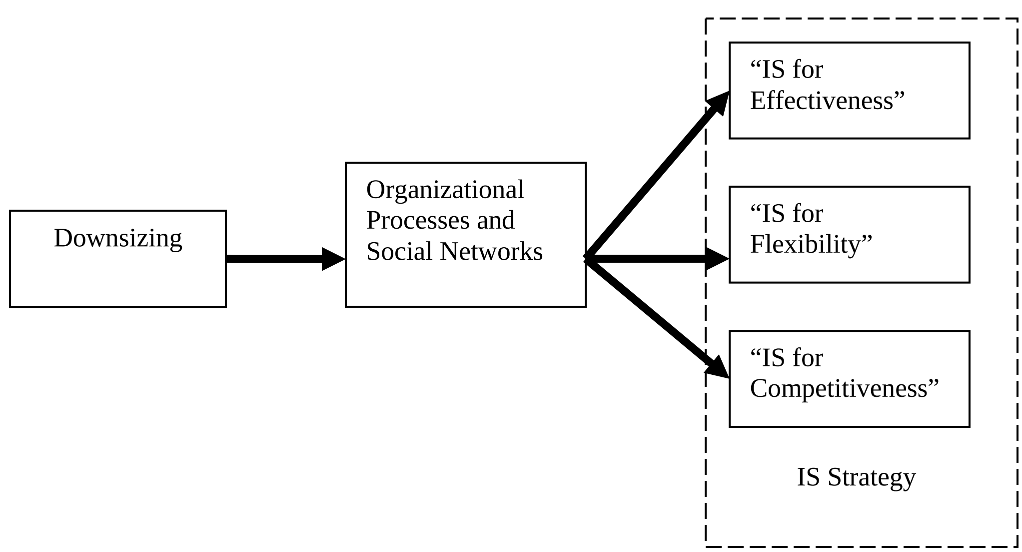

Figure 1. Conceptual Model

IMPLICATIONS, LIMITATIONS, AND CONCLUSIONS

As indicated in the previous section, we propose that downsizing affects IS strategy through its impact on organizational processes such as creativity and by destroying informal networks, the lifeline for organizational learning. Lack of proper development and execution of IS strategy will result in a firm that is slow to adapt to the ever increasing pace of change and render it non competitive. Therefore, senior managers need to think carefully before they engage in downsizing for short term benefits. Our study has a limitation in that it applies primarily to large and medium sized firms that have structures and networks (formal and informal) in place to support an organizational culture.

To conclude, we argue that IS strategy is impacted by downsizing. Future research should examine this further and contribute to existing theory on IS strategy.

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