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# Organizational learning processes in downsizing

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Schriftenreihe der Abteilung "Organisation und Technikgenese"  
des Forschungsschwerpunkts Technik-Arbeit-Umwelt am WZB

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**Organizational Learning Processes  
in Downsizing**

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## Zusammenfassung

Um erfassen zu können, wie europäische Firmen lernen, die für sie neuen Aufgaben des Downsizing zu planen und durchzuführen, wurden zunächst die Erfahrungen in der US-amerikanischen Wirtschaft anhand einer Literaturanalyse und durch Sekundärstudien ausgewählter Untersuchungen ausgewertet. Anschließend wurde eine Primärerhebung durchgeführt. Es wurden Expertengespräche in 13 Unternehmen aus unterschiedlichen Branchen in vier westeuropäischen Ländern (vorrangig in Deutschland) durchgeführt. Die Auswertung der Interviews mit Führungskräften zeigt, daß in Europa die Erfahrungen der USA bisher so gut wie nicht wahrgenommen worden sind. Dieser Beitrag stellt die Lernstrategien der untersuchten Firmen dar und zeigt die Lücken auf, die sowohl für die Praxis wie auch für die Theoriebildung im Bereich Organisationslernen entstehen.

## Abstract

The purpose of this article is to explore organizational learning processes by examining how companies learn to do something new, namely downsize, on the basis of a small sample of companies in Europe. In a first step, the range of possible responses to downsizing, as discussed in the literature, is presented and compared with the responses described in the interviews. Significant gaps between the options described in the literature and the activities undertaken by the sample companies were found. In a second step, models of organizational learning are presented, specifically focusing on knowledge acquisition, information distribution and interpretation, and compared with the learning processes described by the sample companies. The article suggests that had the companies used a broader range of knowledge acquisition strategies, they might have expanded their range of responses to downsizing. A revision of organizational learning models to include a greater variety of perspectives in a problem definition phase before knowledge acquisition is undertaken is recommended.

# Organizational Learning Processes in Downsizing<sup>1</sup>

by

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## Introduction

How do organizations learn to do something they have not done before? An arena to explore this question is downsizing because the 1980s and 1990s have seen unprecedented levels of restructuring in companies that had been used to manage growth. In order to survive they have had to cut costs by closing down activities, radically reorganizing work processes, and reducing their workforces throughout the ranks of the organization. Such intense change processes have often been conducted under the banners of “reengineering,” “lean management” and “downsizing.”

The term “downsizing” is often used to mean “intended reductions of personnel” (McKinley, Sanchez & Schick, 1995:32). Since this narrow definition is frequently associated with the unrealistic and often damaging expectation of “a one-time, quick fix solution” (Cascio, 1993:103), the term is being redefined in the literature for managers and academics alike to reflect a longer term orientation. This paper therefore uses the broader definition of downsizing as a comprehensive strategy of organizational change that involves cutting back in some areas in order to improve organizational efficiency, productivity, and competitiveness. It can include activities found under “reengineering”, which focuses on the analysis and redesign of business and manufacturing processes to eliminate non-value adding activities (Ascari, Rock & Dutta, 1995). The fact that one of the particular features of downsizing in the 1980s and 1990s is its reduction for the first time of significant numbers of managers (Heckscher, 1995; Kennedy, 1996; Nocera, 1996) links it to the concept of “lean management.”

The most extensive experiences with downsizing have been in the United States, where since the 1980s repeated waves of highly publicized large scale layoffs have occurred. In the past few years, companies in economies characterized by stable employment practices such as European countries and Japan have also been undergoing downsizing. Observers indicate that much will have to come (e.g., *Economist*, Sept. 3, 1994:18; Roach, 1996:12), and warnings abound that the mistakes made in the past years in the United States should not be repeated elsewhere (Behrens, 1996; Kennedy, 1996). Furthermore, observers suggest that learning how to downsize effectively is important not only for companies experiencing difficulties, but also as a proactive strategy for healthy organizations (Bruton, Keels & Shook, 1996; Cameron, Freeman & Mishra, 1991:58; Greengard, 1993; Hitt, Keats, Harback & Nixon, 1994:31).

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The challenge of learning how to downsize an organization is a fruitful object of theory building research on organizational learning for four principal reasons. First, the relative newness of the situation requires many companies to explore the possibility of doing things they have not done before. The scale and intensity of the changes companies have had to undergo in the past few years in most cases outstrip their normal mechanisms for adapting to changes in their environment and survive over time (Mumford & Hendricks 1996). Observing how companies deal with this situation therefore satisfies the requirements implied in the concise definition of organizational learning proposed by Huber: "An entity learns if, through its processing of information, the range of its potential behaviors is changed" (Huber, 1991:89). This definition is powerful because it is behaviorally oriented yet allows for the fact that learning can also take the form of changing the way things are seen and considered in an organization and is not limited to observable behavioral change (Cook & Yanow, 1993:377; see also Fiol & Lyles, 1985 for a critical discussion of the connection between these two dimensions of learning). This definition also has the advantage of remaining neutral; it avoids the pitfalls encountered in the literature that implies a model of desirable organizations or desirable learning (cf. Pedler, Burgoyne & Boydell, 1991; Marquardt & Reynolds, 1994).

A second reason is that downsizing requires knowledge to be acquired and acted upon by multiple actors. Such major organizational change processes cannot be introduced and managed by an individual or a small group alone. The relationship between individual and organizational learning has received extensive attention in the literature (e.g., Argyris & Schön, 1978; Levitt & March, 1988; Berthoin Antal, 1992; Dodgson, 1993; Kim, 1993; Friedman, forthcoming). The link is a dynamic one, as Nonaka, for example, explains: "Although ideas are formed in the minds of individuals, interaction between individuals typically plays a critical role in developing these ideas. That is to say 'communities of interaction' contribute to the amplification and development of new knowledge" (1994:15). There seems to be a high level of agreement that the shift from purely individual to organizational learning occurs when knowledge is shared (Daft & Weick, 1984; Brown & Duguid, 1991) and embedded into organizational procedures, structure, and culture (Schein, 1985; Cook & Yanow, 1993). The design and implementation of downsizing processes requires the sharing of knowledge between individuals.

Thirdly, the fact that downsizing today encompasses significant numbers of managers for the first time is not only a dimension of the "newness" companies need to learn to manage. It also presents organizational learning models with a useful challenge to their conceptualization of relevant actors. A limitation of the literature on organizational learning is that it remains dominated by a focus on managers as the key actors of learning, particularly top managers (e.g., Daft & Weick, 1984; Schein, 1985, 1993). Not only do the contributions from other members of the organization to the process remain invisible<sup>3</sup>, but there is also a tendency to treat managers as a homogeneous group (for a critique see Coopey, 1995). Overly-simplistic representations of relations between members of organizations need to be overcome in theory-building on organizational learning. The issue of downsizing shows that it is not sufficient for theory to be expanded to include non-management employees, it is also necessary to account for differences among managers.

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<sup>3</sup> The work by Brown and Duguid (1991) and Friedman (forthcoming), throws some light on the distortions this focus causes and suggests that future work will need to compensate for the gaps and misconceptions that result from the current bias.

A fourth reason that downsizing is a useful situation to research organizational learning is because such a significant change tends to call into question organizational values, norms, and processes that are usually widely accepted and deeply engrained. A sense of what is right and necessary for success, based on experiences in the past, are embedded into the fabric of the culture to guide future decisions and actions (Argyris & Schön, 1978; March & Olsen, 1976; Schein, 1984). Many of these cultural features are taken for granted until challenged at such moments of change, when their appropriateness for the new situation is questioned (Dierkes, 1988). For example, particularly for companies in Europe, downsizing implies shifting from the basic assumption of job security to recognizing that stable employment is no longer guaranteed. In many companies undergoing downsizing employees at all levels are therefore having to re-frame their understanding of their world and their role and relationships within the system. And at an organizational level, this essentially means that the implicit contract with its members needs to be redefined (Bernoux, 1996; Heckscher, 1995).

