© Academy of Management Executive, 1991 Vol. 5 No. 3

Best practices in white-collar downsizing: managing contradictions

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Executive Overview

It is no secret that U.S. industry, once the most productive in the world, is now lagging behind its global competitors. What is not well known is that blue-collar productivity is not necessarily the problem. Between 1978 and 1986, for example, the number of production workers declilned by six percent while real output rose 15 percent. White-collar productivity decreased six percent while the number of workers increased by twenty-one percent.

Downsizing, which involves reducing the workforce, but also eliminates functions and redesigns systems and policies to contain costs, is becoming more common in U.S. companies. Despite its pervasiveness, however, downsizing has rarely been investigated by organization and management researchers.

This article seeks to identify the processes used in effective downsizing as well as the consequences that result. The authors studied organizational downsizing and redesign for four years in thirty organizations in the automobile industry. Six general strategies are presented that highlight the best practices of these firms that are downsizing effectively.

Article

Once the most productive nation in the world, the U.S. now lags most of its global competitors in productivity growth.[1] For example, private sector productivity growth slowed from 3.3 percent per year between 1948 and 1965 to 0.1 percent today for the entire economy. Worse still, productivity for nonfarm businesses declined 0.3 percent.[2] A good share of the blame for this decline rests squarely on white-collar employees and management. To illustrate, consider that between 1978 and 1986 the number of production workers in the U.S. declined by six percent while real output rose fifteen percent. That represents a 21 percent gain in blue-collar productivity, or a 2.4 percent annual growth rate. During the same period, however, U.S. manufacturing firms expanded the number of white-collar, nonproduction workers by twenty-one percent, representing a six percent decrease in productivity.

The trend toward a disproportionate expansion in the number of white-collar workers is also illustrated by the fact that in 1950, twenty-three percent of U.S. manufacturing industry employees were nonproduction workers. By 1988 that figure had risen to forty-seven percent. At the same time that production worker employment was decreasing in the 1980s, nonproduction worker employment was increasing dramatically in the manufacturing sector. The good news is that approximately seventy percent of the increase in America's GNP in the 1980s was accounted for by an expansion in the number of jobs. The bad news is that this growth often occurred in non-productive areas. In contrast, a majority of the GNP growth of our major global competitors was accounted for by increases in employee productivity, not merely job growth.

Downsizing as a Response

Declining white collar productivity is reflected as a cost disadvantage. Overhead

rates reflecting excess white-collar employees have created a cost structure in may U.S. companies that limits global price competitiveness and, consequently marketshare growth. It is not surprising, then, that organizational downsizing has become a common cost reduction strategy in U.S. companies.

More than eighty-five percent of the Fortune 1000 firms, for example, downsized their white-collar workforce between 1987 and 1991, affecting more than five million jobs. More than fifty percent downsized in 1990 alone. Major reductions occurred in firms such as ITT (more than forty percent of the company's workforce), K-Mart (more than 20 percent), Peat Marwick (more than 20 percent), IBM (more than 10 percent), AT&T (more than 10 percent), Eastman Kodak (more than 10 percent), and Sears (more than 10 percent). Almost a million American managers with salaries exceeding $40,000 lost their jobs last year, and between one and two million pink-slips have been handed out each year for the past three years. (More than half of those employees took pay cuts of thirty to fifty percent to obtain new jobs.)

Yet, even with the extensive downsizing implemented in U.S. firms, white-collar productivity has not improved significantly. Overhead rates and costs remain significantly above the best global competitors in many industries.[3] One explanation is that downsizing has not been managed effectively in many firms and, therefore, the intended cost reductions and efficiencies have not materialized. Another is that downsizing has created resentment and resistance in firms, thus hindering rather than helping U.S. competitiveness. Unfortunately, not enough is known about the implementation processes associated with downsizing to identify best practices. Despite its pervasiveness, downsizing has rarely been investigated by organization and management researchers. Few systematic studies have been published of the precursors, effects, and strategies associated with organizational downsizing.

One reason is that downsizing has often been confused with two other organizational phenomena: layoffs and decline. Organizational downsizing involves many alternatives beyond just laying off personnel. Organizations may get smaller, for example, through headcount reduction strategies such as attrition, early retirements, or outplacements. Downsizing may occur by reducing work, not just personnel, by eliminating functions, hierarchical levels, or units. And it may also occur by implementing cost containment strategies that simplify processes such as paperwork, information systems, or sign-off policies.

Organizational decline is also different than downsizing. Decline refers to the *involuntary* loss of resources, generally revenues or marketshare. Downsizing refers to *intended* reductions of personnel. Organizational decline often leads to what Cameron, Kim, and Whetten[4] called "the dirty dozen"—that is, twelve dysfunctional effects in organizations. These include decreasing levels of morale, trust, communication, and innovation as well as increasing levels of conflict, scapegoating, threat-rigidity reactions, and conservatism. Whether these same phenomena occur when organizations are downsizing was an important question in the study reported here. Because downsizing may be implemented when the organization is growing as well as when it is declining, downsizing and decline are not the same phenomena.

Issues for Investigation

This article reports some of the findings from a four-year longitudinal study of organizational downsizing and redesign in thirty organizations in the U.S. automobile industry. Some organizations were plants within parent corporations (for example, assembly plants or stamping plants); some were independent firms

(supplier businesses). The study focused on white-collar downsizing (as opposed to hourly employee reductions) because productivity declines and non-competitiveness are attributed mainly to excess white-collar positions. Moreover, these positions are often the most attractive positions in organizations. Their attractiveness makes them difficult to eliminate, although they may be the most redundant.

