

mir vol. 38, 1998/4, pp. 303-319



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Effects of Top Management Team Change on Performance in Downsized US Companies¹

Abstract

- Prior research on the impact of downsizing on performance has been inconclusive. While some researchers have argued that downsizing can lead to positive results, other researchers in this area have argued that downsizing has no impact on an organization's performance. The purpose of this paper is to argue that the relationship between downsizing and performance may be curvilinear (inverted U-relationship). In addition, top management team changes could be affecting the relationship between downsizing and performance.
- Multiple and Hierarchical regression analyses were carried out to test these hypotheses in a sample of 76 firms. The control variables used in the study were firm size, industry profitability, acquisitions, divestitures, TMT tenure at the start of the downsizing process and firm performance during the downsizing period.

Key Results

- Results reveal that TMT change has a positive effect on performance in downsized companies. However, there was no direct or curvilinear relationship between downsizing and organizational performance.

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Manuscript received March 1996, revised May 1997.

mir vol. 38, 1998/4

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In the 1980s, Corporate America witnessed major changes in its business and general environment. These included, a slower economy, efficient competitors, excess capacity, concerns regarding excess diversification (especially through acquisitions) and hierarchical organizational structures, and deregulation (Cascio 1993). To cope with these changes, and to restore profitability, many major corporations resorted to downsizing. Cameron, Freeman and Mishra (1991) report that during the late 1980s more than 85% of the Fortune 1000 firms downsized affecting more than 5 million jobs. By reducing employee counts firms hoped to improve profitability. While some researchers found that downsizing could result in positive benefits for the firm (Bowman/Singh 1993 a, Demuse/Vanderheiden/Bergmann 1994, Hamel/Prahalad 1994), other researchers found that in many firms, the expected economic benefits are not reached (Cascio 1993, Bethel/Liebeskind 1993).

Keidel (1994) observes that in many firms, downsizing is particularly problematic because its negative consequences can result in organizational trauma. Bowman and Singh (1993 b) argue that downsizing will continue to be a major part of long-term strategic planning in firms, and that it can result in positive benefits only if it is managed properly. However, the empirical studies in this area have been far from conclusive. There is one major reason for the lack of consensus on the relationship between downsizing and performance. This is due to the fact that in prior empirical research, this relationship was assumed to be linear. There is evidence now to believe that many contingency variables may be affecting this relationship and therefore, an investigation of these factors will shed more light on this process (Bowman/Singh 1993 a). As organizations in the United States continue to downsize into the 1990s, many questions regarding the implementation and consequences of downsizing remain unanswered (Cameron/Freeman/Mishra 1991). Therefore, this area offers a lot of opportunities to researchers in strategic management, finance, and organizational behavior.

One important factor affecting the relationship between downsizing and performance is the impact of top management team change (Hamel/Prahalad 1994). However, there has been no empirical research in this area. The purpose of this paper is twofold. First, this study investigates the impact of downsizing on performance. Second, it hopes to advance the field of downsizing and upper echelons theory by investigating the effects of top management team changes on performance in downsized companies.

Theoretical Development

It is important to define downsizing in order to study its impact on performance. Freeman and Cameron (1993) and DeWitt (1993) stress the need for definitional

clarity in downsizing research. They argue that downsizing should not be confused with organizational decline, non adaptation or growth in reverse. There is also confusion in the literature on the terms downscoping and downsizing. Downscoping involves reducing the portfolio of businesses, usually through divestitures, while downsizing refers to employee reduction (Hoskisson/Hitt 1994). Downscoping may or may not involve downscoping i.e., employee reduction. Similarly, downsizing may or may not involve downscoping. Here, we are interested in the downsizing construct as a strategy that is purposefully undertaken to improve organizations' efficiency and/or effectiveness. Cascio (1993) has defined downsizing as "the planned elimination of positions or jobs" (p. 95). Similarly, Appelbaum, Simpson and Shapiro (1987) define downsizing as a systematic reduction of a workforce. In this study, downsizing has been defined as employee reduction consistent with prior researchers.

