Strategies for Successful Organizational Downsizing

Kim S. Cameron

This article reports the results of a study of 30 organizations that engaged in downsizing over a four-year period. Three questions were investigated: (1) What general strategies are used by organizations to downsize? (2) What are the effects of downsizing on organizational performance? (3) What are downsizing's "best practices?" or, What are the differences between organizations that effectively downsize and those that do not? Three main strategies for downsizing are explained, the managerial actions to overcome the negative effects of downsizing are enumerated, and the best practices of successful downsizing firms are presented. © 1994 by John Wiley & Sons, Inc.

A dramatic shift has occurred in the assumptions underlying organizational performance and effectiveness in the last decade. Ten years ago, the following four propositions were almost unassailable in the literature on management and organizations:

(1) *Bigger organizations are better organizations.* For example, typical measures of success included more revenues this year than last, a larger workforce, more subordinates, and greater marketshare.

(2) *Unending growth is a natural and desirable process in organizational development.* Any pattern except growth was viewed as an aberration from the norm and a sign of weakness. If an organization or a unit didn't grow, it was viewed as stagnating and unproductive. Writers on organizational life cycles didn't even account for non-growth stages of development.

(3) *Organizational adaptability and flexibility are associated with slack resources, loose coupling, and redundancy.* In order for organizations to remain agile, flexible, and adaptable; uncommitted or slack resources were required. The presence of redundancies and buffers allowed organizations to respond to threats or opportunities and to hedge against unanticipated encroachments.

(4) *Consistency and congruence are hallmarks of effective organizations.* Lining up strategy, structure, systems, styles, skills, and so on, was prescribed as the prerequisite to organizational effectiveness. Internal consistency and congruence were preached as management gospel.

Currently, however, each of these assumptions has been called into question. A new competitive and political environment which organiza-

Human Resource Management, Summer 1994, Vol. 33, Number 2, Pp. 189–211
© 1994 by John Wiley & Sons, Inc. CCC 0090-4848/94/020189-23

tions face in the current decade has led to a different set of replacement assumptions. These new assumptions are not opposite from the original propositions, they are just supplementary.

(1) *Smaller, as well as bigger, also means better.* Organizations have learned the lesson that size is sometimes a liability.

(2) *Downsizing and decline, as well as growth, are also natural and even desirable phases of an organization's development.* The need to reduce the waste and inefficiency that builds up in organizations over time is as necessary as a periodic tune-up for an automobile or an aerobic workout to reduce body fat.

(3) *Tight coupling and nonredundancy, as well as slack resources and loose coupling, are also associated with adaptability and flexibility.* Efficient, parsimonious production and service delivery processes increase speed, improve quality, and lower costs. Agility and leanness often go together.

(4) *Conflict and inconsistency, as well as congruence and consistency, are also indicative of organizational effectiveness.* Organizations that succeed are as likely to be small, agile, constantly resizing, conscious of cost containment, and adhocratic as they are large and dominant in the marketplace. The most effective organizations are usually those that best manage inherent paradoxes.

These changes in the assumptions underlying effective organizations have both been a product of and have led to downsizing as a strategy of choice for a majority of organizations in the United States. More than 85 percent of the Fortune 500 companies have downsized in the last five years, for example, and 100 percent are planning to do so in the next five years (Bennett, 1991; Buch, 1992). Virtually every sector has caught the downsizing fever, from federal government to trade unions. A public law was passed recently mandating a reduction of over 30 percent of military personnel in the United States by 1995, a law that will eliminate the jobs of over a million people. This downsizing activity has made the value of large, growing, harmonious organizations suspect.

In the face of this downsizing environment and mandate, the need to investigate the best way to downsize organizations is crucial because the success of organizations that have downsized in the past has not been particularly laudable. For example, a 1990 survey by Right Associates, an outplacement firm, found that 74 percent of senior managers in downsized companies said that morale, trust, and productivity suffered after downsizing (Henkoff, 1990). A survey of the Society for Human Resource Management reported that more than half of the 1468 firms that downsized indicated that productivity deteriorated from downsizing (Henkoff, 1990). And a survey by Wyatt Associates of 1005 firms that downsized between 1986 and 1991 found that only 46 percent actually reduced expenses, only 32 percent actually increased profits, only 22 percent actually increased productivity, and only 17 percent actually reduced bureaucracy, although each of these goals was intended. A 15 March 1993 article in *Time* magazine (Baumohl, 1993) accused many US

organizations of "dumbsizing" instead of downsizing because of the deleterious actions taken in pursuit of getting smaller.

This frenzy of downsizing activity has resulted, however, from the fact that almost all organizations have had a tendency to acquire more employees than are needed, especially managers. This is partly a reflection of the "bigger is better" ethic where more employees and larger units were traditionally defined as an indicator of effectiveness, as a reward for successful managers, and as a measure and source of power and status. In addition, the adoption of divisionalized structures after World War II led to the duplication of corporate staffs at the division level. Geographic and international expansion fostered the need for more managers to coordinate an ever-increasing set of activities in diverse locations. Technological advancements more often resulted in hiring additional staff than in replacing workers.

When profits were high, growth easily attained, or a monopoly existed, these additional staff were easily absorbed and hidden. Blue-collar layoffs were typical when cyclical downturns occurred, but the white-collar workforce was seldom touched. (For example, of the US firms that laid off blue-collar workers as a response to the slowdown of the economy in the early 1980s, 90 percent did not lay off a single white-collar employee (Thurow, 1986). Thus, ratios of managers of workers increased steadily. In US manufacturing organizations, for example, 19 percent of the workers were nonproduction employees in 1950. In 1960 the figure was 24 percent; in 1970 it was 25 percent; in 1980 it was 30 percent; and in 1987, 32 percent of all manufacturing employees were nonproduction workers (i.e., managers, support staff, overhead) (Tomasko, 1987). It was obvious that if organizations were to be competitive in the new global environment, such ratios were unacceptable. Hence, managerial downsizing and white-collar shrinkage became the target of cutbacks for the first time. For example, over half a million American managers whose salaries exceeded $40,000 lost their jobs last year, and between one and two million pink-slips were handed out in *each* of the past three years. To obtain new jobs more than one half of those employees took pay cuts of 30 to 50 percent.