One primary intent of the study was to identify the processes used in effective downsizing as well as the consequences that resulted from downsizing. More precisely, this article reports "best practices"—the downsizing strategies that were associated with the most effective organizational outcomes. In brief, the major question being addressed is: When organizations engage in downsizing, what strategies are most likely to be associated with organizational effectiveness?

Methodology

Firms in the auto industry were selected because of the extensive downsizing that is occurring in that industry and because of its size and importance in the American economy. For example, more than forty percent of this nation's current merchandise trade deficit is related to the automotive industry. Well over a million people work for the Big Three 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. Moreover, since 1981 nearly half a million jobs have been affected by downsizing activities in the Big Three firms.

Each of the thirty organizations in the study had engaged in downsizing activities. Some downsized in years prior to the study (pre-1987), almost all downsized during the years of the study, and many were planning to downsize in the immediate future as well. Reductions in the workforce in these firms ranged from +14 percent to −69 percent of white-collar employees and from +69 percent to −49 percent of blue-collar employees. (That is, some organizations increased the white-collar workforce while decreasing the blue-collar workforce, or vice versa.) The smallest of these organizations employed approximately 100 employees; the largest employed over 6000. Interviews were conducted every six to nine months with the head of each organization between 1987 and 1990. This top manager was treated as the key informant to provide ongoing information regarding how downsizing and organizational redesign activities were being implemented. Each manager was interviewed five times over the four-year period, with each interview lasting about two hours. Two separate researchers, one involved in conducting the interviews and one not involved, read the transcripts of the interviews and independently identified the themes, issues, and strategies that characterized each organization. Relationships between organizational effectiveness and implementation processes were especially noted. Agreement between the interview coders for these themes, issues, and strategies was very high.

In addition to the interviews, approximately 2500 questionnaires were collected from white-collar employees in these 30 organizations, asking for perceptions of strategies, corporate culture, leadership, and outcomes of downsizing. Measures of effectiveness were obtained by asking respondents to compare their organization's current performance with its performance in the previous two years, with the performance of its best domestic and global competitors, with stated goals for the current year, and with perceived customer expectations. Table 1 reports the range of organizational effectiveness scores for firms in the study. Statistical analyses of the questionnaire responses uncovered the factors that are most closely associated with organizational effectiveness. These analyses are not reported in detail here,[5] but the findings related to implementation processes are discussed below. It was discovered that the *way* in which downsizing occurred was more important in accounting for effectiveness than the size of the work force reduction or the cost savings that accured. The following discussion explains these effective implementation processes.

Table 1
Average Organizational Effectiveness Scores in 30 Firms in the U.S. Auto Industry

Highly Effective	Moderately Effective	Ineffective
Effectiveness Scores	(on a 5.0 point scale)	
Above 4.0	Between 3.0 and 4.0	Below 3.0
Presence of the Six Strategies		
All six present	Some of the six present	Few of the six present
Number of Organizations		
N = 4 firms	N = 22 firms	N = 4 firms

Best Practices in Downsizing Organizations

Analyses of the set of interviews together with the questionnaires revealed that very few of the organizations in the study implemented downsizing in a way that improved their effectiveness. Most deteriorated instead of improving in terms of pre-downsizing levels of quality, productivity, effectiveness, and the "dirty dozen" (e.g., conflict, low morale, loss of trust, rigidity, scapegoating). However, in a few of the firms especially noteworthy practices were associated with improvement in organizational effectiveness over time. Specifically, six general strategies highlight the best practices typical of the firms in the U.S. auto industry that are downsizing effectively. Other less effective firms may have been characterized by some of the processes, but only in the most effective firms were all six present.

On the other hand, the best downsizing strategies were, at the same time, recommended and designed by employees, not top managers.

1. The most successful downsizing was implemented by command from the top-down, but it was also initiated from the bottom-up.

In effective organizations, leaders initiated downsizing. They exhibited aggressive, strong leadership, and they remained visible and interactive with their employees. They had clearly articulated visions of where they wanted the organization to go. Effective downsizing was managed and monitored by top managers; it required hands-on involvement and momentum that originated at the top of the organization.

On the other hand, the best downsizing strategies were, at the same time, recommended and designed by employees, not top managers. Employees analyzed the operations of the organization job-by-job and task-by-task. This sometimes happened in cross-functional teams, sometimes in blue-ribbon committees, sometimes in self-managed task forces. Members identified redundant jobs and partial tasks, determined how employees were spending their time, found ways to eliminate organizational fat and improve efficiency, and planned ways in which the changes could be implemented. External organizations that had previously downsized were studied by these teams and task forces. When employees (1) understood the reasons for downsizing, (2) were assured that their personal employment was guaranteed with the firm for a certain period of time, even if they recommended the elimination of their own jobs, and (3) trusted managers to listen and be fair, downsizing strategies were implemented smoothly and effectively from the bottom-up.

One CEO's process took this form:

We held a meeting for all the salaried people . . . we gave them an overview of the [downsizing] plan. And we spent time talking about that, and then different staff heads talked about their strategy and where they're headed . . . We do that on a quarterly basis now. Once you start doing that you can drive the plan down into the organization. People understand it, they embrace it, they figure out, "Here's what I've got to do at the departmental level and at the group level and at the individual level. Here's how everything ties together. . . ." You can almost pick out the date on the calendar when this stuff started happening because you see the significant improvement.

In one organization, employees were told that if their jobs were eliminated, they would still receive full pay for a year, but in the meantime would be required to create another value-added job inside the firm or find another position outside. Retraining would be paid for, but employees had to justify the expenditure in a proposal. Employees were encouraged to look more broadly than just joining an existing unit; instead, they were urged to find ways to innovate, to initiate new products or services, or to improve current products and processes. Some employees used the time to find jobs outside the firm; others found ways to try out new projects that improved both bottom-line (cost control) and top-line (revenues) results.