Impact of Downsizing on Performance

The issue that researchers are most concerned with is: does downsizing really improve organizational performance? There is no consensus either in the financial management literature or the strategic management literature on the benefits of downsizing. The majority of the researchers have argued that downsizing fails to result in the expected economic benefits and that it can be disruptive. Cascio (1993) reports that not only do most downsizing efforts fail to generate the anticipated results, but that the stock prices of companies that downsize begin to deteriorate after the event. He found that the stock prices in the S & P's 500 stock index increase on the day the announcement is made but begin to slide soon after. Likewise, Worrell, Davidson and Sharma (1991) found that investors reacted negatively to downsizing announcements. In a 1990 survey conducted by the American Management Association on downsizing, it was found that more than 50% of the firms which downsized to become lean and mean, became lean and lame because they were not prepared for the event (Greenberg 1991). Cameron, Freeman and Mishra (1991) found that downsizing had a negative impact on productivity when it was limited to reductions in headcount rather than used as a strategy to root out redundancies, waste and inefficiencies.

On the other hand, some researchers have argued that downsizing can result in positive benefits. Bowman and Singh (1993b) found that when downsizing is preceded by significant organizational change, it can have a positive impact on subsequent performance. A study by Wyatt Consulting Company in 1993 (reported by Cascio 1993) shows that 77% of the managers Wyatt surveyed believed that downsizing had a positive impact on productivity. Norman (1995), in an empirical study, found that firms making white-collar reductions had a significant increase in performance two years after the reduction.

In sum, the preceding section suggests that research investigating the downsizing-performance relationship represents the two ends of a continuum. One of the main reasons for this divergence could be attributed to failure on the part of previous researchers to provide adequate explanations on what represents an optimal level of downsizing for each firm and the context in which it needs to be carried out. The fact that it is possible to find empirical support for both the positive and the negative impact of downsizing on performance implies that this relationship may not be linear. We argue that the reason some firms have enjoyed success with downsizing is that they have used it purposefully and have resorted to the right amount of downsizing instead of arbitrarily reducing headcounts. Many *Fortune* 500 firms in the 1980s had structures that were too hierarchical. The structures also involved considerable duplication of activities. Many had several layers of management which resulted in poor response to the external environment (Casco 1993). Therefore, some downsizing was necessary to make the organization more competitive. However, in a rush to improve short term profits, many firms made more employee reductions than necessary and in the process lost valuable human expertise. A little downsizing is probably good for large firms but too much may have an adverse impact on performance. Therefore, we argue that the relationship between downsizing and performance may be curvilinear; specifically, performance will be higher at moderate rather than low or high levels of downsizing.

High levels of downsizing is associated with greater turbulence in the organization with may have an adverse impact on organizational performance (Kesner/Dalton 1994). When an organization resorts to large scale employee reduction, many skilled employees may even choose to leave the organization on their own rather than stay and face the uncertainty. This could have a serious impact on the operations of the organization. For the employees who remain, there could be problems associated with job insecurity. On seeing their colleagues leave, their morale may be poor and as a result, their productivity is bound to decrease. With high levels of downsizing, many survivors may feel worried about future layoffs. Brockner, Grover, Reed and DeWitt (1992) found an inverted U-relationship between job insecurity associated with a layoff and the work effort of the survivors. Both low and high levels of job insecurity were associated with poor work effort. If job insecurity is high, survivors may believe that there is little they could do for the organization and as a result, they may not be motivated. This may affect firm performance.

Conversely, negligible or minimal levels of downsizing may lead to redundancies in positions and wastage because the organization may have a greater number of employees on its payroll than necessary (Abelson/Baysinger 1984, Dalton/Kesner 1986). Research has indicated that many of the *Fortune* 500 firms, over a period of time, have become top heavy. One reason is that several of these firms have engaged in diversification through acquisitions which resulted in redundant

positions and bureaucracy. The resulting overheads and delayed decision making have contributed to poor performance.

The above arguments lead to our first hypothesis. We argue for a curvilinear (inverted U-shaped) relationship between downsizing and performance. A curvilinear relationship takes into account the notion that some downsizing is necessary; in addition, it also incorporates the notion that high levels of downsizing can be dysfunctional (*Fortune* 1990, Kesner/Dalton 1994).

Hypothesis 1: The relationship between downsizing and long-term organizational performance is curvilinear.