As reported in the polls and surveys above, however, it appears that managerial downsizing did not improve white-collar productivity significantly. Overhead rates and cost structures remain significantly above the best global competitors in many domestic industries even after restructuring. Most organizations didn't consider their downsizing efforts to have been effective. One explanation is that downsizing has not been managed effectively in many firms and, therefore, the intended cost reductions and efficiencies have not been achieved. Another is that downsizing has created resentment and resistance in firms, so it has hindered more than helped US competitiveness.

Unfortunately, whereas most companies have implemented some form of downsizing in the past half decade or so, very few systematic or

predictive studies have been conducted on effective strategies of downsizing or its effects. Polls and attitude surveys have appeared frequently, but little research has investigated the differences between successful and unsuccessful downsizing. The intent of this article is to address those issues directly by reporting the results of a four-year study of effective and ineffective ways to downsize.

THE MEANING OF DOWNSIZING

Before summarizing the findings from this four-year investigation, it is important to be clear about the meaning of downsizing. A variety of terms are commonly used as substitutes for downsizing in organizations, and this variety sometimes leads to confusion about what is being implemented or investigated. In this, and several subsequent investigations over the past several years, at least one senior manager in at least one organization has used one of the following words in place of downsizing to describe the organization's activity:

building-down	compressing	consolidating	contracting
declining	de-hiring	demassing	derecruiting
dismantling	downshifting	functionalizing	leaning-up
ratcheting-down	rationalizing	reallocating	reassigning
rebalancing	rebuilding	redeploying	redesigning
redirecting	reduction-in-force	re-engineering	renewing
reorganizing	reshaping	resizing	restructuring
retrenching	revitalizing	rightsizing	slimming
slivering	streamlining		

Each of these terms shares at least some common meaning, but each also has its own unique connotation. What is important, however, is that we be clear about the features of downsizing that are central to its definition so that when substitute concepts are used, it is understood whether or not they refer to the same phenomenon.

Organizational downsizing in this article refers to a set of activities, undertaken on the part of the management of an organization and designed to improve organizational efficiency, productivity, and/or competitiveness. It represents a strategy implemented by managers that affects (a) the size of the firm's workforce, (b) the costs, and (c) the work processes. On the surface, downsizing can be interpreted as merely a reduction in organizational size. But when this is the case, downsizing is often confused with the concept of organizational decline, which also can be superficially interpreted as a mere reduction in organizational size. Four major attributes of downsizing help define it and identify its commonality or distinctiveness from other related concepts. They relate to *intent*, *personnel*, *efficiency*, and *work processes*.

Downsizing is not something that happens *to* an organization, but it is something that organization members undertake purposively. This implies, first of all, that downsizing is an *intentional* set of activities. This differentiates downsizing from loss of marketshare, loss of revenues, or the unwitting loss of human resources that are associated with organizational decline. Downsizing is distinct from mere encroachment by the environment on performance or resources because it implies organizational action.

Second, downsizing usually involves *reductions in personnel*, although it is not limited solely to personnel reductions. A variety of personnel-reduction strategies are associated with downsizing such as transfers, outplacement, retirement incentives, buyout packages, layoffs, attrition, and so on. These reductions in personnel may occur in one part of an organization but not in other parts (for example, in the production function but not in the engineering function). Downsizing does not always involve reductions in personnel, however, because some instances occur in which new products are added, new sources of revenue opened up, or additional work acquired without a commensurate number of employees being added. Fewer numbers of workers are then employed per unit of output as compared to some previous level of employment.

This relates to a third characteristic of downsizing, namely, that downsizing is focused on improving the *efficiency* of the organization. Downsizing occurs either proactively or reactively in order to contain costs, to enhance revenue, or to bolster competitiveness. That is, downsizing may be implemented as a defensive reaction to decline or as a proactive strategy to enhance organizational performance. In either case, it represents a set of activities targeted at organizational improvement.

Finally, downsizing affects *work processes*, wittingly or unwittingly. When the workforce contracts, for example, fewer employees are left to do the same amount of work, and this has an impact on what work gets done and how it gets done. Some downsizing activities may include restructuring and eliminating work (such as discontinuing functions, abolishing hierarchical levels, merging units, or redesigning tasks) which lead, of course, to some kind of work redesign. Regardless of whether the work is the focus of downsizing activities or not, work processes are always influenced one way or another by downsizing.

Note that the level of analysis of this definition is the organization itself, not the individual or the industry. For example, a substantial literature exists on the psychological reactions individuals have to layoffs and job loss. Impacts on financial well-being, health, personal attitudes, family relationships, and other personal factors have been investigated by a number of researchers (see Kozlowski, Chao, Smith, & Hedlund, 1993, for a review). As pointed out above, however, whereas laying off workers is by far the most common action taken in organizations engaging in downsizing (see McClune, Beatty, & Mantagno, 1988),

downsizing entails a much broader set of actions and connotations. At the industry level of analysis, a large literature also exists on divestitures and organizational mergers. Market segmentation, divesting unrelated businesses, reinforcing core competencies, and consolidating industry structures are among the topics addressed (see, for example, Porter, 1980). The definition of downsizing used here, however, may or may not involve selling off, transferring out, merging businesses, or altering the industry structure. Much less research, unfortunately, has investigated the organization level of analysis in which strategies for approaching downsizing, processes for implementing downsizing, and impacts on organizational performance have been investigated.