Nonprioritized downsizing, on the other hand, was similar to tossing a grenade into a crowded room. There could be little prediction of who would be eliminated, how may would be gone, or which talents and skills would be lost.

Downsizing from the top down provided consistency, vision, and clear direction as well as visible commitment and hands-on involvement. Downsizing from the bottom-up helped foster innovation and improvements that would not have been possible had top management simply mandated headcount reductions. In one firm, for example, an employee analysis resulted in new tooling that reduced 37 different tool sets to just one, in turn, reducing the number of set-up operators significantly along with other costs. Better union-management relations eliminated the need for several "watch-dog" positions. Improvement in paperwork processing and standardized forms (e.g., insurance claims, reporting forms) eliminated a variety of non-value-added positions and $2 million from bottom-line costs. A suggestion system contributed to the elimination of more than $1 million in costs in another firm. The redesign of a door panel in one company, from seven pieces to three pieces, allowed each product to be manufactured with fewer employees and at lower cost. In each case, it took bottom-up analysis to identify the potential for these improvements coupled with top-down motivation, mandate, and monitoring to implement them.

2. The most successful downsizing was short-term and across-the-board, but it was also long-term and selective in emphasis.

In firms that downsized effectively, implementing across-the-board cutbacks was an effective means of capturing employees' attention, mobilizing the energy of all the organization's members, and overcoming resistance to change. It highlighted the seriousness of conditions faced by the firm and woke up the organization to the need for new approaches to day-to-day work. Cutbacks made it clear that the status quo was no longer acceptable. Generalized downsizing also helped avoid charges of favoritism and potential legal or contract issues. Especially, it helped achieve headcount and cost-savings goals quickly and visibly.

Nonprioritized downsizing, on the other hand, was similar to tossing a grenade into a crowded room. There could be little prediction of who would be eliminated, how may would be gone, or which talents and skills would be lost. Companies were continually taken aback, for example, by how many or how few employees accepted early retirement offers. The harm caused by these approaches, therefore, frequently off-set the positive effects of "unfreezing" the organization. One dramatic example occurred in an organization where a 30-year employee in the purchasing department was the primary agent for ordering steel. Over the years, modifications had been made in the types of steel and alloys ordered, but changes in the written specifications had not kept pace. Shortly after this purchasing agent accepted an early retirement option, an order was placed unknowingly for the wrong kind of steel. 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 expedient and non-prioritized method used in downsizing. Simply put, when implemented in the absence of other strategies, "grenade" approaches to downsizing were rarely positive and frequently negative in their consequences.

Three types of downsizing strategies characterized the methods used in these organizations. They are summarized in Table 2: workforce reduction strategies,

Table 2
Three Types of Downsizing Strategies

Type of Strategy	Characteristics	Examples
Workforce Reduction	Aimed at headcount reduction Short-term implementation Fosters a transition	Attrition Transfer & Outplacement Retirement Incentives Buyout packages Layoffs
Organization Redesign	Aimed at organization change Moderate-term implementation Fosters transition and, potentially, transformation	Eliminate functions Merge units Eliminate layers Eliminate products Redesign tasks
Systemic	Aimed at culture change Long-term implementation Fosters transformation	Change responsibility Involve all constituents Foster continuous improvement & innovation Simplification Downsizing: a way of life

organization redesign strategies, and systemic strategies. *Workforce reduction strategies* were actions that eliminated individual jobs by, for example, layoffs, attrition, or buyouts and retirement incentives. They were usually implemented on a short-run, across-the-board basis, and they produced immediate decreases in headcount (grenade approaches). These strategies were by far the most commonly used by downsizing firms; in fact, they were used by all the firms in our study. But the most effective firms didn't stop there.

Organization redesign strategies were difficult to implement quickly becaue some redesign of the organization was required (e.g., eliminating a function, merging two subunits). They were, by and large, medium-term strategies used by firms to eliminate or re-position subunits within the organization or to eliminate work. Sometimes eliminations of a hierarchical level, for example, were accomplished without a redesign of the work, but generally some kind of work redesign accompanied these strategies.

Systemic strategies were aimed at changing the mind-set or culture of the organization. Instead of a single action or program, they involved a change in the way employees interpreted and approached their work. Minds as well as actions became the target of change. These strategies could not be implemented quickly but were part of a long-term change process. Downsizing was redefined as a continuous, never-ending set of opportunities. No size or savings level was set as a target because whatever that level was, it could be improved. The main advantage of systemic strategies was in helping the firm avoid the need for more short-term workforce reductions in the future when another economic downturn or crisis occurred. Relatively few firms adopted systemic strategies in their downsizing efforts.

The most successful firms implemented all three types of strategies: workforce reduction, organization redesign, and systemic strategies. That is, they implemented both short-term (workforce reduction) and long-term (redesign and systemic change) strategies as they downsized. They used both across-the-board and targeted downsizing. They focused on the immediate measurable changes

that were required as well as unmeasurable changes in the way work was defined and approached.

One firm accomplished this by conducting a "value analysis" of all tasks in the organization before beginning any downsizing. The question addressed was, "What value does this task have to the final product or service for which we are in business?" Conducted by the employees themselves, this analysis resulted in prioritizing the most valuable individuals, tasks, and jobs, which were not only protected but strengthened. Investment increased in some areas at the same time that individuals and jobs in areas adding less value were reassigned, redesigned, or removed. For example,

We sent out a survey to every employee and asked them . . . to describe exactly what you do, whether your boss knows about it or doesn't. What is it that you do? We took all 743 of those and we charted those suckers. And it filled up most of the hotel down there in Ann Arbor . . . And then we started sorting out the duplicates . . . and the things that don't fit, that lead to dead ends . . . From where I sit at the top, I couldn't give you four job descriptions, so how would I know about what 743 are doing?