Impact of Top Management Team (TMT) Change on Performance in Downsized Companies

There is a big stream of research investigating the impact of TMT change on performance. Child (1972), Hambrick and Mason (1984) and Wiersema and Bantel (1993) argue that the tenure of the dominant coalition in the firm can have a significant impact on organizational performance and that in organizations undergoing changes, the impact of TMT turnover becomes particularly crucial.

Many researchers have argued that there is a negative relationship between long tenure and organizational performance. There are several reasons to support this argument. One of the main reasons is that long tenured managers favor the status quo. Bantel and Jackson (1989) and Singh and Harianto (1989) argue that longer tenure among the TMT members involves greater identification with the organization and unwillingness to take risks. Therefore, such members may resist organizational changes and find it hard to implement policies which represent a departure from established practices and procedures (Kiesler/Sproull 1982). Another reason is that, to cope with organizational changes, managers need to change their mindset (Reger et al. 1994). This may be difficult for long tenured managers. Finally, Johnson, Hoskisson and Hitt (1993) argue that the longer the TMT tenure, the higher the likelihood that the power of this team will become institutionalized, unless they have substantial equity stakes or strategic controls. This makes the TMT more entrenched to established practices which eventually has an adverse impact on downsizing.

There is empirical research to support the above arguments. Norburn and Birley (1988) found that long TMT tenure is negatively associated with financial performance in turbulent industries. Similarly, Kesner and Dalton (1994) found that insiders might be inclined to increase funding for existing programs some of which can lead to further decreases in performance.

There is ample evidence in the literature to support the positive impact of TMT change on performance. Murray (1989) argues that managers with shorter tenure

are less socialized into adopting the organization's existing norms and values than managers with longer tenure. Managers who are fairly new to the TMT are more likely to understand the changing environment and to take the necessary actions to set the course of the organization. Dutton and Duncan (1987) observe that organizations where the TMT is fairly new will be more receptive to changes. As organizations operate in dynamic environments today, it is important to have a TMT with enhanced adaptability and greater creativity. The new executives help the organization to adapt better to changes by bringing in new skills, a new perspective, and by not being tied down by prior commitments (Katz 1982, Tushman/Newman/Romanelli 1986). Downsizing represents a strategic action on the part of the organization to enable it to adapt to environmental changes. TMTs with shorter tenures are better suited for this task because they have less commitment to the status quo. They are more willing to take risks and to take actions for performance improvements. This can have a positive impact on performance.

Hamel and Prahalad (1994) argue that the role of top management is one of reinventing industries and regenerating strategy. New managers are more likely to regenerate strategies and it is only through their initiatives that downsizing can result in any success. *Business Week* (May 9, 1994) reports that when downsizing is combined with new TMT initiatives, the results can be positive. Anecdotal evidence supports this argument. George Fischer assumed the position of the CEO at Eastman Kodak in 1993. He brought a new mindset into the organization. He pursued strategies to trim Eastman Kodak's business lines, to reduce debt, and to refocus on the core areas. Some changes were made in the TMT as well. These strategies had a positive impact on performance. The above arguments lead to the second hypothesis.

Hypothesis 2: There is a positive relationship between changes in the top management team and organizational performance.

Methodology

Sample

Several researchers have argued that the 1980s were very active years for corporate restructuring and downsizing in large firms (Bethel/Liebeskind 1993, Cameron/Freeman/Mishra 1991, Cascio 1993). From a list of *Fortune* 500 firms, all companies which had a revenue of at least \$ 3 billion for the year 1984 and which reported work force reduction announcements in the *Wall Street Journal* during the period 1984–1990 were selected for inclusion in the final sample. Bureaucracy and employee redundancies appeared to be a common feature among several large

Fortune 500 companies in the 1980s. Therefore, a cutoff point of \$ 3 billion revenues was chosen. The 102 firms that met this criteria represented a wide range of industries. The time period 1984–1990 was considered significant because downsizing was an important part of long-term planning in Corporate America in the mid and late 1980s (Cameron et al. 1991, Johnson et al. 1993). The variation in the economic climate during this time period was statistically insignificant. The consumer price index (CPI) was used as a proxy for the economic climate.