The purpose of this article is to explore organizational learning processes by examining how companies learn to do something new, namely downsize, on the basis of a small sample of companies in Europe. In a first step, the focus is on what the sample companies in the pilot study actually did to downsize. Their activities are presented in light of the range of possible responses to downsizing, as discussed in the academic literature and business press. To what extent did the sample companies tap into the knowledge available in the public domain about what has worked or not worked in other companies, as well as about the consequences of not doing certain things?

In a second step, the focus shifts to tracing the organizational learning strategies of the sample companies: how did they go about learning how to downsize? Their strategies are analyzed against the backdrop of theoretical models of organizational learning processes. Did the companies in the study use the full range of learning strategies that have been identified in theory as available to them?

The design of the study permits links to be drawn between these two sets of comparisons. It hypothesizes that there is a causal link between the range of organizational learning strategies used and the range of downsizing strategies tried by a company. The use of a wide range of learning strategies is likely to lead to learning about a wide range of possible responses to downsizing, whereas a big gap between the downsizing literature and the findings on downsizing activities in the sample companies is likely to result from the narrow exploitation of learning strategies. Therefore, this analysis serves both to check the usefulness of current organizational learning models to understand learning processes in practice, and also to suggest connections between learning processes and learning outcomes. The intention is to contribute to advancing theory building on processes of organizational learning and to improving managerial decisionmaking in downsizing.

## Research design and sample

In order to explore how companies have learned to downsize in Europe, a two-pronged approach was taken. Available literature on downsizing practices primarily in the U.S. and some in the UK, where companies started downsizing earlier than in continental Europe,<sup>4</sup> was reviewed to establish the range of possible activities open to companies, and to assess what may have been learned by companies from their experiences to date. Based on this review and grounded in the relevant literature on organizational learning, a semi-structured interview instrument was designed and used in a small number of companies in Europe in the second half of 1996.

A conscious choice was made to maximize the variety of experiences in this research process, a strategy that has the advantage of helping to map the territory broadly, in preparation for greater depth for later research. As is usually the case with qualitative field work on sensitive issues, accessibility is a factor in composing a sample, so although there was a strategic decision to achieve a mixed sample, the precise nature of the mix is more a matter of luck.

The sample contains 13 companies, all operating internationally, of which 10 are located in Germany, and one in each the UK, Finland and the Netherlands. In one case interviews were conducted in a subsidiary abroad as well as in headquarters. Two of the companies are medium-sized, of which one is family-owned and the other describes itself as being managed like a family-owned company. The companies were selected from different sectors (pharmaceutical and chemical, electronics, machine tools, automobile, food and beverages, banking).

In all but three of the companies studied there had been no significant downsizing experience before the 1990s. One had memories of a major change 20 years earlier and was in the process of planning new restructuring which would involve downsizing in several countries. Another had closed operations since the major downsizing of the early 1980s. The third case had undergone a wave of downsizing at the end of the 1980s and a second in the early 1990s. For all the others, downsizing was a new task they needed to learn how to manage.

Interviews of an hour to an hour and a half were conducted with usually one, in a few cases 2 or even 3 managers in each company to enable the researchers to obtain additional information and check for consistency of views. A total of 19 interviews were conducted either in person or by phone. Eight of them were with senior human resource managers (one of these managers was interviewed after having moved to a different company), 3 with the director of the company or the business unit, 2 with managers in strategic planning, 2 with sales or marketing directors, and 3 were managers in research units; one of the latter group had taken early retirement as a result of downsizing in his company. The sample therefore contains insights from managers in different functions in the organization, but remains in the frame of “managerial perspectives” characteristic of most research in organizational learning

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<sup>4</sup> The articles referring to downsizing in Japan tend to be about the need to undertake downsizing and a concern for unemployment, rather than reporting on actual experiences (e.g., Bosse 1994, 1995; Cohen, 1993; for exceptions see “JAL stellt ‘Survival Plan’ vor”, 1994; “Nippon Steel will 7000 Arbeitsplätze abbauen”, 1994; and Kenji, 1995). It is therefore too early to be able to draw on Japanese companies for ideas on how to manage downsizing in other countries.



to date. Confidentiality was assured and the respondents were willing to be frank about their experiences and ideas.

The interviews were transcribed, then analyzed separately by three researchers, and the data categorized according to the concepts drawn from the theoretical review. The categorizations were then cross-checked between the researchers in meetings to maximize shared interpretation.

## **Findings on Downsizing Activities in the Literature and in the Sample Companies**

As a backdrop for assessing what the sample European companies learned to do to manage their downsizing challenge, it is useful to look at what is reported in the literature on what has been done in companies to date. Available articles in the business press as well as in academic journals provide insights not only into what other companies have found effective, but also into the mistakes that they have made. Organizations facing downsizing for the first time can benefit from both types of information.

The American Management Association, which has conducted a series of large scale studies on downsizing, found that most companies fell short of the objectives they had originally established, and that nearly half of the firms were “badly” or “not well” prepared for the process (reported in Cascio, 1993:97-99 see also De Meuse et al., 1994). Two interrelated reasons for this emerge from the literature.

First, this may be at least partially explained by the fact that “most companies agree that their downsizing efforts are guided more by anecdotal data from colleagues who have downsized previously, by past experience garnered from having downsized multiple times, or by mere ‘gut feel’ for what is right than by a set of guidelines or principles that have been validated or legitimated” (Cameron, 1994a:183). In other words, if companies do not see downsizing as something they have to actively learn how to do well, but rather as something they have to get through by cobbling together a set of activities as they go, they are not likely to put in place the best available measures and use them effectively.

The second related reason is suggested by McKinley, Sanchez and Schick, who propose that institutional theory can help explain why downsizing spread “like wildfire through the ranks of America’s largest corporations” (1995:34). They see in the combination of “constraining”, “cloning” and “learning” forces a dynamic that leads companies to undertake an activity like downsizing simply because others in their community are doing it. They observe that in the U.S. constraining forces were at work pressuring organizations to downsize as a mode of conforming to institutional rules -- “the right walk to walk, the right talk to talk, the right look to look” (1995:34). Closely related to constraining forces are cloning forces, which “pressure organizations to mimic the actions of the most prestigious, visible members of their industry (1995:34). Finally, learning forces take effect “through a complex network of educational institutions and professional associations” (1995:36) to which managers and their consultants belong and which serve to “rationalize downsizing as a legitimate activity” (1995:36). The relevance of this set of dynamics to the decision to undertake downsizing in the sample companies is worth looking into.

Embarking on downsizing without learning how to do it well leads to several kinds of problems. For example, more than half the companies studied by the American Management Association had begun downsizing with no policies or processes to minimize the negative effects of cutting back (Cascio 1993:99). The loss of vital organizational memory is one of the negative and expensive effects firms have suffered in downsizing. If managers do not think and plan ahead, their companies risk losing key skills and experiences as well as valuable knowledge when employees are moved out of their working units or leave the organization entirely (Hitt, Kets, Harbach & Dixon 1994:25). Indications of how companies manage the risks to their organizational memory that downsizing can pose require more research (e.g., Carley 1996).

A further typical negative effect of downsizing reported in the research that is relevant for organizational learning is that “it can foster an organization so preoccupied with bean counting, so anxious about where the ax will fall next, that employees become narrow minded, self-absorbed, and risk averse” (Henkoff, 1990:26). The ability of employees to continue to work well is likely to be very severely curtailed in such stressful situations (Heckscher, 1995; Hitt et al. 1994:24), and they tend to be even less able to innovate and learn (Brockner, 1988; Dougherty & Bowman, 1995). This has become one of the dominant topics in the literature on downsizing, so the extent to which European companies are aware of this risk and finding ways to avoid repeating the mistakes of their American colleagues is worth exploring.

From the negative experiences documented in the literature of many companies in which downsizing was badly managed, and those of companies that were more successful in achieving their restructuring targets and maintaining a motivated workforce, it is possible to distill an overall framework and a range of activities from which other companies could learn (Berthoin Antal, 1996).