Together with an across-the-board early retirement program, for example, one firm offered certain employees incentives to remain in their jobs while others were given incentives to retire early. At the same time, work was redesigned when the quality control and maintenance functions were eliminated. Those tasks were reassigned so that the remaining employees became responsible for incorporating them into their own jobs. This necessitated a non-trivial investment in the training of all employees. Training focused on implementing a new culture of continuous downsizing and preparing employees for organizational changes that were to occur. Costs increased in the short-run, therefore, due to the investment in training. To offset this increase, one employee in this firm proposed changing the work week from five eight-hour days to four ten-hour days to generate savings in maintenance, security, and energy costs.

3. The most successful downsizing involved paying special attention to those employees who lost their jobs. It also involved paying special attention to those who didn't.

Effective firms provided outplacement services, personal and family counseling, relocation expenses, and active sponsoring of employees whose positions were eliminated. Several top managers proudly announced that none of their white-collar employees was without a position someplace else. A wide variety of options was generated for these employees including severance pay, benefit packages, retraining, and employment opportunities. Temporary consulting arrangements were even made available to some terminated employees. In short, the best firms took responsibility for the transitions created by loss of employment.

On the other hand, white-collar employees who remained with the firm were likely to experience what Brockner and his colleagues[6] labelled "survivor guilt." Psychological reactions among survivors of layoffs commonly include increased anxiety about job loss, decreased loyalty to the firm, and guilt feelings regarding displaced co-workers. Survivor guilt occurs when the remaining employees feel guilty about working overtime, for example, or receiving paychecks when their friends and former co-workers may not be working at all. In addition, survivors may feel that the attributes traditionally valued in good employees—loyalty, hard work, and personal competence—no longer count in the firm. Individuals who displayed those traits still lost their jobs. Evidence of survivor guilt was prevalent in the firms in this study.

In addition to this deterioration in morale, practical work problems were even more noteworthy. As a result of downsizing, for example, fewer numbers of employees were left in the firm to do more work and, frequently, to do a more

complex set of tasks than before. A common complaint among top managers was that downsizing created job demands that most remaining managers were not qualified or experienced enough to fulfill. Management survivors were required to manage a larger number of employees, maintain accountability for multiple (often new) functions, and to coordinate among more subunits than before. Many were simply not equipped to handle the increased work demands or the additional knowledge required. Management burn-out was a common complaint.

While outplacement support and attractive incentive packages were provided to those leaving the organization, survivors in most organizations received disincentives such as increased workloads, smaller or no raises, loss of cost-of-living-allowances (COLA), the same or a reduced title, demands to learn new tasks and take on broader responsibilities, and sometimes, an escalation in the "dirty dozen" dynamics. "Survivor envy" as well as survivor guilt was a common outcome.

In firms that downsized successfully, however, special attention was paid to the transition experienced by employees who remained with the organization as well as those who exited. One way this transition was managed was by increasing the amount and frequency of information communicated to these employees. For example, some top managers reported going the extra mile to make certain that all employees knew the rationale and circumstances underlying the downsizing effort. Openness in sharing information with employees at all levels was a priority. One company held regular "forums" where data was shared on both the company's and its major competitors' costs and performance. These included question and answer periods with blue- and white-collar workers. Data that might have been confidential before was posted in several locations throughout the company, so that organization members were included in downsizing planning and implementation. Other firms held special events to signal the end of the degeneration phase and the beginning of the regeneration phase for the company (e.g., "launch lunches," a new company logo, new signs, fresh paint, colors in the production area).

The point was to communicate a different message to employees than had been communicated before. Whereas downsizing has usually created loss of loyalty, morale, and trust, some companies made special efforts to convey a sense of excitement and opportunity in a new phase of the firm's lifecycle. In particular, top managers passed messages that the survivors were survivors because they were highly valued and respected. The need to downsize was not due to their mistakes, but they were the ones who would make (or keep) the firm competitive. Managers often targeted an outside scapegoat as the culprit in unpleasant downsizing actions (e.g., the economy, the Japanese transplants, the rising quality expectations of the public). One highly effective CEO, in a speech to his recently downsized top management group, stated it this way: "Despite all the problems created for us, despite all the obstacles placed in our way, I'm confident that this team has the guts, and the ability, and the talent to see this program through to the end and bring us back to profitability."

But increases in communication went both ways. Survivors were encouraged to put forth their ideas at the front-end of the change process. They were encouraged to pass information upward as well as provide feedback on information passed downward. The point is that increasing information exchange was an important way to give special notice to surviving employees.

Changes in the human resource system were a second way the transition faced by survivors was managed effectively. Training and development opportunities were provided for survivors, and they received incentives for learning new tasks and expanding personal competencies. For example, one manager noted:

We don't delegate training. We're trying to get every department to say training is our responsibility . . . In other words, we have a person who's in a level 6 job, but he can grow to a level 7 or 8 if he becomes the trainer for three or four locations within the section, in addition to his regular job . . . responsibility for training new people as well as existing people. So the curriculum and materials are really developed by the people, up-dated by the people, and administered by the people.

In organizations that downsized most effectively, changes in the HRM system (i.e., selection, appraisal, reward, development) preceded as well as followed the implementation of downsizing strategies. For example, in one organization training and development activities began a year before the downsizing was implemented, so that white-collar employees were prepared for changes that would occur in the structures and management processes. In another firm every employee, salaried and hourly, attended a forty-hour training workshop on the implementation and implications of downsizing. The appraisal system was also redesigned in advance of downsizing. Managers were held accountable for the extent to which they developed and trained their own subordinates in new jobs and functions. In sum, incentives were put in place to motivate survivors who faced new demands in a downsized organization. Both casualties and survivors were made to feel valued, and both groups had opportunities to make contributions and fulfill their potential.