To summarize, organizational downsizing in this investigation refers to an intentionally instituted set of activities designed to improve organizational efficiency and performance which affect the size of the organization's workforce, costs, and work processes. It is implied that downsizing is usually undertaken in order to improve organizational performance. Downsizing, therefore, may be reactive and defensive, or it may be proactive and anticipatory. Ineffectiveness or impending failure are not prerequisites to downsizing. Rather, downsizing may be undertaken when no threat or financial crisis exists at all.

QUESTIONS FOR INVESTIGATION

This investigation focused on examining how organizations go about the task of getting smaller and on the effects of those actions. The first research question guiding the investigation was: *How is downsizing implemented in organizations?* What strategies are available to organizations when they decide to get smaller? Since cutting headcount is generally the strategy that gets headlines, and because it is the alternative of first choice for most organizations, identifying what other options are available to organizations was of special interest.

The second research question focused on effects: *What is the impact of downsizing on the organization?* What organizational outcomes are associated with downsizing? In their studies of organizations experiencing decline (e.g., loss of revenues or marketshare), Cameron, Whetten, and Kim (1987) and Cameron, Kim, and Whetten (1987) identified twelve negative attributes of organizations that develop when organizations unwittingly lose employees, revenues, resources, or marketshare. These attributes were labeled the "dirty dozen" and are summarized in Table I. Since these negative attributes characterize organizations that experience unwitting decline, the question was, do they also occur in organizations that purposely try to reduce size?

The third question related to "best practice:" *How do the most effective downsizing firms differ from the least effective downsizing firms in their implementation approaches?* What are the most important rules-of-thumb used

Table I. Negative Attributes Associated with Organizational Decline (the "Dirty Dozen").

Attribute	Explanation
Centralization	Decision-making is pulled toward the top of the organization. Less power is shared.
Short-term, crisis mentality	Long-term planning is neglected. The focus is on immediacy.
Loss of innovativeness	Trial-and-error learning is curtailed. Less tolerance for risk and failure associated with creative activity.
Resistance to change	Conservatism and the threat-rigidity response lead to "hunkering-down" and a protectionist stance.
Decreasing morale	Infighting and a "mean mood" permeate the organization.
Politicized special interest groups	Special interest groups organize and become more vocal. The climate becomes politicized.
Nonprioritized cutbacks	Across-the-board cutbacks are used to ameliorate conflict. Priorities are not obvious.
Loss of trust	Leaders lose the confidence of subordinates, and distrust among organization members increases.
Increasing conflict	Fewer resources result in internal competition and fighting for a smaller pie.
Restricted communication	Only good news is passed upward. Information is not widely shared because of fear and distrust.
Lack of teamwork	Individualism and disconnectedness make teamwork difficult. Individuals are not inclined to form teams.
Lack of leadership	Leadership anemia occurs as leaders are scapegoated, priorities are unclear, and a siege mentality prevails.

by successful organizations as they downsize? This question is motivated primarily by a desire to identify practical guidelines that can be used to help direct future downsizing activities.

DATA GATHERING METHODS

Organizational Sample

Firms in the US automotive industry were selected because of the extensive downsizing activity that has and is occurring in that industry, and because of their size and importance in the American economy. Almost 40 percent of the US gross national product is accounted for by

the automotive industry. Well over a million people work for the American auto companies alone (General Motors, Ford, and Chrysler), not to mention the myriad related organizations and industries that serve as suppliers to and customers of the automobile companies. In the 1980s, more than a half million jobs were affected by downsizing activities in these firms, and approximately the same number have been affected thus far in the 1990s.

Thirty organizations were selected for inclusion in the study—assembly plants, fabricating plants, supplier businesses, and independent corporate marketing and staff units. Some organizations were affiliated with a large parent organization, some were independent. In each case, however, firms were autonomous, strategic business units able to determine their own downsizing strategy. Each of the 30 organizations in the study had engaged in downsizing activities. Some downsized in years prior to the study (pre-1987), and all downsized during the years of the study. The smallest of these organizations employed approximately 100 employees; the largest employed over 6000.

Data Sources and Procedures

Interviews with the head of each organization were conducted every six to nine months between 1987 and 1990. The titles of these key informants ranged from chief executive officer to plant manager. This top manager was treated as the main source of ongoing information regarding how downsizing and organizational redesign activities were being implemented. Top managers were interviewed five times over the four-year period with each interview lasting about two hours. This helped produce a chronology of the organizational changes taking place over the four years of the study, and it helped uncover ongoing strategies that were being implemented in connection with downsizing. The decision-making rationale as well as the visible activities of top managers were investigated through these interviews. Two questionnaires, designed to obtain an organizational description of the firms, were completed by the top manager, once at the beginning of the study and once near the end of the study. A third questionnaire was distributed to 3908 white-collar employees across the 30 firms. Two thousand and one were returned, for a response rate of 51 percent. This questionnaire was completed during the third year of the study and contained questions on downsizing strategies, organizational characteristics, organizational changes, approaches to quality, organizational culture, communication patterns, and organizational effectiveness. In organizations with less than 300 white-collar employees, all received a questionnaire. When more than 300 white-collar employees existed, a cross-sectional sample was selected in the firm representing all functions and levels in the hierarchy. Results from all of these data sources are combined in this article in order

to avoid reporting a host of overly detailed statistical analyses. The findings are integrated and organized on the basis of the three research questions.

QUESTION 1: HOW IS DOWNSIZING IMPLEMENTED?