#### A. Range of Activities Described in the Literature

Probably the most significant conclusion drawn by studies of experiences in U.S. companies is the need to avoid the common trap of conceiving of downsizing as “a one-time, quick-fix solution” (Cascio, 1993:103). Instead, a comprehensive framework is required, a whole process of grappling with the underlying problems and developing a range of activities to restructure the organization and to enable the employees to make the transition to different jobs within or outside the organization (Applebaum, 1991; Bruton, Keels & Shook 1996; Cameron, Freeman & Mishra 1991). The practices used to manage downsizing can be seen to fall into four distinguishable but related processes: 1) preparing downsizing; 2) maximizing alternatives to layoffs; 3) managing layoffs; 4) managing survivors and changing the organization.

### 1) Preparing downsizing.

Preparing downsizing entails conducting a solid analysis of the situation and building a shared need to change before engaging in cutbacks of any kind (Applebaum, 1991). Involving employees in analyzing the situation and developing possible responses has been reported in the literature as an effective approach (Cameron et al. 1991:60; Feldman, 1993). Not only do employees have much more information about their workplace than distant analysts do, information that can be very valuable for making necessary changes. But also, involving employees in defining the problem and formulating solutions increases their awareness of the need to change and their willingness to participate in the process. In addition to generating ideas from within, companies have sought ideas and support from the outside, such as the labor office, unions, suppliers and customers, Chambers of Commerce and Industry, consultants, as well as other companies. Some of these organizations can provide insights based on their own experiences with downsizing. Others have observed or participated in downsizing exercises in several settings and can bring insights from those experiences with the process to help raise an awareness for the scope of the problem and minimize the risk of too narrow and shortsighted an approach for dealing with it.

### 2) Maximizing alternatives to layoffs.

In the popular press downsizing is frequently equated with layoffs, but there is a strong consensus in the literature that this focus is too narrow, and even dangerous, leading to the coining of a new term, "corporate anorexia" (Henkoff, 1994:30) to describe the outcome of "an addiction" to layoffs (Economist, Sept. 3 1994:17). Companies have found it worthwhile to maximize alternatives to layoffs for two primary reasons: to maintain experience and skills inside the organization that have been built up over time and in order to act in a socially responsible manner towards employees (Cameron, 1994b). Among the relevant practices described in the literature on downsizing are a) redeploying employees to other parts of the company, b) adjusting working time models to redistribute work differently rather than to simply "reduce headcount" (Bode, 1994); c) combining the gradual entry of young people with the gradual exit of older workers to ensure that new skills are brought on board and experience-based knowledge is passed on to the next generation. Parallel to looking for alternatives to laying off employees are activities to cut costs, such as d) eliminating non-essential work processes, not just people (Greengard, 1993; Henkoff, 1990; Tomasko, 1992); and e) ensuring that status symbols, perks and bonuses for senior management are in line with downsizing goals so that management's commitment to cost-cutting is credible and not seen to be purely at the expense of other employees (Hammonds et al., 1996; O'Neill & Lenn, 1995). Possibly the most significant alternative to layoffs is f) looking for new markets for products and services to enable growth rather than focusing only on cutbacks (Deutsch, 1995; Economist, 1996; European Round Table, 1997. As Wayne Calloway, CEO of PepsiCo is reported to have said "You can't save your way to prosperity. That alone won't get you there" (Magnet 1994:60)

### 3) Managing layoffs

To the extent that layoffs must be implemented in the downsizing process, the literature analysis shows that there are a number of practices to choose from. Layoffs can be made across the board or selectively. In order to avoid being left "shorthanded and shortskilled" (Hitt et al., 1994:25), companies have learned that a

selective approach oriented to the key competencies needed in the organization, is the better strategy. Whichever approach is taken, the communication of clear criteria contributes to a sense of fairness in layoff decisions (Greengard, 1993). Experience shows that parallel to communicating layoff decisions, companies need to communicate actively with the employees they particularly want to keep in order to reduce the risk of the best employees seeking jobs elsewhere (Cameron et al., 1991:63).

The involvement of employees' representatives (unions, works councils) in deciding on layoffs is required in some contexts and is a matter of choice in others; it can lead to better decisions and to a better working relationship in the implementation process and its aftermath. Companies have found it useful to train managers to make and communicate layoff decisions sensitively and effectively, since this is something they have usually not had to do before (Bing, 1997; Kets de Vries & Balasz, 1996). Early retirement for older workers is an option that companies have tended to use first to reduce headcounts. A more recent development is to provide training to increase the employability of employees elsewhere (Henkoff, 1994). The literature reports a variety of ways to fund this, both from internal and external sources such as public funds, redundancy packages, employee contributions. To increase the success rate of employees in finding new jobs and to ease their transition, companies have provided comprehensive outplacement support, such as help in interviewing skills, CV preparation, job fairs; this can be done by internal resources or through outplacement agencies (Applebaum, 1991; Papalexandis, 1996). Counseling for employees as well as for their families has also been introduced in companies to ease the transition. A further option to increase opportunities for employees who must be laid off is to provide help in setting up small businesses; this solution has the additional advantage that the company thereby build access to the skills and services of its employees-turned-entrepreneurs in future.

#### 4) Managing survivors and changing the organization.

The fourth process is that of managing the employees who remain in the organization and of implementing changes in the organization itself (Heenan, 1991). Awareness of the need to treat this as an integral part of the downsizing process has emerged only relatively recently. The literature reports that a frequent mistake is to overlook the effects on "survivors" of the downsizing process, particularly of layoffs (Rubach, 1995). These employees have been found to experience fear of losing their job, guilt for still having it while former colleagues may be unemployed, anger at the organization that did this to them, and exhaustion from overload (Davenport, 1995; Smallwood & Jacobsen, 1987, Caplan & Teese, 1997).

A key message from the literature on managing survivors and changing the organization is that its success depends significantly on how well the other three processes were managed. This is a clear example of how the four processes described here are interwoven and should not be treated as a linear sequence of phases. In particular, the more justifiable the downsizing process and the more equitable the decisions are seen to be, the more smoothly and productively the transition to the future can be made (Brockner, 1988; Kennedy, 1996; McKinley, 1992). Among the specific measures reported in the literature to manage survivors are: a) to recognize the emotional concerns of these employees (Heckscher, 1995); b) to involve them in redesigning tasks and processes; c) to eliminate non-essential work; and d) to invest significantly in training to develop their ability and confidence in

fulfilling new responsibilities (Hitt et al., 1994). Furthermore, e) clear and consistent messages about the direction of the company and the strategy to achieve the goals are essential (Smallwood & Jacobsen, 1987). This needs to be underpinned with f) changed appraisal, reward, selection, and development systems (Cameron et al., 1991:65). Consistent messages about the vision matched by human resource policies that support the new organizational goals are necessary conditions to enable employees to orient themselves towards the future rather than retaining an orientation to the organization they knew in the past (Henkoff, 1994; Amabile & Conti, 1995).

In summary, the literature on downsizing experiences, generated primarily in the United States where there has been the most extensive experience with downsizing over the past decade, documents not only the kinds of mistakes that companies have typically made in learning how to downsize and the consequences of these mistakes, it also provides insights as to how to avoid making these mistakes. A conclusion drawn from reviews of experiences with downsizing is that companies need to ensure that they do not focus so much on cutting costs that they are sacrificing business development and growth opportunities that are essential for future survival (Feldman, 1993:18). "A big part of the problem is that downsizing is so taxing, so all-consuming, so emotionally draining, that managers often come to see it not as a means to an end, but a an end in itself" (Henkoff, 1994:30). Most importantly, the literature shows that in addition to undertaking an appropriate mix of activities in each of the four processes, companies need to engage in a great deal of active and open communication throughout so that all involved understand what is being done, why and how (Cameron et al. 1991; Hitt et al., 1994).

## B. Key Findings on Downsizing Activities in the Sample Companies

All thirteen companies reported that the purpose of downsizing was to cut costs and increase competitiveness. In four of the cases the respondents reported that they experienced the situation as a crisis, and the survival of the company or of the business (e.g., a location or division) was at stake. In all the sample companies, significant reorganization processes were conducted alongside personnel reductions. The reorganization included delayering, moving from a functional to a process structure, and closing some operations, or combining activities into a single site.