Measurement of Variables

Independent Variables

Downsizing

Downsizing was chosen as the major independent variable. It was measured as the extent of downsizing, i. e., percentage change in the number of employees in a time period, consistent with the approach adopted by several other researchers to measure this variable (Bethel/Liebeskind 1993). This time period was determined as follows: the year the announcement was made by a firm, to the year the downsizing was completed. To determine the year the downsizing was completed, we looked at two consecutive years when there was no change in the number of employees within a firm. The cutoff year was chosen as the year after which two consecutive years revealed no employee decrease. Of the 102 firms, 76 firms remained in the final sample. These firms had at least two years of no employee decrease. The information on downsizing was collected from the *Wall Street Journal* and *Hoover's Handbook of American Business*, a publication that gives key information such as financial measures and number of employees for most of the largest US companies.

In the measurement of downsizing, this study tried to make a distinction between downsizing that occurs during layoffs, during divestitures and during acquisitions. All three involve employee reductions. Many firms in the sample were simultaneously involved in layoffs, acquisitions and divestitures. Obviously, downsizing was a part of a major restructuring program in most organizations. Of the 76 firms where there were work force reductions, 35 firms were also involved in acquisitions, 32 firms also involved divestitures and 17 firms had both acquisitions and divestitures during the period under study. There were no acquisitions or divestitures in the remaining 26 firms. As data were collected through published secondary sources, it was not possible however to isolate the employee reductions in terms of numbers for these three categories.

To measure TMT change, the names of all the top management members during the year of the announcement were obtained. All managers who served at the highest levels of management – the chief executive officer, the president, the chief

operating officer, the chief financial officer, and the next highest tier were chosen to represent the TMT (Wiersema/Bantel 1992). A similar list of TMT members was drawn for the year the downsizing activity was completed in the firm, i.e., when there was no change in the number of employees from one year to the next. TMT change was measured as the *percentage change* in the top management members during this time period consistent with the approach adopted by other researchers (Wiersema/Bantel 1992). Data on TMT change were obtained from *Directory of Corporate Affiliations* and *Standard and Poor's register of corporations*.

In most firms, the downsizing activity was an ongoing event for a few years. In firms where TMT changes took place, most changes usually occurred at the beginning of the downsizing period. While in some firms, this was precipitated by a new CEO, in other firms, the existing CEO replaced some of the TMT members with new members. Although no empirical tests were carried out, it appears that in firms where there were major changes in the TMT, the replacement was itself a part of the restructuring program of the organization. The new managers then carried out employee reductions during the period of downsizing. Therefore, the measurement of TMT change using the method described in the preceding paragraph appears to be quite robust.

Dependent Variable

Performance Change

Performance was measured using return on sales (ROS) consistent with prior researchers who have studied organizational downsizing (Norman 1995). Performance was averaged for two years prior to the announcement of downsizing. It was then averaged for two years after the completion of the activity in each firm. Organizational performance was measured as the change in firm performance between these two time period. This period was considered to be sufficient enough to measure the consequences of downsizing. The data required to measure performance change were obtained from *Standard and Poor's 500 guide*. Analysis revealed that the dependent variable was normally distributed.

Control Variables

In examining the relationship between downsizing and organizational performance it is important to control for several factors that might influence firm performance.

Acquisitions and Divestitures

Any acquisitions or divestitures which the firm may engage in during the period of downsizing can influence its performance. When a firm acquires another firm,

it may result in some turnover especially among the acquired firm top management. The literature in mergers and acquisitions suggests that this turnover can have an adverse impact on firm performance because the acquiring firm may lose valuable expertise (Haspeslagh/Jemison 1991). On the other hand, acquisitions of profitable units could result in performance improvements. Similarly, divestitures may also impact firm performance. For example, Hoskisson and Johnson (1992) and Markides (1995) report that firm performances increase after divestitures. It is possible that poorly performing firms may engage in restructuring to improve their performance. If the firm is divesting poorly performing units as well as acquiring profitable ones there could be significant increases in performance.

In this study, acquisitions and divestitures were measured using the approach adopted by Hitt, Hoskisson, Johnson and Moesel (1996). Acquisition activity was calculated as the percentage of sales acquired. That is, the percentage of sales acquired was operationalized as the ratio of the acquisition price of the unit being acquired to the acquiring firm's total sales during the previous year. This activity was then summed for firms making multiple acquisitions. Likewise, divestiture was determined as the percent of total sales divested. The data for these two variables were collected from *Mergers and Acquisitions*, *Moody's Industrial Manual*, and the *Wall Street Journal Index*.