With regard to the first research question, three types of implementation strategies were identified in the 30 organizations, and they are summarized in Table II. Firms differed in the extent to which they engaged in these three strategies.

The first, labeled *workforce reduction strategies*, focused mainly on eliminating headcount or reducing the number of employees in the workforce. These strategies consisted of actions such as early retirements, transfers and outplacement, buy-out packages, golden parachutes, attrition, job banks, and layoffs or firings. These actions were usually executed immediately via top-down directives. They were almost always implemented across the board since the objective was to reduce headcount quickly.

The disadvantages of these strategies are illustrated by comparing them to throwing a grenade into a crowded room, closing the door, and expecting the explosion to eliminate a certain percentage of the workforce. It is difficult to predict exactly who will be eliminated and who will remain. Which employees will take advantage of an early retirement offer or buy-out package, for example, often cannot be predicted. It is also impossible to determine what relevant knowledge, what institutional memory, and what critical skills will be lost to the organization when employees leave.

Table II. Three Types of Downsizing Strategies.

	Workforce Reduction	Work Redesign	Systemic
Focus	Headcount	Jobs, levels, units	Culture
Eliminate	People	Work	Status quo
Implementation time	Quick	Moderate	Extended
Payoff target	Short-term payoff	Moderate-term payoff	Long-term payoff
Inhibits	Long-term adaptability	Quick payback	Short-term cost savings
Examples	Attrition Layoffs Early retirement Buy-out packages	Combine functions Merge units Redesign jobs Eliminate layers	Involve everyone Simplify everything Bottom-up change Target hidden costs

The main advantages of these strategies, in addition to providing an immediate shrinkage, are to capture the attention of members of the organization to the serious condition that exists, to motivate cost savings in day-to-day work, and to create readiness in the organization for further change. Quick-hit, across-the-board cuts get attention.

On the other hand, the harm caused by workforce reduction strategies may offset the positive effects of unfreezing the organization. This is illustrated in one organization where a purchasing agent was offered an incentive to retire early. This individual was the primary agent for ordering steel, and over the years, modifications in the types of steel and alloys being ordered had been made. Unfortunately, commensurate changes in the written specifications had not kept pace. Shortly after this purchasing agent accepted the early retirement option, an order was placed for steel following the precise written specifications. This produced a $2 million loss for the organization in downtime, rework, and repair. The organizational memory, as well as the expertise needed to do the work, left with the purchasing agent without any chance of replacement or retraining because of the nonprioritized method used in downsizing. Every one of the organizations in our study employed a workforce reduction strategy between 1987 and 1990. Yet, when implemented in the absence of other strategies, "grenade-type" approaches to downsizing were rarely positive and were generally negative in their consequences.

The second type of downsizing strategies are *work redesign* strategies. The primary aim of these strategies is to reduce work in addition to or in place of reducing the number of workers. These strategies consist of activities such as eliminating functions, hierarchical levels, groups, divisions, or products. Other examples include redesigning tasks, consolidating and merging units, and reducing work hours. These strategies are difficult to implement quickly because some redesign of the organization is usually required (e.g., eliminating a function, merging two subunits). They are, by-and-large, medium-term strategies in that they require some advanced analysis of the areas that should be consolidated or redesigned, followed by an elimination or a repositioning of subunits within the organization to reduce required tasks.

Unlike workforce reduction strategies, these redesign strategies help avoid the problem of eliminating workers while maintaining the same amount of work for the organization to perform. Instead of piling more work on fewer employees, and thereby risking overload and burnout, a work redesign strategy helps assure that changes are targeted at work processes and organizational arrangements. The downsized organization can achieve a greater degree of efficiency because of its simplified structure. Half of the organizations investigated implemented a redesign strategy at least once during the study.

The third type of downsizing strategies is labeled *systemtic strategies.* These are fundamentally different from the other two strategies in that

they focus on changing the organization's culture and the attitudes and values of employees, not just changing the size of the workforce or the work. These systematic strategies involve redefining downsizing as a way of life, as an ongoing process, as a basis for continuous improvement, rather than as a program or a target. Downsizing is also equated with simplification of all aspects of the organization—the entire system—including suppliers, inventories, design processes, production methods, customer relations, marketing and sales support, and so on. Costs all along the customer chain, especially invisible costs, are the main targets. Examples of downsizing targets include reducing wait time, response time, rework, paper, incompatibilities in data and information systems, number of suppliers, and rules and regulations. Instead of being the first target for elimination, employees are defined as resources to help generate and implement downsizing ideas. All employees are held accountable for reducing costs and for finding improvements. A continuous improvement ethic is applied to the task of downsizing, and cost savings throughout the entire system of interorganization relationships are pursued.

Because these strategies require a long-term perspective, they may not generate the immediate improvement in bottom-line numbers that workforce reduction strategies will generate. Along with redesign strategies, they may even require some up-front investment in employee training, system diagnosis, and team formation. On the other hand, they avoid the need to continually implement periodic grenade-type strategies each time cost savings are needed. One major US auto company, for example, has announced seventeen major downsizing moves in the last 30 years, each time a quick-hit workforce reduction strategy. During the 1987 through 1990 study period, two different downsizing announcements were made in that organization and included 25 percent of the white-collar workforce. To date, little attention has been paid to implementing a systemic downsizing strategy in this firm. Each downsizing announcement was viewed as a one-time target.

Implementing a workforce reduction strategy may be necessary as a severe economic hardship is encountered, of course, but the short-term payoffs are usually negated by long-term costs. The violation of the implicit employment contract between the organization and its employees leads to a loss of loyalty and commitment among the workforce and a deterioration in willingness to go the extra mile on behalf of the company. An attitude of "me-first" becomes dominant among employees. The objective of systemic strategies, on the other hand, is to help avoid, over the long term, the need to implement continual, repetitive workforce reduction strategies. Only a third of the organizations in this study implemented systemic strategies in their downsizing efforts.