### 1) Preparing downsizing

The interviews indicate that the preparatory phase was primarily an analytical one dominated by the search for ways to cut costs. A few managers mentioned benchmarking data from competitors or from other companies in their corporation as points of comparison in analyzing the cost problems, while for most of the sample the analysis of the cost-cutting needs seemed primarily self-referential. Internal stakeholders such as works' council or employees were involved in the analysis for the most part only where formally required. In just a quarter of the companies were they included in a participative search for ideas. In surprisingly few cases had the respondents tapped external sources for ideas about how to deal with the problem.

### 2) Maximizing alternatives to layoffs

Half the companies in the sample tried to find alternatives to layoffs (although almost all of these also ended up by implementing layoffs as well). The primary method was to arrange for some employees to be transferred into other departments or locations within the company, in a few cases even internationally. In one case, in which two research sites located in two different German cities were to be united into a single location, the company went to particularly great lengths to help employees consider moving to the new site, for example by paying for the employee and spouse to visit the other city to enable them to decide whether they could envision the move. In another case the company provided bus transportation to the new site (an hour away) in order to enable employees to continue to work for the company over many years. Respondents reported quite severe limitations to the strategy of transferring employees to other locations as an alternative to layoffs. First, employee mobility is not high in continental Europe. For example, one of the sample companies was finding it close to impossible to get employees for whom there were no longer jobs at an old plant to agree to take a job at a new plant about to open less than 20 kilometers away. Second, in those organizations where downsizing is not limited to a particular division or site, it is increasingly difficult to find parts of the organization capable of absorbing transferred employees.

Several companies introduced new working time arrangements to increase their flexibility while maintaining employment levels. This strategy required agreement of the works' council or in some companies renegotiating with the trade unions. In a couple of cases the managers admitted to having worked out solutions that they described as circumventing official rules and regulations in order to maintain employment.<sup>5</sup> Another company in the sample showed that the commitment to maintaining employment can even be upheld when downsizing involves selling off part of the company: the manager reported that guaranteeing job security for the employees was treated as an important item in the negotiations with companies interested in the acquisition.

### 3) Managing layoffs

Only one case of massive outright layoffs was found in the sample, and this was in the company that closed a large location. It is not only the legal restrictions on layoffs that limited the use of this approach in the European sample; several companies also mentioned that such behavior is against their tradition and cultural norms. Attrition, or natural fluctuation, was used in most of the companies, but it was not sufficient to meet the target reductions, so additional mechanisms had to be used.

The primary mechanism for achieving reductions in all the sample companies was voluntary early retirement. In most companies this was done selectively: the option was offered to employees based on a strategic assessment of the skills needed by the organization. The company that had downsized already once in the 1980s learned the hard way the costs of offering early retirement to all employees regardless of skills. It lost crucial knowledge and skills in that first wave of downsizing, and had to re-employ some of the retired employees at a significantly higher rate in order to get their knowledge back on board. When this company had

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<sup>5</sup> These admissions of different agreements achieved outside the official frameworks seem to be examples of a growing phenomenon, as illustrated under the heading of "Anarchy is blossoming in companies" (Frese, 1997, p. 18.)

to downsize again in the 1990s, it changed its approach to a selective offer of early retirement to those employees on whose skills it was less dependent.

It is worth noting that the relatively “easy option” that the early retirement strategy has represented in the past for reducing personnel is becoming less easy to use to achieve this goal for several reasons: Firstly, the regulations were changed in Germany in 1996, making it more expensive for companies to implement and less attractive for employees to take. Secondly, employers are finding that they have almost exhausted the cohort of employees both fitting the age category and actually willing to take early retirement. It is therefore becoming more important to search for different strategies.

A quarter of the companies in the sample offered redundancy packages, in several cases above and beyond those required by law, as incentives for voluntary departure. One of the multinationals reported that very different packages for redundancies had been worked out locally and pragmatically by managers of its plants in various European countries, but that this would not work in future because the European Works' Council would oversee such processes and press for a coordination of policies. The manager foresaw that the organization would soon need to learn how to develop approaches that could be applied in different locations.

In only two companies were managers given training to prepare them for their responsibilities in the downsizing process. Respondents in the sample who for the first time in their working lives had had to explain to large numbers of employees that they would no longer have a job with the company found this task extremely difficult. Outplacement services to help employees find jobs were offered in a quarter of the cases, usually through external providers, and three companies offered re-training for employees to increase their employability elsewhere.

#### 4) Managing survivors and changing the organization.

The main activities reported were centered on ensuring a skilled workforce in a leaner structure, and the communication about the future of the organization. Although there was little explicit awareness of the need to manage the 'survivor syndrome', in a few companies the respondents reported having tried to reduce the workload of remaining employees by cutting out what they considered to be unnecessary tasks.

Most of the respondents expressed a concern about the need to maintain or develop skills and competencies so that the company could deliver quality products and services competitively. The majority emphasized their continuing investment in training and development. One company was considering introducing training sabbaticals at the time of the interview. In addition, a quarter of the companies enhanced their skill base by recruiting new people during their downsizing period. They sought to bring new skills on board or to ensure against a demographic distortion, but the respondent emphasized that such recruitment was often a difficult thing for employees to understand and accept at a time when the company was laying off current employees.

The communication about the future of the organization and the role of downsizing fell into two distinct categories: the sample companies either tried to communicate a

sense that the downsizing process was finished or they sought to get the message across that restructuring is an ongoing change process, often including a change in organizational culture. The intention of management in both types of communication strategy was to encourage the employees to move on from the difficult experiences of the past months and work towards the future. In order to find out which of the two strategies was experienced as more effective by survivors of the downsizing in the sample companies it would be necessary to study a broad range of members of the organization. Experiences in the literature suggest that the effectiveness of the communication with the survivors after the downsizing depends to a large extent on the quality of the communication throughout the process. The more personal, interactive and thorough the communication has been in the early phases, the more probable it is that the remaining employees feel that they are sufficiently informed and that their concerns are taken seriously.

### C. Comparison of activities in the sample companies with range of activities in the literature

How does this range of responses look in light of the range described in the literature? Before looking at the specific activities undertaken in each of the four processes, it is worth noting that overall there was no evidence in the interviews to suggest a repetition in Europe so far of the pattern observed in the U.S. that downsizing is often initiated as a response to the “constraining” “cloning” or “learning” forces identified by McKinley, Sanchez and Schick (1995). It is perhaps tempting to conclude that the European companies have learned from the U.S. experience that the organizational and human costs of insufficiently well planned downsizing are high, so that carefully planned strategies need to be devised. A number of the respondents stressed that they did not want to imitate "American ways of doing things", meaning the rapid large scale redundancy programs reported in the press. On the other hand, their approach may be the result of European laws and traditions rather than the outcome of learning through observation from the U.S. The legislative context in western continental Europe, which provides workers far greater protection from redundancies than in the U.S., probably contributes significantly to the fact that sample companies maximized alternatives to layoffs by redeploying employees to other parts of company, changing work time practices, and increasing early retirement.

The interviews in the sample companies reveal activities in each of the four processes, and the extent of reorganization undertaken indicates an awareness of the need to take a view beyond the acute immediate problem symptoms. Nevertheless, considering the array of practices recommended in managing layoffs in the available literature, the sample companies showed relatively limited activities: very few trained managers for the layoff process, provided training for employability, or provided outplacement support. None used external funds for training (e.g., regional and European funds), nor provided help in setting up small businesses, nor offered counseling to employees and their families to manage the stress of downsizing.

The weakest area in the sample is the management of survivors of downsizing: only in a few cases was there indication of involving employees in redesigning tasks and processes and providing them with the necessary training for their new



responsibilities. One company consciously undertook to communicate a new vision. Although most of the respondents acknowledge the needs of survivors such as dealing with the feelings of loss or guilt associated with seeing their colleagues leave, or fearing for their own job security, no systematic strategies were in place to deal with them. Nor was there evidence of changes in appraisal, reward, selection and development systems to reflect the new situation. Considering the significance attached to this problem area in the literature on companies in the U.S. after the extensive experiences with downsizing there, it is striking that so little awareness of it is evident in the sample companies in Europe.