4. The most successful downsizing was surgical and targeted inside the firm, but it was also generalized and included the firm's external network.

The most effective firms, however, engaged in surgical procedures. That is, they identified precisely where redundancy, excess cost, and inefficiencies existed, and they attacked those areas specifically.

Inefficiencies and redundancies are not always easy to identify in an organization, so it is often difficult to know where to target downsizing activities. One manager highlighted this problem in his organization:

As long as you've got as many people as we've got buying stuff, you're going to have lots of suppliers. As long as I've got as many people as I do designing and engineering, I'm going to have as many models as I have. I'm going to have all the variation I have. That's job security. If I'm not generating ideas and I'm not designing new widgets, I don't have a job. So, I'm going to drive changes on parts that customers never see, and I'm going to change them every year because I'm a good engineer, or designer, and that's what I'm supposed to do. And we throw away all kinds of money in that regard.

The most effective firms, however, engaged in surgical procedures. That is, they identified precisely where redundancy, excess cost, and inefficiencies existed, and they attacked those areas specifically. Internal data gathering and data monitoring became systematic and precise, so that employees had access to performance and cost data almost instantaneously. For example,

We have cathode ray tubes . . . about 300 of them, in the plant. And they have all of our performance categories on it, everything from cost of cars to grievances to absenteeism to daily quality to corporate quality. Any one of the 900 pages on this is easily accessible to any hourly-rate employee by just hitting numbers on a keyboard. Not only is it regularly updated, but it's constantly changing to get more and more information out to the hourly people.

Employees of this firm logged several thousand sign-ons daily just checking on

performance statistics. Aspects of the work such as container sizes, distance indexes, number of line stations, number of parts per work station, batch sizes, inventory sizes, and so forth, were examined carefully to find areas in which costs could be reduced. The "tight ship" or "lean and mean" metaphors were typical of managers' descriptions.

At the same time, firms that downsized effectively also applied downsizing universally to the entire system of suppliers, customers, and distributors. In planning and implementing downsizing, they reduced the number of outside agents dealt with directly. These outside agents were treated as involved partners as well as potential targets of the downsizing efforts. For example, several firms reduced multiple, redundant single-item suppliers to a single-source supplier of systems of parts. Instead of twenty-eight separate suppliers for an electrical component system, for example, one organization reduced that number to one supplier who provided the entire system. This, in turn, reduced the number of staff coordinators needed to administer supplier relations, including purchasing, inspection, negotiation, and so on. Redundancy in suppliers had been considered necessary to assure that a labor action or a disrupton in one supplier organization did not disrupt production in the customer organization. But this firm selected its single source supplier on the basis of reliability and dependability of service as well as cost and quality of the product. It also involved that supplier in many aspects of design, production, marketing, and service of the final product. (Many former suppliers became "second-tier" suppliers to the single-source, system supplier.)

Similarly, reducing distribution points helped several firms improve on-time delivery and eliminate much of the overhead necessary to schedule, transport, and warehouse products for customers when multiple outlets were being maintained. Identifying targeted customer groups helped pare down marketing and sales activities so that efficiencies could be gained in advertising, sales, and customer follow-up. The successful firms were both systemic and surgical in approach, encouraging generalized system change and implementing specific targeted cutbacks simultaneously. The strategic intent was to consolidate around the company's core competency. To accomplish this, every element within the firm and in its external environment was considered in downsizing planning, analysis, and execution.

5. The most successful downsizing resulted in small, semi-autonomous organizations, but it also resulted in large integrated organizations.
Theoretically, small organizations run more efficiently than large organizations. They are unencumbered by multiple management layers and staff functions, fostering rapid, efficient decision making and innovativeness. Face-to-face communications cuts down on sign-offs and implementation time. On the other hand, large organizations can call upon economies of scale and integration to reap efficiencies not available to small organizations. The availability of abundant resources provides flexibility and responsiveness under conditions of uncertainty. Cross-functional and multi-layered teams bring to issues broadened insight and perspective that are not available in small organizations. In this study, the best downsizing was aimed at producing specialized, flexible, loosely coupled units, while at the same time producing generalized, coordinated, centralized units.

Some analysts have suggested that decentralized organizations (composed of small, autonomous units) are more effective than centralized organizations (composed of large, coordinated units).[7] Yet centralization always engenders decentralization, and vice versa. What appears to be decentralization from the perspective of corporate headquarters (e.g., forming semi-autonomous units and powerful unit heads), is viewed as centralization from the perspective of the unit itself. For example, some firms removed from corporate headquarters functions

such as purchasing, accounting, marketing, customer relations, or engineering. These functions were dispersed to separate operating units. From the corporate perspective this was decentralization. From the unit perspective, which now had the resources and authority to operate autonomously, it was centralization. On the other hand, the unit may also decentralize its resources and authority to teams. The teams are provided with discretion and control over the resources required to do their work (e.g., staffing, purchasing, scheduling, appraising). The team, therefore, is centralized but the unit is decentralized. Depending on where one looks, therefore, centralization is really decentralization, and vice versa.

The most effective downsizing strategies produced autonomous or semi-autonomous units within the larger organization as well as strong, centralized functions. Unit leaders were given the responsibility to manage functions previously centralized at headquarters, or they were given profit-center responsibility and could decide for themselves which functions to eliminate, which to purchase from corporate headquarters, and which to contract out.

For example, one large organization divided itself into three semi-autonomous units, each producing a different product. Within each of these units, area heads and team leaders were given control over the resources they needed to manufacture products in the most efficient way. Some decided that certain functions were not needed at the sub-unit level and could be purchased from a central staff unit at the parent company's headquarters (for example, finance and personnel). They were not required to match headquarters staff functions at the subunit level as they had been previously. Other firms in the study had staff functions at the unit level simply because corporate staff heads wanted a counterpart in the subunits. In those cases, decentralization created inefficiencies. Effective decentralization, on the other hand, created unit managers who had the necessary flexibility, discretion, and control to improve their own efficiencies and contain their own costs.