These three downsizing strategies are not mutually exclusive, of course. In fact, a key finding of this study was that firms could be categorized on the basis of the *depth* and *breadth* of the downsizing strate-

Table III. Categorizing Organizations on Depth and Breadth of Downsizing Strategy.

	Downsizing Strategies		
	Workforce Reduction	Work Redesign	Systematic
Increasing breadth (employing greater variety)⟶			
Increasing depth (employing a greater number)	Layoffs Attrition Buy-out packages Early retirements Job banks etc.	Eliminate layers Combine units Remove products Rearrange processes Redesign tasks etc.	System analysis Change culture Botton-up design Coordinate with outsiders Cut hidden costs Hold everyone accountable etc.

gies they employed. Firms that implemented a greater number of actions of the same type (for example, layoffs, buy-outs, and early retirements are all workforce reduction strategies) would be said to have more *depth* in their strategy. Firms that implemented a greater variety of the three strategy types (i.e., workforce reduction, work redesign, and systemic strategies) would be said to have more *breadth* in their strategy. Table III illustrates these differences. Organizations were more likely to have depth than breadth in their downsizing strategies, since most organizations implemented only a series of workforce reduction alternatives rather than relying on multiple strategies.

QUESTION 2: WHAT ARE THE ORGANIZATIONAL EFFECTS OF DOWNSIZING?

The second research question focused on the impact of these various downsizing strategies on overall improvement in organizational performance and on organizational effectiveness. Ratings by organization members were obtained on the extent to which their organization's performance had improved as a result of downsizing. They also rated the relative effectiveness of their firm compared to its previous two years' performance, its best domestic and best global competitors, the organization's own goals, and the expectations of its customers. The presence of the negative attributes labeled the dirty dozen were also assessed, and data on productivity and cost were obtained from company records. These various measures of organizational performance were each an-

alyzed separately using statistical procedures, and the main findings are summarized below.

Predictors of Organizational Improvement

Table IV summarizes the factors that are significantly associated with organizational improvement resulting from downsizing. That is, regardless of the absolute level of firm performance at the outset of the study, these analyses investigated the predictors of improved performance over time as a result of downsizing.

Only six of the firms in the study indicated that they implemented downsizing gradually and incrementally. (This is consistent with McClune et al.'s 1988 survey of 100 downsizing firms in which 94 percent took less than two months to plan and implement downsizing.) In fact, a majority of managers in our interviews suggested that a rapid, quick-hit approach to downsizing was their method of choice. They reasoned that this approach didn't drag out the unpleasant process; it minimized employee fear and anxiety associated with not knowing whose job might be eliminated next; and it administered the pain all at once. However, the opposite strategy was actually associated with organizational improvement. Gradual reductions were consistently associated with performance increases. The firms that improved their performance were those that prepared for downsizing in advance. They invested time and resources in systematically analyzing tasks, personnel skills, resource needs, time use, process redundancies, and inefficiencies. These investments of time and resources permitted firms to target downsizing activities (i.e. to surgically eliminate unneeded work, processes, and positions) and to identify areas in which additional investment and growth

Table IV. Significant[a] Predictors of Organizational Improvement during Downsizing.

Factor	Relationship
Factors predicting improvement	
Systematic analysis in advance of downsizing	(+)
Gradual, incremental implementation of downsizing	(+)
Increased communication and participation	(+)
Increased employee effort regarding downsizing	(+)
Factors predicting deterioration	
Downsizing by attrition	(−)
More work required of employees (no work reduction)	(−)
Reward and appraisal system changed	(−)
No improvement in quality	(−)

[a]Each factor is a significant predictor of firm improvement at the $p < .001$ level.

might even be needed. Hence, the assumptions of most managers about rapid speed in implementation did not foster improvement.

Increased communication and participation of employees in the downsizing process also were associated with improvement. When middle- and lower-level employees were involved in the downsizing decisions, when suggestions were sought from them on what and how downsizing should occur, and when discretion was provided to them to help implement downsizing, performance improved. Consistent with this line of reasoning, performance improvements were also associated with more effort put forth by employees in the organization. Increased participation and discretion given to employees in determining changes in their work have been found in past research to produce increased effort (e.g., Lawler, Mohrmann, & Ledford, 1992), and, by implication, improvement in organizational performance. That pattern of increased participation coupled with increased effort leading to improved performance was supported by these results.

Table IV also summarizes the factors associated with deteriorating organizational performance over time. Since a majority of the organizations in the study had poorer performance after downsizing than before, it was important to identify the factors most predictive of that deterioration. These are not just the opposite of the factors associated with improvement, rather they are a unique set of factors associated with retrogression. The most powerful factor is downsizing via attrition—that is, imposing hiring freezes and/or not replacing individuals who leave the organization. This is a very common across-the-board downsizing approach, but it often leaves the organization without crucial skills and human resources. A well-known Ernst and Young survey of 548 downsizing firms noted that 87 percent of those companies had difficulty keeping star performers in such circumstances. This may lead to a form of competence anemia. In addition, downsizing that simply piles more work on remaining employees also short-circuits improvement. Reducing numbers of positions or employees without a commensurate reduction in work has a negative influence on performance partly because the remaining employees become overloaded and/or are required to do tasks for which they may not be trained.

Instead of upgrading or making the reward and appraisal systems more congruent with downsizing goals, organizations in this study changed the reward and appraisal systems by eliminating cost-of-living increases, mandating salary freezes, and implementing a forced-ranking of all employees in performance appraisals. Performance deterioration was associated with these changes. The across-the-board, top-down nature of such actions impeded rather than enhanced improvement. Finally, when organizations had not improved the quality of their products and services during the past two years, that is, when quality and downsizing activities were not integrated, overall firm performance deteriorated. Pursuing downsizing strategies without also pursuing qual-

ity improvement strategies was not helpful to organizations' performance.