In summary, the range of activities undertaken by the sample companies to manage their downsizing is much narrower than the range of potential activities recommended in the literature on the basis of the experiences of other companies. The transfer of ideas from one culture to another is often limited by the fact that some practices are anchored in a particular legal framework or cultural environment and are therefore not directly applicable in another setting. This would apply, for example, to laws on dismissal and the involvement of works councils which differ between countries. They do not, however, appear to have been a limiting factor in transferring lessons from the U.S. to European companies on managing downsizing well in the four processes described here. Other factors need to be sought to explain why relatively few of the ideas described in the literature were found in the sample companies.

The next section will seek elucidation to this puzzle by shifting from looking at how companies downsize to how companies *learn* to downsize. It will first present the range of organizational learning strategies companies have to choose from, based on the literature, then compare this with the range of strategies actually reported in the sample companies. It will then explore whether there might be a link between the number of organizational learning strategies used by the companies and the limited number of kinds of downsizing activities undertaken.

## **Processes of Organizational Learning: Models and Concepts from the Literature and Practices Found in Sample Companies**

### **A. Theoretical Frameworks**

A number of different frameworks have been suggested in the literature on organizational learning to conceptualize the alternative or complementary activities available to an organization to extend its “range of potential behaviors” (Huber, 1991:89). Early theories of organizational learning extrapolated from individual learning and distinguished between “rational calculation” and “learning from experience” (March & Olsen, 1975). The former entails collecting data, analyzing it, and planning, whereas the latter is based on experimentation and feedback. More recent work expands on and refines this conceptualization by encompassing both internally-based and externally-oriented strategies for identifying ideas and for diffusing them widely enough for action to be taken (Daft & Weick, 1984; Huber, 1991; diBella, Nevis & Gould, 1996; Marriott & Morrison, 1996).

The current frameworks share fundamental similarities, despite some significant differences. Most of them suggest that it is useful to conceive of learning processes in terms of 3 to 4 stages or steps, starting with knowledge acquisition, to distributing

or sharing the knowledge, interpreting it, then using and storing the knowledge in organizational memory (see Table 1).

Table 1: Frameworks on Learning Processes

DAFT & WEICK, 1984	HUBER, 1991	DIBELLA, NEVIS & GOULD, 1996	MARRIOTT & MORRISON, 1996
Scanning = Data collection	Knowledge acquisition	Knowledge acquisition	Knowledge acquisition
	Information distribution	Knowledge sharing	Sharing/interpretation
Interpretation = data given meaning	Information interpretation		
Learning = action taken		Knowledge utilization	Translation into action
	Organizational memory		Storage

### 1) Knowledge acquisition.

Each of these models starts with the concept of knowledge acquisition, highlighting that in order to learn to do something, an organization must first obtain information and/or ideas from which to choose or design its possible responses. Huber (1991) provides more detail on this process than the other authors. He divides it into five possible strategies: congenital learning, experiential learning, vicarious learning, grafting, and searching and noticing, and he describes a variety of behaviors within these strategies that encompass both internal and external sources of knowledge (Huber, 1991: 90-100). DiBella, Nevis & Gould (1996) also look at internal and external sources of knowledge; their model is additionally instructive because it defines knowledge acquisition not narrowly as information, but broadly in terms of the development or creation of skills, insights, and relationships. Daft and Weick (1984) focus on external knowledge acquisition, and point out that the strategies used will depend on how analyzable the environment is perceived to be, and on how actively or passively the organization defines its appropriate form of intervention in the environment. In other words, out of the total potential range of search activities available to organizations, an organization will tend to limit its search activities to those that correspond to its cultural beliefs (Daft & Weick, 1984:287-288).

### 2) Information distribution and 3) Information interpretation

“The dissemination to others of knowledge that has been acquired by some” (diBella et al., 1996:362) is generally seen as the second step after knowledge acquisition.<sup>6</sup> In Huber’s model, this is followed by a process of information interpretation. This is defined by Daft & Weick as “the process through which information is given meaning”

<sup>6</sup> The fact that Daft & Weick (1984) do not isolate a phase of information distribution may be due to the fact that they treat organizational learning very narrowly as a top management process (p.285), so that they (one might say, naively) assume that relevant information is distributed within this group and does not need to be treated as a process.

(1984:294). By contrast, Marriott & Morrison expand the concept of sharing information to include processes of interpretation, and stress that it is at this point that “learning moves from being private to public property” (1996:9). All these authors recognize that multiple interpretations may exist in an organization and they suggest that the development of shared interpretations as well as the ability “to understand the nature of the various interpretations” (Huber, 1991:102) held by others is an important dimension of organizational learning.

#### 4) Action/utilization and 5) Memory/storage

Theories of learning that focus on behavioral changes stress action or the utilization of knowledge as a major step in the learning process. This is reflected in the models described by diBella et al. and Daft & Weick. In contrast to the behaviorally-focused theories, the theories of learning that see learning as a cognitive change or an expansion in the potential range of behaviors are more likely to look for evidence of changes in memory or the storage of the new ideas and behaviors (e.g., Huber, 1991). The importance of both processes is highlighted by Marriott & Morrison (1996).

In summary, the frameworks presented here provide quite consistent overviews of different processes in organizational learning. Their presentation in tabular form is to a certain extent misleading in its suggestion of a simple linear progression from step 1 to step 4 or 5. Learning processes entail feedback loops and iterative movement between these processes. Nevis, diBella and Gould (1995), for example, note that

early in our research it became clear that organizational learning does not always occur in the linear fashion implied by any stage models. Learning may take place in planned or often unintended ways. Moreover, knowledge and skill acquisition takes place in the sharing and utilization stages. It is not something that occurs simply by organizing an ‘acquisition effort’.(p. 75)

Unfortunately, however, how this actually happens is not developed in any of the models to date.

For the purposes of this study, the analytical focus is on the processes reported in the sample companies for a) acquiring and b) sharing knowledge, whereby information distribution and interpretation, as suggested by Marriott & Morrison, are combined.<sup>7</sup> Therefore, more theoretical detail is provided below on how each of these processes can be operationalized before they can be applied to the data from the sample companies.

## B. Knowledge Acquisition Processes: Theory and Practice

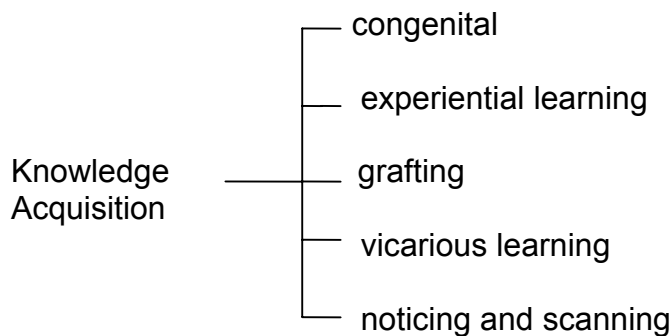
### 1. Theory-based specification of knowledge acquisition processes

Huber’s framework offers the most comprehensive and integrative approach to capture the variety of processes available to an organization to acquire new knowledge. (see Figure 1).

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<sup>7</sup> This article will not pursue the learning processes of knowledge utilization or organizational memory further. The insights about organizational memory generated through the interviews with the sample companies are summarized in the *WZB Mitteilungen* (1997).