Firm Size

Firm size may lead to inertia and a lack of change (Wiersema/Bantel 1992). Larger firms may be bureaucratic and therefore, the downsizing efforts in these firms may meet with resistance. Firm size was measured as the logarithm of total firm sales during the year of the announcement. Data on firm size were gathered from the *Standard and Poor's 500 guide*.

Industry Performance

If the firm is performing very poorly relative to its primary industry, it may cut costs as a desperate means to increase performance (Hambrick/Schecter 1983). Hambrick and Schecter (1983) further argue that simple cost reductions such as layoffs would not restore profitability. It should be coupled with asset or portfolio restructuring. Therefore, firms that perform poorly relative to their industry are not likely to see performance improvements with downsizing (Norman 1995). Firms that are not under-performing the market may be more likely to see improvements if they downsize. It is possible they use other strategies in conjunction with downsizing. Consistent with the above arguments, industry profitability was measured as the two year average ROS before the downsizing announcement. These data were collected from *Fortune*. The control variable for industry profitability in the study was arrived at by subtracting the industry average performance from firm performance.

Firm performance during downsizing period. It is necessary to control for firm performance during downsizing. This is because performance during this period includes the implementation costs of the downsizing activity and may therefore have an impact on the future performance (Norman 1995). Data on ROS for the period of downsizing for each firm were collected from *Standard and Poor's 500 guide* and adjusted with firm performance after the downsizing activity.

TMT Tenure

The average length of the tenure of the TMT at the start of the downsizing process needs to be controlled for. Singh and Harianto (1989) argue that longer tenure among the TMT members can have an adverse impact on performance because these members are less likely to introduce new values and policies in the organization. Such managers may be poor at implementing downsizing and may lack the ability to keep the employees motivated. This may ultimately affect firm performance.

Analysis and Results

The data were tested using multiple regression analysis and hierarchical regression analysis. The descriptive statistics and pearson correlations for the variables in the study are presented on Table 1. The data were tested for multicollinearity using the method advocated by Belsey, Kuh and Welsch (1980). That is, condition indexes were calculated to determine whether a high condition index contrib-

Table 1. Descriptive Statistics and Pearson Correlations (N=76)

Variables	Means	s.d.	1	2	3	4	5	6	7	8	9
1. Performance Change (ROS)	0.25	3.83	1.0								
2. Downsizing	0.26	0.17	0.09	1.0							
3. TMT Change	0.510	0.26	0.45***	0.01	1.0						
4. Control Performance (ROS)	-0.41	3.37	0.43***	0.04	0.09	1.0					
5. Industry Profitability (ROS)	-0.76	4.08	-0.56***	-0.27*	-0.05	-0.54***	1.0				
6. Size	3.99	0.43	-0.10	-0.12	0.10	-0.16	0.21	1.0			
7. Acquisitions	0.05	0.08	-0.02	0.18	-0.04	-0.03	-0.02	-0.10	1.0		
8. Divestitures	0.04	0.08	-0.12	0.41**	0.03	-0.13	0.06	-0.07	0.15	1.0	
9. TMT Tenure	12.57	3.98	-0.03	-0.16	-0.04	0.07	-0.12	0.28	0.07	0.03	1.0

*** p<0.0001; ** p<0.001; * p<0.01.



Table 2. Effects of TMT Change on Performance (N=76)
Dependent Variable (Performance Change: ROS Change)