Predictors of Organizational Effectiveness

Unlike the previous section which examines predictors of organizational improvement, this section identifies the factors that are most predictive of organizational effectiveness as compared to several standards: the firm's own past performance, its best competitors' performance, its own goals, and the expectations of customers. In other words, regardless of whether the firm is improving or not, analyses were conducted to determine what factors predict whether or not a firm will perform better than several important comparison standards. To avoid a complex and lengthy explanation of several statistical analyses, only a summary of the recurring and most powerful predictors is reported in Table V.

The factors that occur as significant predictors in each of the analyses of effectiveness (i.e., effectiveness compared to the various standards) are a gradual, incremental implementation of downsizing and conducting a systematic analysis in advance of downsizing. Again, these two factors make clear the importance of avoiding quick-hit, grenade-type strategies and, instead, of investing the necessary time and resources in adequately preparing for well-planned, surgical implementation. Involving employees through participation and increasing communication were also an important factors in the effectiveness analyses, as was

Table V. Significant[a] Predictors of Organizational Effectiveness Ratings.[b]

Factor	Relationship
Systematic analysis in advance of downsizing	(+)
Gradual, incremental implementation of downsizing	(+)
Increased communication and participation	(+)
Increased employee effort regarding downsizing	(+)
Advanced level of quality culture	(+)
Excellence in creative quality	(+)
Involved customers and suppliers in downsizing	(+)
Established own downsizing goals and targets	(+)
Downsizing through layoffs	(−)
Downsizing by attrition	(−)
Downsizing by outsourcing	(−)
Less advanced level of quality culture	(−)
No improvement in quality	(−)

[a]All factors are statistically significant at the $p < .01$ level.
[b]Combined analyses of predictors of current levels of effectiveness compared to past performance, rest domestic and global competitors' performance, goals, and customer expectations.

having an established set of downsizing goals and targets independent of outside mandate or encroachment. Rather than merely reacting to a mandate from a parent company to cut headcount, for example, effective firms used the mandate as an opportunity to accomplish other more laudable goals. Both of these factors highlight the importance of discretion, involvement, and shared information during downsizing. Taken together, a picture emerges of effective downsizing firms being characterized by planning, up-front investment in analysis, participation, and information exchange.

The other important recurring predictor relates to the "quality culture" of the firms. Quality culture refers to the overall approach used by the firm in its pursuit of quality products and services. Three general cultural types are common, and, whereas some emphasis is usually given to each of the three, a single approach tends to dominate in most firms (see Cameron, 1991). A "less advanced" culture focuses on inspecting in quality by detecting errors in products and on reacting to customer's needs and expectations in delivering service. A "more advanced" culture emphasizes preventing errors in products through process design and exceeding customer expectations in delivering service. The "most advanced" culture couples continuous improvement and breakthrough thinking in going beyond defect free production to creating new standards for products and creating new levels of expectations in service delivery.

Organizations with an advanced level of quality culture (i.e., dominated by an error prevention emphasis or a continuous improvement and creativity emphasis) were significantly more effective as a result of downsizing than were those with a less advanced level of quality culture (i.e., dominated by an error detection emphasis). Having no improvement in quality was a recurring predictor of organizational ineffectiveness. In the statistical analyses, the other factors associated with ineffectiveness in the firms were grenade-type downsizing strategies: downsizing via attrition, layoffs, and outsourcing.

In sum, these analyses suggest that organizations tend to be more effective than their past, their competitors, their goals, and than their customers expect when they implement planned, systematic downsizing, where participation and involvement of employees is prevalent, and where the firm has an advanced and improving quality culture. Ineffectiveness is associated with stagnant quality and downsizing that rely mainly on workforce reduction strategies.

Predictors of Negative Organizational Attributes

Another set of statistical analyses focused on the impact of downsizing on the emergence of the "dirty dozen" attributes (see Table I).

Table VI. A Summary of Major Predictors of the Dirty Dozen.

Factor	Number of Statistically Significant Relationships with the Twelve Factors
Factors that inhibit the dirty dozen	
Increased communication and participation	10
Systematic analysis of tasks and personnel in advance	9
Increased employee effort regarding downsizing	7
Coordination with outside organizations in downsizing	6
Increased hourly and salaried teamwork	4
Gradual, incremental implementation of downsizing	2
Advanced quality culture	2
Excellence in error detection quality	2
Excellence in creative quality	2
Factors that enhance the dirty dozen	
Downsizing via attrition	9
Mandated downsizing was the motivation for changes	8
More work required of employees (no work reduction)	7
No improvement in quality	5
Less advanced quality culture	4
Downsizing via layoffs	4
Downsizing via outsourcing	4
Reward and appraisal system changed	4
Downsizing via early retirements	4

These negative attributes appear almost universally in organizations that experience loss of revenues, marketshare, and personnel (see Cameron et al., 1987). Table VI summarizes the factors that helped organizations avoid these twelve negative attributes and those most associated with the emergence of the dysfunctions. The numbers indicate the number of significant relationships each factor had with the twelve attributes.

The factors that most significantly mitigate against the emergence of the dirty dozen are similar to those that predict organizational improvement and organizational effectiveness. They are predominantly factors relating to the management of human resources. For example, increased communication with and participation by organization members (10 significant relationships), increased employee effort (7), and increased teamwork (4) all are typical of organizations with low scores on the dirty dozen. Similarly, conducting a systematic analysis in advance of downsizing (9) and coordinating with outside organizations such as suppliers

and customers in the downsizing process (6) characterize organizations that prepare for downsizing and do not simply use workforce reduction strategies. Less important were gradual, incremental implementation and the quality culture factors.