At the same time, the effective organizations produced efficiencies by centralizing functions and creating large organizations. The information processing function was removed from geographically dispersed subunits in one organization to form a large centralized system. Previously diverse data entry and software systems were standardized and consolidated into a single network. The elimination of duplication and coordination costs resulted in substantial savings. The merger of several related subunits into a single large entity with combined staff functions made it possible for another organization to eliminate two management layers and reassign about half the staff employees. Geographic or product reorganizations often produced larger, more centralized units within (decentralized) parent companies.

The use of a "clan" control system[8] was a key to the successful formation of simultaneous small and large organizations during downsizing. Of the three types of control systems Ouchi identified, the bureaucratic (relying on rules, audits, and hierarchical relationships) and the market (relying on competition, goals, and exchange relationships) control mechanisms characterized all the firms in the study. But in a few, those with the highest levels of effectiveness, a clan control system was also fostered. The clan relies on common values, shared vision, and a collective perspective. Its advantage, of course, is that employees can be self-regulating because they hold a common set of values and assumptions. Fewer resources are required to monitor and manage their work. Some managers engendered a clan control system through the use of symbolic events and involvement activities.

For example, one organization instituted a "Build With Pride Week" in the initial phases of downsizing. Family members were invited to the firm on one day, customers on another, suppliers on another, local government officials on another. Special events, special refreshments, and special decorations were used throughout the week to signal the beginning of a new era in the firm, particularly of a team-oriented approach to work. Non-management employees served as hosts and guides, and outsiders were permitted to question and observe workers as they performed their jobs. Dramatic improvements in productivity and product quality, and a sense of collective pride and teamwork followed from this event.

Another organization developed a sense of teamwork through employee-designed and administered rewards.

The latest gimmick is alligator hats . . . they have the plant quality logo sewn into the top of them. People give each other hats for doing something good for quality. The important issue is that it is an on-going process. People are involved. They make the decisions. It's not something that is tightly managed by a staff group or something. And it's always kind of nice to have your peers trying to find something good about you instead of bad.

Some firms simply made label changes, such as renaming the quality control department "the customer satisfaction department," or generating names and slogans for sub-unit teams (e.g., one product design team became Delta Force—"seek and destroy errors before customers catch them"). The intent was not just to be cute, but to help create a different mindset among employees about the downsizing and redesign efforts. Other firms offered both advance and follow-up employee training, emphasized constant and consistent articulation of a vision by top managers, implemented a congruent reward system, and emphasized cross-functional teamwork. As a result, the decentralized, semi-autonomous units operated harmoniously with the centralized, large units and did not require extra management resources to assure consistency.

6. *The most successful organizations emphasized downsizing as a means to an end, but they also emphasized downsizing as the targeted end.*
Downsizing was interpreted in some firms as an admission of failure or weakness. More commonly it was considered a temporary, protective mechanism that would help the firm weather-the-storm until a normal growth orientation could be resumed. For example, a number of substitutes for the term downsizing were used in these firms to avoid negative connotations: resizing, right-sizing, rationalizing, rebuilding, rebalancing, reassigning, reorganizing, reallocating, redeploying, streamlining, slimming, slivering, functionalizing, demassing, downshifting, consolidating, contracting, compressing, ratcheting-down, and even leaning-up. This negative interpretation generally resulted from downsizing being defined as a reactive strategy rather than a proactive strategy.

All the firms in the study implemented downsizing primarily as a reaction to loss of market share or profitability, entrance of a lower-cost competitor, or a parent company mandate. In most of these cases, downsizing took a defensive form. It was associated with exclusive use of workforce reduction strategies (as opposed to redesign and systemic strategies) and mechanistic shifts in organization structure (e.g., rigidity, restricted communication flows, lower levels of employee involvement).

On the other hand, some firms interpreted downsizing as an opportunity for improvement or as part of an aggressive strategy leading to enhanced competitiveness. To illustrate, one of the effective top managers commented:

"We're not getting smaller, we're getting better. This change is necessary for continuous improvement. It just happens that fewer employees is a way to accomplish it." In these firms downsizing was associated with a combination of workforce reduction and redesign downsizing strategies, and, in a few cases, with systemic strategies as well. Higher levels of employee involvement, participation, and flexibility were also typical.

In this study, the most effective firms did both. That is, in the face of an unequivocal need to retrench, the most effective downsizing firms targeted downsizing as a central, critical outcome. "Taking out headcount" and "trimming the fat" were clear and consensual objectives. But these firms also treated downsizing as just one in a cluster of strategies designed to achieve organizational improvement. "Improving productivity" and "enhancing competitiveness" were labels that helped position downsizing as just one strategy to improve firm performance.

In one firm, for example, downsizing was framed in terms of continuous improvement focused on the core mission of the company:

They've got a crystal clear corporate focus that involves everybody in regard to continuous improvement in meeting the challenges that are upon them. Consistent day in and day out. Everybody knows the score. It's not herky-jerky reorganization, jump to this, jump to that. They have a very clear focus in each piece of their business. They go after it. Everybody just functions that way. Building cars and trucks is absolute uno-priority.

The relationship between effective downsizing and the approach to quality employed in these firms was especially notable. Cost savings associated with improved quality have been publicized recently in the literature, but a particular quality culture emerged here.

Cameron[9] described three approaches to quality that characterize organizations. No organization is characterized by only one approach to quality, but most have a dominant emphasis. For example, when a firm focuses on *error detection*, it emphasizes inspecting and detecting errors after the product or service has been produced. The goal is to reduce waste and to find and fix mistakes. The approach to customers seeks to avoid making them unhappy, meet expectations, and be responsive to their needs and complaints.