Figure 1: A framework on the conceptualization of knowledge acquisition



(Based on Huber, 1991:90)

According to this model, it is useful to distinguish between 5 types of knowledge acquisition processes (Huber, 1991: 90-100):

- *Congenital learning* refers to the use of “a combination of the knowledge inherited at it’s (the organization's) conception and the additional knowledge acquired prior to its birth” (91). This refers to the practices and behaviors engrained in an organization by the founding generation (e.g., Schein, 1984), or those transmitted to a subsidiary, spin-off or joint venture by its "parents" when it is first created.
- *Experiential learning* encompasses the range of learning activities related to direct experience. Huber points out that “sometimes this learning is a result of intentional, systematic efforts. Much more frequently, it is acquired unintentionally or unsystematically” (91). He identifies five types of experiential learning: organizational experiments, organizational self-appraisal, experimenting organizations, unintentional or unsystematic learning, and experience-based learning curves, but recognizes that these categories are not yet well substantiated in research (95). This study therefore does not apply these sub-categories of experiential learning.
- *Vicarious learning* involves the acquisition of second hand experience “about the strategies, administrative practices, and especially technologies of other organizations” (96). It is useful to distinguish between "Vicarious learning" and "imitation learning", which is highlighted in institutional theory, according to which organizations pervasively imitate other organizations (cf. Meyer & Rowan, 1977; Zucker, 1987). The concept of vicarious learning implies greater reflection on the applicability of another's experiences and greater efforts at adapting the lessons to the different circumstances. Huber suggests that “channels for this kind of learning include consultants<sup>8</sup>, professional meetings, trade shows, publications, vendors and suppliers, and, in less competitive environments, networks of professionals” (96).

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<sup>8</sup> For closer examinations of the roles of consultants in organizational learning, see Berthoin Antal and Krebsbach-Gnath (forthcoming) and March (1991).

- *Grafting* means “acquiring and grafting on new members who possess knowledge not previously available within the organization” (97). Huber notes that, other than in the context of joint ventures, little research has been done on this mode of acquiring information, but he indicates it is likely attract increasing attention under conditions in which organizations must assimilate new knowledge quickly (97).
- *Searching and noticing* range from conscious strategies to obtain information on changes in the environment (searching) to the unintended acquisition of information (noticing). Huber suggests that “the literature seems to indicate that searching is the process most consciously pursued by managers on a day-to-day basis” (97). He distinguishes between three kinds of search strategies: 1) Scanning, which is a broad and ongoing process of observing the environment; 2) focused search in response to a specific need for information; and 3) performance monitoring, which companies use to “assess how well they are meeting both their own standards ... and the expectations of external constituencies and stakeholders” (99).

These five process categories offer a comprehensive model for analyzing the knowledge acquisition processes used by the sample companies to learn how to downsize. Huber does not attach more value to one type of learning strategy over another but rather suggests that all five knowledge acquisition strategies are useful. Nevis et al. (1995) concur when they distinguish between internally oriented learning strategies, which in Huber’s categories are associated with congenital and experiential approaches, and externally oriented (grafting, vicarious, searching and noticing) learning strategies:

To what extent does the organization develop new knowledge internally or seek inspiration in external ideas? This distinction is seen as the difference between innovation and adaptation--or imitation ... both of these approaches have great merit as opposing styles rather than as normative or negative behaviors. (Nevis et al., 1995, p. 77)

Their research suggests that an organization may have a tendency to prefer one mode over the other, but “the distinction is not clear cut” (Nevis et al., 1995, p. 77)

## 2. Strategies for knowledge acquisition found in the sample companies

Considering the wide range of knowledge acquisition strategies Huber proposes are available to companies, it is striking how limited the approaches are that were found in the sample companies. None of the companies sought to acquire knowledge actively through all five approaches; several denied the usefulness of learning from external sources. Even though downsizing was a new situation for the sample companies, the interviews suggest that the dominant response was to look internally and cautiously adapt methods with which the company already had some experience.

### Congenital knowledge:

There was some evidence of congenital knowledge acquisition in the sense that respondents in four companies reported that they had applied policies that had been in place since the inception of the company. In one of these cases the company was a relatively new joint venture in which many policies had been taken over from the

established practices of one of the joint venture partners. The two medium sized companies which emphasized the “family-run tradition” also drew heavily on congenial knowledge by stressing the continuity of practices in the tradition of the organization.

#### Experiential knowledge:

The predominant approach found in the sample was experiential, whereby there were variations in how experiences were used for learning. The company that had downsized in the 1980s definitely learned from this experience in developing its strategy for the second downsizing process so as not to suffer from the same mistakes. Most of the other companies learned from experience in that they adapted their existing policies to fit the new situation. They evidenced incremental learning rather than seeking to experiment with significant innovations. In a few cases, internal knowledge in the form of employee experience was consciously sought out by management and employees’<sup>9</sup> ideas were solicited in the downsizing-related change processes because the managers believed employees had the deepest understanding of the situation.

#### Vicarious learning

There were three forms of vicarious learning that emerged from the interviews: learning from other companies through networks, learning from other companies through consultants, and learning from other divisions or subsidiaries of the same company in different locations. A minority of the companies used all three forms of vicarious learning and drew in ideas actively; in other companies the respondents often had a preference for one form and strong opinions about why other forms were not useful for their organization. For example, two companies believed that it was worthwhile acquiring knowledge from other parts of the organization (in one case this process was facilitated through headquarters), and they were emphatic about the fact that their company was so unique it could not obtain relevant insights from other companies. By contrast, one of the multinationals in the sample felt that it could learn more from local companies than it could from other sites of its company which operated in different cultural and legal environments. Those who drew vicariously on the experiences of other companies usually did so through membership in employers’ federations; there were two companies that learned by participating in benchmarking exercises.

The third mode of vicarious learning was through the expertise of consultants. This is an issue around which a distinction emerged between the large and the medium sized companies in the sample. The medium-sized companies were very skeptical of the contribution consultants can make as outsiders to the organization and felt that management should be able to handle a situation without them. The remaining companies had engaged consultants at some point of the downsizing process, but the nature of the relationship differed quite significantly and this has interesting implications for organizational learning. There was suspicion and cynicism in several of the larger companies in the sample as well, and these assigned clearly defined, limited roles to the consultants, such as for conducting the analysis, running workshops or managing the outplacement process. When a company essentially delegated a task entirely to the consultants, who then left after completing the

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<sup>9</sup> The term ‘employees’ is used broadly in this text to refer to members throughout the organization, including managers, thereby avoiding the dichotomy between ‘managers’ and ‘employees’, and reflecting the fact that managers jobs are also affected by downsizing processes.

assignment, it is not clear whether any knowledge was acquired by the company. For example, if the entire outplacement task was managed by a consultancy, no knowledge on how to deal with this issue was retained by the company since the staff was not involved. There is a greater likelihood that organizational learning resulted from those cases in which the consultants were positioned as helping the company's staff to do something, but further research would be needed to clarify such potential contributions.

There were two cases in the sample in which the respondents clearly saw a significant impact on organizational learning through the vicarious experience transfer mode of the consultants. One company had sought out a consultancy that had a strong track record in downsizing processes specifically in order to tap into these experiences, and it ensured that the works council favored this particular consultancy as well, so the ideas were generally well received in the organization. By contrast, another company reported intense resistance at senior management level to the data brought in from other companies by consultants; it took two years for the management to accept the relevance of the data and to be willing to consider embarking on new strategies to correct the problems. They subsequently worked with the consultants to conduct benchmarking projects and design significant organizational changes.

#### Grafting

It would have been conceivable that managers could have been grafted in, i.e., recruited, from companies that had gone through downsizing in order to acquire their downsizing expertise. None of the sample companies had consciously recruited a manager for this purpose. However, in three cases the respondents themselves happened to have had a recent experience with downsizing elsewhere and felt that they were able to draw on it to help their current employer manage the process better.

### Searching and Noticing

There was strikingly little evidence in the interviews of either organized searching or informal noticing activities to gain knowledge about downsizing. One respondent reported that his company had conducted focused searches on legal regulations, another mentioned that her company works with university researchers to keep in touch with new ideas from the academic community. No mention was made at all by respondents of regular reading of the business press in search of ideas about what has or has not worked well in other companies.

It is likely that there are scanning processes in the company that the respondents were not participating in or drawing on directly: one mentioned that the German headquarters was responsible for such matters, and another said he thought the personnel department (to which he did not belong) probably pursued these questions systematically. It is nevertheless significant that the respondents, all of whom (with the exception of the manager who had taken early retirement in a downsizing process) were playing key roles in their company's downsizing efforts, were not themselves conducting or tapping into such external knowledge acquisition processes.