The factors most powerfully associated with the emergence of the negative attributes in organizations include typical workforce reduction strategies and a less advanced quality culture. Downsizing via attrition (9 significant relationships), layoffs (4), outsourcing (4), and retirements (4) are all associated with the emergence of the dirty dozen. Downsizing undertaken only because of a mandate from outside the firm (8), loading more work on remaining employees because positions were reduced without commensurate work reduction (7), and changes in the reward and appraisal system that made these systems seem inequitable or punishing (4) also are predictive of the dysfunctional attributes. A less advanced quality culture (4) and making no progress in improving quality of products and services (5) round out the list of predictors.

In sum, the answer to the question, "What are the organizational effects of downsizing?" can best be summarized by concluding that the most commonly implemented form of downsizing—across-the-board, grenade-type approaches—is associated with organizational dysfunction. Organizational ineffectiveness, lack of improvement, and high scores on the dirty dozen attributes all are present when workforce reduction strategies such as layoffs, attrition, and buy-out packages are used by themselves. Stated another way, organizations with little *breadth* in their downsizing strategies, regardless of their *depth*, tended to be less effective than those with strategic breadth in executing downsizing.

On the other hand, firms whose performance was improving, that were effective, and that had an absence of the dysfunctional attributes prepared for downsizing by conducting systematic analyses, by involving employees, by increasing communication, and by implementing strategies incrementally. An advanced quality culture was also an important characteristic of these firms.

Helping to facilitate the implementation of these effectiveness-producing factors, including the development of an advanced quality culture, is an important role of the human resource professional in organizations. In our interviews over the four-year period, this recurred as one of the most crucial ongoing responsibilities of the human resource managers in the best firms, i.e., to help foster a culture of continuous improvement, creativity, teamwork, information sharing, and participativeness. These factors are probably most effectively accomplished through the human resource systems in the firm, that is, through rewards, training and development, communication, appraisal, and so forth. It is to the role of the human resource professional, and to the characteristics of the best managed firms, that we now turn.

QUESTION 3: WHAT ARE THE "BEST PRACTICES" IN ORGANIZATIONAL DOWNSIZING?

To identify best practices, the five organizations that were clearly the highest performers were compared to the other 25 organizations to determine the features that seemed to differentiate them from the norm. Most organizations did not improve their performance over the four-year period of the study, and this is consistent with surveys reported above by several consulting firms (e.g., Wyatt, Right Associates). In those surveys, most companies that engaged in downsizing did not accomplish their objectives, and they experienced more negative side-effects than they expected.

To identify best practices in this study, interviews with the chief executive officers over the four-year period were carefully scrutinized, as were organizational documents describing processes and procedures being followed. These data provided a rich set of examples of the best practices being adopted by downsizing organizations. Stories, incidents, and mini-case studies emerging from these interviews highlighted some of the most interesting processes used in downsizing.

From this analysis of interviews over the four-year period, coupled with the statistical analyses summarized above, 30 principles emerged that differentiated the most effective downsizing firms from the others. These 30 characteristics are presented below in the form of general prescriptions for effective downsizing. Stating these characteristics as prescriptions is presumptuous, of course, since a variety of environmental circumstances may be present that make effective downsizing in one organization different from effective downsizing in another. For example, the advanced warning that is required to implement some of the prescribed strategies below may not always be possible in firms that encounter a sudden or unpredictable crisis. On the other hand, these characteristics were identified by the managers in effective firms as being unequivocal, almost universalistic guidelines for implementing effective downsizing. They are classified by a general heading relating to their common theme.

Prescriptions for Best Practices

Approach

1. Approach downsizing as a long-term strategy and a way of life rather than as a single program or target to be completed and abandoned.
2. Approach the human resources in the organization as assets rather than as liabilities and plan to invest in their development and ideas.

3. Approach downsizing as an opportunity for improvement rather than as merely a reaction to a threat or crisis.

Preparation

4. Prepare for downsizing before it is mandated or crucial for survival rather than waiting until time for advanced analysis is gone and a "ready-fire-aim" approach is required.

5. Identify the future mission of the organization, its core competencies, and an organizational structure that will most effectively accomplish the mission via the core competencies as the way to develop downsizing strategies, as opposed to formulating strategy based merely on headcount targets.

6. Establish targets, deadlines, and objectives for downsizing independent of the mandated downsizing goals from parent organizations in order to prepare the organization to view downsizing as an improvement strategy rather than as the cause of a loss of discretion.

Involvement

7. Involve employees in identifying what needs to change through downsizing and in implementing those changes rather than driving downsizing from the top down.

8. Hold everyone accountable for downsizing goals rather than treating it as only top management's responsibility.

9. Involve customers and suppliers in designing and suggesting improvements in downsizing strategies rather than focusing entirely internally.

Leadership

10. Ensure that the leader(s) is (are) visible, accessible, and interacting frequently with those affected by the downsizing instead of succumbing to the temptation to avoid confrontation, pain, and discomfort associated with managing downsizing.

11. Associate downsizing with a clearly articulated vision of a desired future for the organization, not merely as an escape from the past.

12. Project positive energy and initiative from the leader(s) in order to motivate the workforce in a downsizing organization instead of adopting a defensive or paranoid perspective.

Communication

13. Ensure that everyone is fully informed of the purposes of downsizing, the strategies to be pursued, the costs involved, the time frame, and so on, rather than revealing only "need to know" information and keeping sensitive information at the top.