Variable	Model 1 (Control Variables)	Model 2 (Downsizing)	Model 3 (Downsizing) ¹	Model 4 (TMT Change)
Intercept	-0.36 (0.0)	-0.13 (0.0)	0.79 (0.0)	-1.62 (0.0)
Size	0.49 (0.05)	0.52 (0.06)	0.47 (0.05)	-0.11 (-0.01)
Industry Profitability	-0.45 *** (-0.48)	-0.47 ** (-0.49)	-0.48 ** (-0.51)	-0.43 *** (-0.47)
Acquisitions	0.0 (0.99)	0.27 (0.00)	0.36 (-0.0)	0.49 (0.01)
Divestitures	-3.03 (-0.06)	-2.09 (-0.04)	-2.9 (-0.06)	-4.48 (-0.09)
Control Performance	0.20 (0.18)	0.20 (0.17)	0.18 (0.16)	0.14 (0.12)
TMT Tenure	-0.11 (-0.12)	-0.13 (-0.13)	-0.12 (-0.13)	-0.08 (-0.08)
Employee Change (Downsizing)		-1.04 (-0.04)	-7.05 (-0.31)	
(Employee Change) ¹ (Downsizing) ¹			8.45 (0.28)	
TMT Change				6.25 *** (0.42)
F-Statistic	6.23 ***	5.29 ***	4.70 ***	10.51 ***
R ²	0.35	0.35	0.36	0.52
Adjusted R ²	0.29	0.28	0.28	0.47

*** p<0.0001; ** p<0.001.

¹ The numbers in parentheses denote standardized estimates.

uted substantially to the variance of two or more variables. None of the components associated with a high condition index contributed significantly, thus establishing lack of multicollinearity problems in the sample.

The control variables together explained 29% of the variance and the overall model was statistically significant (p<0.0001). However, of the 6 control variables in the study, only industry profitability was significantly and negatively related to change in ROS (p<0.0001) suggesting that firms that perform poorly relative to their industry are not able to return to profitability. These results are reported in Table 2 (Model 1).

Hierarchical regression analysis was used to test Hypothesis 1, which predicts that the relationship between downsizing and performance is curvilinear. To test Hypothesis 1, performance change was treated as the dependent variable and downsizing was treated as the independent variable at the first step (Model 2). At

the second step, the square of the independent variable was entered into the equation (Model 3). As results on Table 2 show (Models 2 and 3), neither the linear relationship nor the squared variable reflecting the curvilinear relationship provide a unique and statistically significant contribution to variance explained. These results support the arguments advanced by Cascio (1993) and Keidel (1994) that downsizing alone may have no impact on performance and that the effects may vary based on how it is implemented. The reasons for lack of support for the curvilinearity argument may also be attributed to improper model specification, sample bias or history effects.

Although the results of this study do not support the curvilinear (inverted U) relationship hypothesized between downsizing and performance, further research is necessary before definite conclusions can be drawn. Most *Fortune* 500 firms were too large in the 1980s and some downsizing was necessary to make them more competitive. At the same time, very high levels of downsizing could have an adverse impact on performance because of the loss of expertise and morale problems for the survivors. Therefore, the arguments on curvilinearity warrant further research.

To test Hypothesis 2, multiple regression analysis was used. The results of this analysis are presented in Table 2 (Model 4) and lend support to Hypothesis 2 which predicts that a change in the TMT members has a positive impact on performance. This relationship is highly significant ($p < 0.0001$) supporting the arguments advanced by Norburn and Birley (1988) and Wiersema and Bantel (1992) that short TMT tenure can have a positive impact on performance. Also, these results reveal that the control variables and the TMT change variable together explain a significant portion of the variance in performance (Adjusted $R^2 = 0.47$).

A post-hoc analysis was carried out to check for a non-linear relationship between TMT change and performance. Extending the arguments advanced for a curvilinear relationship between downsizing and performance, it is possible to argue that too little or too high levels of TMT change can have a detrimental affect on performance. However, our analysis revealed no support for the non-linear (inverted U-shaped) relationship between TMT change and performance.

A post-hoc analysis was also carried out to determine if there was a relationship between downsizing and performance for firms that were engaged in acquisitions ($n = 35$), firms engaging in divestitures ($n = 32$) and firms involved in both acquisitions and divestitures ($n = 17$). No significance was found for this relationship in either category.

Discussion

One of the major findings in this study was that downsizing by itself may have no impact on performance. Caution needs to be exercised in interpreting this finding. As organizations continue to downsize in the 1990s, managers need to question the wisdom of employing downsizing as a measure to improve profits. Although in the short term it may improve profits, in the long term the expected benefits are not realized. It is possible that several organizations fail to communicate the reasons and benefits of downsizing. This may result in fear and lack of morale in their employee ranks. Productivity may suffer because employees no longer have job security and consequently, they are no longer committed to the long-term success of the organization. It is also possible that performance may vary based on how downsizing is implemented. Many organizations lack a clear implementation program when they undertake downsizing. At times, even if there is no real need, organizations may downsize simply because their competitors in the industry are doing so. This may result in a loss of human talent. Eventually, in many firms, many of the employees laid off, return to the same organization. Organizations should therefore make changes in their implementation policies if they are to make a success of their downsizing strategy.