An *error prevention* approach emphasizes avoiding errors in the first place. The goal is to produce zero defects by doing work right the first time. This is done by finding root causes of problems (rather than just product defects) and monitoring and adjusting the work processes to eliminate them. The approach to customers involves actively satisfying their preferences (not just needs) and occasionally exceeding expectations.

The third approach, *creative quality coupled with continuous improvement*, emphasizes surprising and delighting customers by delivering products and services that not only exceed but actually create new preferences and expectations. The standard is improvement in the quality of products, not just meeting a goal or target. Small, incremental, continuous improvements are coupled with innovation (large, visible changes) to achieve new levels of quality. To illustrate, when new equipment or technologies were introduced into most firms an assumption was made that this was the best condition the new material would ever be in (i.e., no repair and little maintenance needed). In the firms with a continuous improvement culture, on the other hand, it was assumed that this was the *worst* condition the new material would ever be in (i.e., it had not yet been improved).

Most organizations in this study were dominated by an emphasis on the first approach to quality-error detection. This approach, with its reliance on quality control departments and inspection, was associated with higher costs, more floor space dedicated to rework and touch-up, and higher numbers of personnel than the other two approaches. The most effective firms coupled downsizing with the latter two approaches to quality—error prevention and creative quality. When downsizing was coupled with a focus on process improvement (error prevention), not just produce improvement (error detection), and when a continuous improvement culture operated in the organization (creative quality), downsizing was associated with higher levels of organizational effectiveness as well as lower costs.

In the few organizations where the approach to quality emphasized prevention and creativity more than detection, a subtle shift had occurred from thinking of customers as end-users or recipients of a product or service to defining customers as anyone with whom an employee interacted, inside or outside the firm. Customer expectations were continuously measured and monitored in the effective firms.

For example,

We've got a great push to work on a more caring attitude toward the customer which is being spread throughout our organization . . . It's really dealing with how do you get out and get the voice of the customer, and then how do you respond to that voice in a manner that makes the customer believe and understand that we are caring about their attitude and their feelings. . . . ?

Several of the most effective top managers indicated that, in their firms, it was assumed that employees would exceed, not just meet, expectations for both inside and outside customers, and for past, present, and future customers. It was especially noteworthy in these firms that improvements in quality were linked to continuous downsizing—employees were encouraged to constantly look for ways to reduce resource requirements and increase response time and efficiency. Questions such as the following were part of job expectations: Can this task be eliminated? Can it be completed in less time? Can it be completed at less cost? Can someone else do it better? Can it be simplified or reduced? The relationship between quality and downsizing—i.e., that each should enhance the achievement of the other—was made explicit. Cost savings attributable to process improvements and increases in quality were highlighted in company newsletters, mini-ceremonies, and one-time bonuses.

In sum, whereas downsizing was clearly the central target of these firms—e.g., reduce headcount, cut costs, and/or consolidate units—the means they used to define and achieve quality facilitated the achivement of that goal. Developing a mature approach to quality helped reduce current costs *and* created a continuous improvement mentality for future downsizing.

Conclusion

Almost daily, press accounts announce layoffs or plant closings by firms suffering the effects of an economic recession or foreign competition. Published case histories of layoffs, closings, and bankruptcies are common, yet few accounts have analyzed the most effective ways to implement a downsizing strategy. Almost no studies have been done across multiple organizations to identify "best practices" for managers to follow as they face the need to downsize.

In this study of white-collar downsizing in the U.S. automobile industry, six critical strategies characterized the firms that were downsizing most effectively. These six strategies have at least two important implications for practicing managers. One

implication relates to common assumptions about organizational dynamics, the other to strategic contradictions.

Assumptions about Organizations

At the beginning of the 1990s several fundamental assumptions dominated thinking about organization and management. Most managers, as well as most scholars, assumed: (1) that *bigger means better;* that is, having more employees, more products, more plants, or more money is better than having fewer or less;[10] (2) that *unending growth is a natural and desirable process in organizational life cycle development;* that is, forms of nongrowth such as decline or stagnation are undesirable aberrations from a normal life cycle pattern;[11] (3) that *adaptability and flexibility are associated with slack resources, loose coupling, and redundancy;* that is, uncommitted resources facilitate experimentation and the ability to take advantage of new opportunities;[12] and (4) that *consistency and congruence are hallmarks of effective organizations;* that is, strategy, structure, culture, and systems should all fit together synchronously to achieve effectiveness.[13]

Like fine-tuned athletes who constantly try to improve their performance, firms should be constantly looking for ways to improve efficiency through downsizing.

However, the characteristics found to typify the most effective dowsizing organizations challenge those assumptions. These characteristics highlight a *dual* set of assumptions that require an expansion of past assumptions about common organizational dynamics. These six characteristics point out that, contrary to the way we thought in the past, smaller organizations (not just bigger organizations) may also be better organizations. Downsizing not only can improve productivity and competitiveness in organizations, but it can lead to a more humane and enjoyable working environment. Fewer hierarchical levels and smaller units usually mean better communication, more participation, and stronger feelings of belonging.

Similarly, unending organizational growth, as proposed in most organizational life cycle models, is fiction. Decline and, most certainly, downsizing are likely to be a recurring part of many organizations' life cycle stages in the future. In fact, this study's results suggest that downsizing *should* become a permanent and on-going activity in organizations. Like fine-tuned athletes who constantly try to improve their performance, firms should be constantly looking for ways to improve efficiency through downsizing.