14. Over-communicate as the downsizing process unfolds so that information is provided frequently, consistently, and honestly to all employees on the progress and processes in downsizing rather than reporting only decisions and results or allowing rumors and ambiguity to flourish.

15. Generate ongoing analyses and feedback from participants in the downsizing process rather than completing the process before an evaluation is done.

Support

16. Provide equal attention to and support for those who stay in the organization and those who leave the organization rather than focusing all benefits on casualties.

17. Provide safety nets (adequate lead time, financial benefits, counseling, retraining, outplacement services, etc.) for those who leave the organization so as to smooth the transition to another position, rather than letting people go with only the required severance pay and advanced notice.

18. Provide training, cross-training, and retraining in advance of downsizing in order to help individuals know how to adapt to downsizing rather than relying merely on post hoc on-the-job training.

Cost Cutting

19. Institute a variety of cost-cutting activities (such as restricting overtime, providing leave without pay, eliminating redundancies) rather than limiting downsizing to headcount reductions.

20. Focus on attacking sources of organizational fat which often go unnoticed and unmeasured, such as data fat (excess information), procedure fat (excess meetings), time fat (excess response time), and launch fat (excess new programs), rather than concentrating on cutting only the noticeable and measured features of the organization.

21. Map and analyze all processes in the organization to eliminate inefficiencies, redundancies, non-value-added steps and resources, and to redesign work, rather than assuming that old processes must be maintained.

Measurement

22. Measure speed and time use in the organization, not merely headcount, in looking for ways to downsize.

23. Develop specific measures of all activities and processes that directly relate to the key products and services provided by the organization in order to determine how improvements can be made rather than measuring only outputs.

24. Assess the skills, experience, and relevant attributes of all human resources so as to help improve decision making regarding personnel and assignments when downsizing and restructuring occur.

Implementation

25. Implement a broad array of downsizing strategies including redesign strategies and systemic strategies (e.g., culture change) instead of relying narrowly on headcount reduction strategies.

26. Administer downsizing equitably and fairly by ensuring that adverse impacts are not experienced unevenly by unempowered people (e.g., minorities, certain age groups) rather than implementing strategies based on power.

27. Provide opportunities for personal growth and development for individuals in the midst of downsizing rather than ignoring everything except profits and the financial bottom line.

28. Form cross-level and cross-functional teams to plan and implement downsizing with no required handoffs, rather than implementing downsizing using only a chain of command.

29. Change the appraisal, reward, selection, development, and communication systems to reflect the new goals and objectives of the downsized organization rather than keeping these systems the same as in the old, larger organizational form.

30. Implement downsizing by beginning with small wins—i.e., changing things than can be changed quickly and easily—which, when celebrated, create impetus toward desired results rather than attacking downsizing as a large, complex, indivisible task.

SUMMARY

It is clear that among the most critical factors leading to successful downsizing is the effective management of the human resource system. Employee involvement, teamwork, communication and information sharing, rewarding, appraising, training, articulating a vision, and administering downsizing in a trustworthy and fair manner are all critical aspects of successful downsizing, and they all lie within the normal

responsibilities of the human resource professional. The critical role of this function in implementing downsizing, therefore, is key to achieving the best downsizing practices. Typical top-down approaches, which typically assume, albeit implicitly, that human resources are really human liabilities, are simply not effective. Human resource professionals have a central role, therefore, is ensuring the successful implementation of effective downsizing strategies.

The assistance of Aneil K. Mishra and Sarah J. Freeman in gathering data for this study is gratefully acknowledged.

Kim S. Cameron is professor of Organizational Behavior and Human Resource Management in the School of Business Administration and professor of Higher Education in the School of Education, The University of Michigan.

Dr. Cameron received his B.S. and M.S. from Brigham Young University and M.A. and Ph.D. degrees from Yale University

Dr. Cameron's research on organizational effectiveness, the management of decline and organizational downsizing, corporate quality culture, and the development of management skills has been published in more than 60 articles and five books.

REFERENCES

Baumohl, B. (1993). When downsizing becomes dumbsizing. *Time,* 15 March, p. 55.

Bennett, A. (1991. Downsizing doesn't necessarily bring an upswing in corporate profitability. *Wall Street Journal,* 6 June, B1, B4.

Buch, K. (1992). How does downsizing affect employee involvement? *Journal for Quality and Participation, 15,* 74–77.

Cameron, K. S. (1991). A second generation approach to organizational effectiveness: A model of quality culture in organizations. Paper presented at the Academy of Management Meetings, Las Vegas.

Cameron, K. S., Kim, M. U., & Whetten, D. A. (1987). Organizational effects of decline and turbulence. *Administrative Science Quarterly, 32,* 222–240.

Cameron, K. S., Whetten, D. A., & Kim, M. U. (1987). Organizational dysfunctions of decline. *Academy of Management Journal, 30,* 126–138.

Henkoff, R. (1990). Cost cutting: How to do it right. *Fortune,* 9 April, 17–19.

Kozlowski, S. W. J., Chao, G. T., Smith, E. M., & Hedlund, J. (1993). Organizational downsizing: Strategies, interventions, and research implications. *International Review of Industrial and Organizational Psychology.* New York: Wiley.

Lawler, E. E., Morhman, S., & Ledford, G. (1992). *Employee involvement and total quality management.* San Francisco: Jossey-Bass.

McClune, J. T., Beatty, R. W., & Montagno, R. V. (1988). Downsizing: Practices in manufacturing firms. *Human Resource Management Journal, 27,* 145–161.

Porter, M. E. (1980). *Competitive strategy.* New York: Free Press.

Thurow, L. C. (1986). White-collar overhead. *Across the Board, 23,* 234–242.

Tomasko, R. M. (1987). *Downsizing: Reshaping the corporation for the future.* New York: AMACOM.