Another reason for exercising caution in interpreting the finding is that the success of any strategy is contingent on several variables. Downsizing cannot be successful if it is the only strategy pursued. Downsizing needs to be combined with process changes or improvements, a major overhaul of systems, and investments in human resource development. The organization should also examine its product or service offerings and make investments to be more competitive in the future. As most *Fortune* 500 firms are diversified, a clear examination of the diversification strategy is also necessary. The implementation of downsizing is also contingent on the organization's culture and the power coalitions. Most importantly, the organization needs to have clear policies on how it will handle the loss of human expertise and the morale problems for its survivors.

Another interesting finding of the study was that there could be a positive relationship between downsizing and performance if there is a change in the top levels in the organization. TMT change had a positive impact on performance in downsized firms. This finding reinforces the notion that for successful strategy implementation in organizations undergoing change, a new TMT brings a new mindset, and consequently, is better able to generate more alternative. New top managers provide the momentum for change by bringing in new perspectives and additional expertise (Dutton/Duncan 1987). When a new TMT takes charge of the downsizing process, the organization's decision making process is greatly enhanced. These managers are more likely to collaborate and therefore, are better able to motivate the rest of the employees to successfully weather the problems of downsizing.

There are several implications for researchers and practitioners. For researchers, this study opens new areas for future research on downsizing. Downsizing is a major strategy employed by organizations today. As it is a complex and multi-dimensional phenomenon, it needs to be approached from several perspectives, including the finance perspective, the strategy perspective and the organizational behavior perspective. Strategy researchers can understand it better by integrating theories in upper echelon studies, organizational design studies, organizational change and learning studies and human resource management into a common framework. It is a complex phenomenon that cannot be understood by treating it simply as a unidimensional concept.

Downsizing has several implications for practitioners. Cascio (1993) points out that managers need to realize that at the level of the individual *Fortune* 500 firm, downsizing will continue as long as over head costs are high and the firm wishes to become more competitive. Also, as more and more organizations experience no real benefits of downsizing by itself, managers need to question the assumptions about the nature of the organization itself. This may involve fundamental changes in the functioning of the organization so that it is better prepared to face downsizing. To effectively downsize, executives should be prepared to combine employee reduction with organizational redesign and cultural change. Downsizing should be treated as a part of the organization's long-term planning that can add value to the corporation.

Future Research

This study investigated only one upper echelon characteristic, namely, changes in the top management team. There are several other TMT characteristics that warrant attention such as, age of TMT, education of TMT, and functional backgrounds of TMTs. The knowledge on downsizing can be advanced by investigating the impact of these variables. Second, only large publicly held companies with a revenue of at least \$ 3 billion were included in the sample. Downsizing also affected several mid-sized companies in the 1980s. Future studies need to look at the impact of downsizing in mid-sized companies and how it compares with downsizing in larger firms. The measurement of downsizing takes into account only the total change in the number of employees. Future studies should try to isolate by numbers, the employee reductions that result due to acquisitions or divestitures. Another area for future research is to explore the differences between firms that downsize and firms that do not. Finally, the impact of downsizing on economic performance can be understood better through longitudinal studies.

Conclusion

As firms strive to become more competitive, downsizing will continue to be an important strategy. Many *Fortune* 500 companies in the 1980s and 1990s have moved away from unrelated business areas to focus more on core areas. In the process, they have resorted to employee reduction. Many firms have learned from their past experiences with downsizing and are exercising caution in this implementation. Firms have started to realize that not only should they have programs to assist displaced employees, they should also have programs to keep the survivors motivated. General Electric Company has carried out a lot of downsizing in the 1980s and 1990s and has several programs in place to assist survivors as well as displaced employees. To conclude, if implemented well, downsizing can have a positive impact on performance.

Note

- 1 We are thankful to the reviewers for their insightful comments on an earlier version of this article

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