The third assumption, that looseness and redundancy produce flexibility and adaptability, is also dispelled by these findings. The presence of nonredundancy and tight coupling in effective downsizers provide an alternative viewpoint. Firms were effective when their downsizing activities eliminated the slack and duplication that produced longer response times, less flexibility, and an inability to adapt to environmental changes.

Finally, the congruence-produces-effectiveness assumption is also challenged by these results. The presence of dualities and contradiction in organizational downsizing implies inconsistency and incongruence, and it is precisely this lack of consistency and congruence that is most closely associated with organizational effectiveness in the process of downsizing. While most firms were congruent in their approaches to downsizing, the best organizations (albeit only a few of them) engaged in seemingly contradictory processes. This theme of contradictions, in fact, highlights the second important implication that emerged from the findings.

Apparent Contradictions in Strategy

An analysis of the firms that were downsizing effectively supports the conclusion that most organizations were inclined to downsize in inappropriate or ineffective ways. They engaged in downsizing activities that fostered dysfunctional outcomes (e.g., decreasing morale and commitment, increasing conflict and criticism) rather

than improved performance. This is partly because they tried to be consistent in their downsizing approach, and effective downsizing was found to involve contradiction. That is, effectiveness was typified by processes that are often thought to be opposite or incompatible

This existence of apparent contradiction was the best overall explanation of the difference between effective and ineffective downsizing firms. As explained earlier, top managers in the few effective firms were actively pursuing strategies that included a duality. The top managers in the ineffective firms, on the other hand, attempted to maintain consistency, harmony, and fit. They pursued one side of the strategy alone—for example, a short-term, internal approach without its accompanying long-term, external approach. Managers in effective firms adopted a "both/and" approach to downsizing instead of an "either/or" approach. For most managers in the study, this both/and approach was viewed as incompatible with effective management and inconsistent with traditional approaches to change.

Of course, the apparent contradictions in the downsizing strategies are not inherent. They are contradictions only because the presence of one strategy caused most of the managers interviewed in the study to deny the possibility that the opposite strategy could, and should, also occur in their organizations. In only a few of the most effectively downsizing firms were these processes not defined as contradictory. Thus, when managers were not open to adopting a bifurcated, both/and approach to downsizing, their firms actually deteriorated in performance instead of improved.

In sum, an important lesson emerging from this investigation is that the perspectives of both scholars and managers may need to be expanded. On one hand, the six effective downsizing strategies highlight the need to broaden assumptions of scholars and practitioners about the nature of organizational dynamics. Past assumptions bound too narrowly the research questions being investigated and the change strategies being pursued. On the other hand, effective downsizing processes help illustrate the desirability for managers of considering dualities, apparent contradictions, and a broader approach to managing organizational downsizing. In the foreseeable future, downsizing is likely to remain a major managerial challenge and contradictions will be a hallmark of effectiveness.

Endnotes

[1] It should be noted that some authors such as Richard T. Pascale (*Managing on the Edge*, New York: Simon & Schuster, 1990) and Michael Porter (*The Competitive Advantage of Nations*, New York: Free Press, 1990) argue that the U.S. has never been globally competitive. U.S. businesses succeeded in the past precisely because there was virtually no global competition. The argument is that U.S. industries do not need to regain competitiveness but to develop it for the first time.

[2] Most of the following statistics come from the Bureau of Labor Statistics and the Department of Commerce and have been re-published in many popular and academic publications.

[3] See Peter R. Richardson, *Cost Containment*, (New York: Free Press, 1988) for supportive evidence.

[4] Kim S. Cameron, Myung U. Kim, and David A. Whetten, "Organizational Effects of Decline and Turbulence," *Administrative Science Quarterly*, 32, 1987, 222-240.

[5] See Kim S. Cameron, "Organizational downsizing," In George Huber, et al. *Organizational Change and Effectiveness*, (New York: Cambridge University Press, 1992) for a more extensive statistical analysis of the data from this study.

[6] For an analysis of the survivor guilt phenomena see Joel Brockner, Steven Grover, Thomas Reed, Rocki DeWitt, and Michael O'Malley, "Survivors' Reactions to Layoffs: We Get by with a Little Help for our Friends," *Administrative Science Quarterly*, 32(4), 1987, 526-541.

[7] See, for example, a study by G.P. Huber, C.C. Miller, and W.H. Glick, "Developing More Encompassing Theories about Organizations: The Centralization-Effectiveness Relationship as an example," *Organization Science*, 1, 11-40. A theory of centralization and organizational effectiveness is proposed in that article.

[8] An extensive discussion has been published on clan control systems. One of the original, and best, sources for this perspective is in William G. Ouchi, "Markets, Bureaucracies, and Clans," *Administrative Science Quarterly*, 25:130, 1980.

[9] A more extensive discussion of this model of quality is available in Kim S. Cameron, "Quality Culture in Product and Service Organizations," Working paper, University of Michigan Business School, 1990.

[10] See David A. Whetten, "Sources, Responses, and Effects of Organizational Decline," In John R. Kimberly and Robert H. Miles (eds.) *The Organizational Life Cycle*, (San Francisco: Jossey-Bass, 1980). This chapter points out that organizational decline, up until 1980, had been a largely ignored phenomenon.

[11] A review of organizational life cycle models is reported in Kim S. Cameron and David A. Whetten, "Perceptions of Organizational Effectiveness over Organizational Life Cycles," *Administrative Science Quarterly*, 26, 1981, 525-54.

[12] A class book, Karl E. Weick, The Social Psychology of Organizing (2nd ed.) (New York: Random House, 1979) introduces assumptions of loose coupling, redundancy, and flexibility.

[13] A discussion of the association between congruence and effectiveness is provided by David Nadler, and Michael Tushman, "A Model for Diagnosing Organizational Behavior," *Organizational Dynamics*, 9(2), 1980, 35-51.

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