In summary, there was a marked tendency towards drawing on internally-generated knowledge rather than external sources. In most cases this meant adapting traditional mechanisms to the new situation, i.e., tending more to exploit available knowledge rather than to explore new possibilities (March, 1996). In some companies, however, the internal knowledge acquisition process entailed an active engagement of employees to generate ideas, such as to reorganize work. To the extent that ideas were acquired from external sources, it was generally the result of an ad hoc input rather than a strategic search for new ideas. Furthermore, the tendency of companies to highlight their uniqueness limited their ability to perceive of externally generated ideas and knowledge as relevant. It is likely that these limited knowledge acquisition strategies explain the relatively narrow range of activities used by the companies to deal with downsizing. Had they felt it possible or necessary to acquire a wider range of ideas to deal with the problem, they might have implemented more different ideas as well. This raises the question as to how an organization determines its needs for new knowledge.

As indicated by the framework of organizational learning model, knowledge acquisition is only one aspect of the learning process, and although it is treated in the stage models as the first phase, it cannot be seen in isolation from the other aspects of learning. The interviews in the sample companies generated some useful insights into the distribution and interpretation of information. These insights, in turn, can shed light on how an organization perceives what it needs to know.

## C. Information distribution and interpretation processes: theory and practice

### 1. Theory-based specification of information distribution and interpretation processes

The boundaries between information distribution and information interpretation are much more blurred than the stage models presented in Table 1 suggests. Daft and Lengel (1986) build on previous work that treats organizations as interpretation



systems (Daft & Weick, 1984) and combine these two functions into the concept of "information processing". These authors distinguish between situations in which organizations seek to reduce uncertainty and those in which they need to reduce equivocality, pointing out that the information processing needs of each differ (Daft & Lengel, 1986). They note that uncertainty stems from the absence of information whereas equivocality entails ambiguity, "the existence of multiple and conflicting interpretations about an organizational situation" (556). The information processing task in the case of uncertainty consists primarily of obtaining more information, whereas "managers reduce equivocality by defining or creating an answer, rather than by learning the answer from the collection of additional data" (554). In fact, receiving more data under conditions of high equivocality is likely to add to the confusion rather than help resolve the questions. Applied to the issue of downsizing, this conceptualization implies that if the situation is seen as uncertain then quite different information processing needs must be met than if it is perceived to be a situation of characterized by equivocality. The conceptualization also suggests that a mismatch may arise between the information processing strategy chosen by managers and the actual learning needs in the organization.

Daft and Lengel develop their concept further to propose a communication model with several dimensions to account for (a) the different kinds of media, (b) information types, and (c) participation processes that are more appropriate for reducing equivocality and those that are effective in dealing with uncertainty.

Looking at different media for processing information that are available within organizations, Daft & Lengel proceed to assess which of them are better suited to reducing uncertainty and which to reducing equivocality. For the latter, mechanisms are needed "to enable debate, clarification, and enactment" (559) whereas the former requires means of processing large amounts of data. They use the concept of media richness to specify the capacity of a communication process to shape an interpretation. Media of high richness "facilitate equivocality reduction by enabling people to overcome different frames of reference and by providing the capacity to process complex, subjective messages" whereas those of low richness "process fewer cues and restrict feedback". The latter are less appropriate for resolving equivocal issues, but effective for processing well understood messages and standard data.

In order of decreasing richness they identify the following types of media<sup>10</sup>:

1. Face to face communication
2. Telephone
3. Personal documents such as letters or memos
4. Impersonal written documents
5. Numeric documents

The usefulness of media depends also on the kind of information to be processed. The more complex or subjective information is, the more likely it is to be open to multiple interpretations, therefore the more it is necessary to treat it in media-rich modes. Similarly, if not only "hard facts", but also logics and context need to be communicated, high media richness is important. To capture this dimension, Daft and Lengel use the concept of information richness, and they distinguish between

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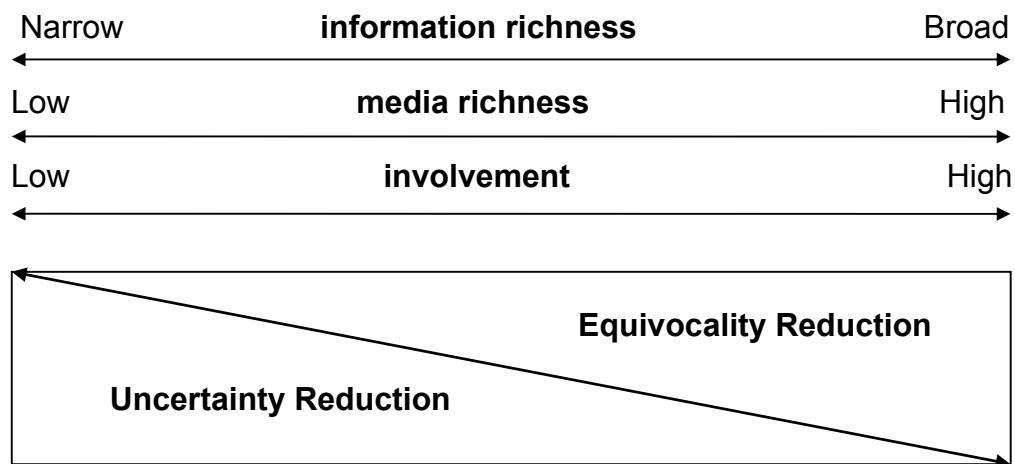
<sup>10</sup> For a thorough discussion of the concept of media richness in organizational learning, which also integrates electronic media, see Büchel & Raub (forthcoming).

broad and narrow information richness. The issue of downsizing can entail complex and subjective information, for example on the situation of the company and its competitors, and data that requires interpretation in terms of its implications for the organization as a whole, for specific departments and for individuals, so it is likely to require broad information richness.

The directionality of information flows is also relevant for information processing. Certain media lend themselves only to one-way information communication; others can be used either for one-way communication or for multidirectional exchanges between the participants. The media lowest on Daft & Lengel's list are clearly one-way, from sender to receiver, whereas the telephone and face to face meetings can be used for a monologue or a dialogue. The reduction of equivocality is likely to be more effective if information and interpretations are provided not only from one source but if the concerns of a broader range of members of the organization are expressed. A speech given to a group, even if it rousing, is less likely to surface and achieve mutual understanding on ambiguous issues than a dialogue in which employees participate (see also McGill & Slocum, 1993). This dimension can be captured under "level of involvement". A high involvement mode brings together the affected members of the organization to exchange views, explore their different cognitive maps, and work together to resolve or bridge conflicting views (see also Isaacs 1993 and Friedman, Lipshitz & Overmeer forthcoming). In a low involvement mode, an organization's members are treated as passive recipients of information and the existence of different perspectives and interpretations is not recognized. The more that downsizing processes tend to call into question the established structures and policies of an organization and the roles or prospects of members of the organization, the more likely it is that varied and conflicting views on the nature of the problem and the appropriateness of alternative solutions will be present within an organization. This suggests that high involvement communication processes are important in dealing with the issue of downsizing.

The parallel relationships between the three dimensions of information richness, media richness, and involvement and their relative contribution to reducing uncertainty and equivocality are summarized and visualized in Figure 2.

Figure 2: Information Distribution/Interpretation for Reducing Uncertainty vis-à-vis Equivocality



In summary, media of high richness are more effective in reducing equivocality, and they are better suited to transporting broad information richness because they enable complex information and interpretations to be communicated. Rich media are also more suited to high involvement communication in which different views can be explored by the participants. The more that downsizing is experienced as an equivocal situation, the more appropriate it will be to engage in information processing characterized by high involvement with rich media and broad information richness. The model suggests that information processing strategies suited to reducing uncertainty are likely to be of limited use and possibly actually counterproductive in a downsizing situation.

## 2. Strategies for information distribution and interpretation found in the sample companies

Although the distinction made in the literature between “uncertainty-reduction” and “equivocality-reduction” was not consciously applied by the managers in the interviews, their responses suggest that most of them saw in the downsizing situation faced by their organizations both uncertainty and equivocality. All but one of the respondents spoke about the uncertainty the employees experienced about the downsizing decisions. All but two respondents perceived the existence of equivocality. The research data, however, revealed that the companies devoted more effort to reducing uncertainty than to reducing equivocality. Only two managers reported much effort to reduce equivocality.

### Type of media

Most of the decision-makers organized formal group meetings to inform employees of the decisions and the packages, and to address their questions, and of course all held personal meetings to deal specifically with individuals who were to leave the company or be transferred from their current position. In spite of this broad commonality, distinctions can be made between levels of media richness in the sample companies.

About half of the sample companies can be characterized as relatively high in media richness. They emphasized face to face communication, both in group situations and in personal conversations with individual employees. They also reported providing written documentation of the situation in the company newspaper, special leaflets, or written postings of job openings. However such written materials were seen only as supplementing the oral and personal communication, not as replacing it. To maximize the accessibility and usefulness of written information, one company created a special information area in the entry hall for all employees to walk through. It displayed graphics and texts to explain where the company stood in terms of its downsizing goals and what was being done to reach them, and this information was periodically updated. By contrast, in the companies characterized by low media richness the respondents reported only infrequent official communication and commented that there were very few established communication channels.

The features that distinguished two companies as particularly high in media richness in the analysis of the sample was that they started informing employees early in the downsizing process, emphasized frequent communication, and mentioned the importance of easy accessibility of managers to employees so that communication was not initiated only top down by managers. There were different views among the sample companies as regards the impact on uncertainty reduction of early information sharing with employees in a downsizing situation. Whereas some believed it reduced rumors which tend to generate both uncertainty and ambiguity, two respondents doubted if the early notification of employees was totally positive--one was concerned about the possible increase in the sense of uncertainty and insecurity, and the possible waste of time with "too much" discussion, and the other argued that the employees delayed planning for their future despite receiving an early notification.

#### Type of information

The companies in the sample illustrated that it is possible to have quite different conceptions about the kind of information that should be shared in the organization during a downsizing process. Some spoke in terms of presenting the "whole story" to employees, while others restricted their communication to "who is staying and who is fired". The companies exhibiting relatively high media richness were also the ones in which the respondents emphasized that they believed it was important to provide as much information as possible to employees in order to reduce their uncertainty. Most respondents in these companies reported that it was considered important to present and explain contextual information to help employees understand why the company was pursuing a given course of action. By providing not only data but also explaining the logic, the managers were trying to achieve a shared understanding, in other words they were seeking to reduce equivocality. They emphasized the emotional dimension of the communication, not just the distribution of "hard facts".

### Level of involvement

The level of involvement found in the companies with low media richness was also low. The communication with employees was essentially one-way. There was no conception of involving employees in a discussion. Furthermore, in these companies, the respondents spoke of “having to inform” the works council in a formalistic manner, whereas in others with higher media richness and broader information richness, respondents more frequently mentioned involving the works council early in the thinking process.

What is striking is that in the companies with high media richness, where face to face communication was stressed and where respondents noted the importance of making sense of the context with the employees, the personal interaction was seen primarily as an opportunity to answer employees’ questions and to explain or “persuade” employees; only rare mentions were made of brainstorming with employees about alternative possibilities to management’s ideas. The only two respondents who were active in involving employees in sharing perspectives collected feedback (including arguments from employees and work council representatives against the downsizing decision), “debated” with them regarding the decision, and tried to reflect upon the different views. While maintaining their own views of the downsizing decisions, one did reach a new compromise with the work council and even modified the scale of downsizing.

In summary, evidence was found in the sample companies of a range of different strategies for information processing, with a few exhibiting very low media richness and about half tending toward relatively high media richness along with relatively broad information richness and medium involvement. The interviews revealed that managing a downsizing process requires strategies to reduce uncertainty as well as those to reduce equivocality. The need to manage equivocality tended to be met primarily by providing explanations rather than only data, and by engaging in discussions with the intention to persuade the employees of the logic and appropriateness of top management’s interpretations, policies, or decisions.

### **Concluding propositions**

This study brings to light an interesting practical puzzle. The business press and the managers themselves speak of downsizing as a new and difficult challenge that organizations must learn to deal with. The review of the literature on the experiences of companies which have undergone downsizing reveals that there are many ideas available there, as well as useful insights into problems to be avoided. However, the interviews suggest that the sample companies were largely unaware of the wide range of experiences from other organizations in managing downsizing. There was little evidence of companies actively seeking to tap into available knowledge on how to downsize.

By and large, the companies in this study used policies with which they already had experience to redeploy employees or reduce their labor force. As a result, numerous options available to them remained unrecognized and they did not learn how to do new things. It is beyond the scope of this study to assess whether the measures taken to manage downsizing were effective and sufficient to meet the companies’

current goals. However, in the medium term, the fact that they did not expand their knowledge of alternative approaches to managing downsizing will probably be a problem for many of these companies for two reasons. First, by overlooking the experiences of other companies, they may well repeat the mistakes made by those companies. This is particularly in the area of managing the survivors of downsizing. Simply assuming that these employees are grateful they still have a job and that they are able and willing to carry the burden of more work distributed on fewer shoulders is a trap that the literature reports U.S. companies fell into and had to learn how to manage. Second, the sample companies have now, by their own admission, essentially exhausted the scope for applying such traditional methods as early retirement as a means of reducing the labor force. If they need to downsize further in the next few years, they will not be able to fall back on this instrument again and may desperately need other options but will not yet have collected any experience with them.

How can this apparent discrepancy between declared learning needs and limited learning strategies be explained? Part of the answer to this question may lie in the insights gained from the analysis of the organizational learning processes reported by the respondents. The managers operated in a sequential, top-down mode: first either top managers themselves or staff reporting to top management analyzed the situation, generated some ideas and decided what needed to be done, then decisions and information were diffused in the organization, with greater or lesser degrees of interactive interpretation processes to enable the employees to understand what is happening and why.

Although some companies were more comprehensive than others in their approach to sharing information and interpretations with their employees, there was very little indication in the sample companies of shared sense making between parties with different or conflicting perspectives, i.e. of high involvement modes of information processing. The respondents did show an awareness that different perceptions of the organization's situation and different perspectives on the proposed way forward existed within the organization. However, these were seen as differences to be managed in the phase of diffusing information. This study suggests practical questions to be posed in companies whose members are interested in resolving the puzzle of the discrepancy between declared high learning needs and narrow actual learning strategies. What if the availability of different perspectives were treated instead as a resource to be tapped in managing such a difficult situation as downsizing? What if an interaction based on inquiry and dialogue, as suggested by Isaacs (1993) and Friedman, Lipshitz & Overmeer (forthcoming) were entered into between members of the organization holding different views? Such interaction would most probably call into question the very way in which the issues are framed; this in turn would call into question whether the knowledge acquisition strategy deemed appropriate by top management for learning about the problem is sufficiently broad.

From a theory-building perspective, the analysis of the behavior of the sample companies suggests ways in which conceptualizations of organizational learning can be strengthened. The logic that underlies the stage models of organizational learning summarized in Table 1 is that a certain group of people in the organization is responsible for defining a problem and acquiring information, then for sharing it with a larger group. The danger inherent in positioning knowledge acquisition as a step to

be taken before information processing (i.e., diffusion and interpretation) is that only that knowledge is sought which appears necessary from the perspective of a narrow group. Those with whom the information is later to be shared have not participated in the crucial initial phase.

The emerging theory of conventions in organizations (Bernoux, 1996; Dierkes & Marz 1998) suggests that the involvement of the widest possible range of actors in problem definition from the outset is a crucial precondition for achieving understanding and implementing change. Linking this emerging body of organizational theory to current conceptualizations of organizational learning could provide a more powerful framework for exploring the dynamics of multiple actors and perspectives in determining what needs to be learned by the organization. A more participative process of problem definition in which different and competing frames of reference are recognized can set the stage for the more effective use of available resources for knowledge acquisition inside as well as outside the organization. This in turn could generate a greater wealth of options for an organization to pursue, and thereby significantly enlarge the range of its learning.

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