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A stress coping-based approach to organization, work group and individual effectiveness after downsizing

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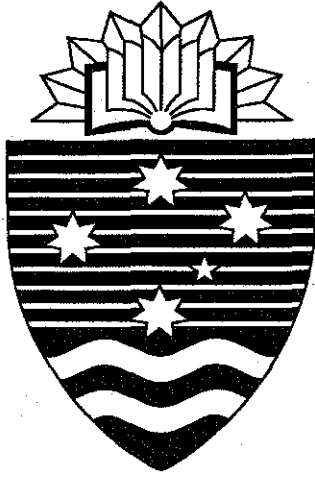
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Organization, Work Group and Individual
Effectiveness after Downsizing"**

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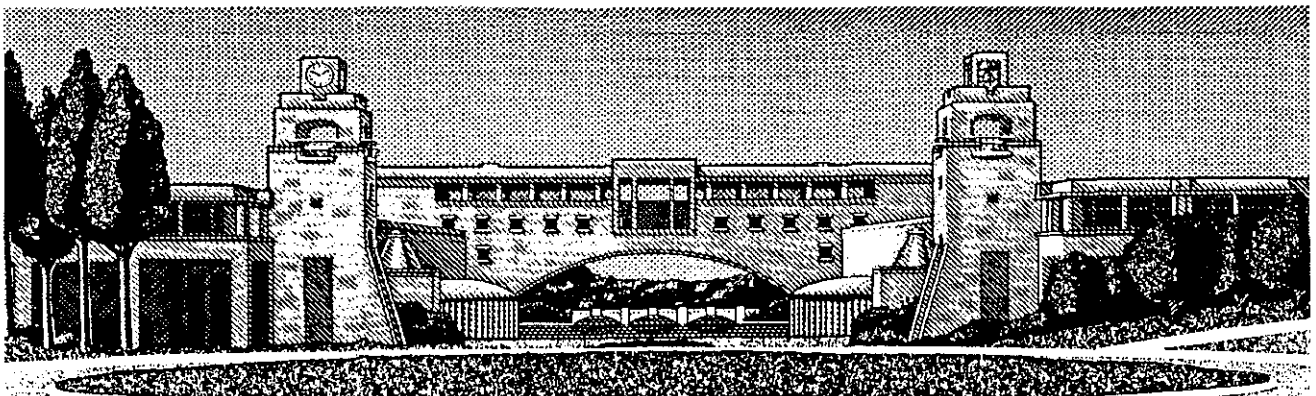
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B O N D U N I V E R S I T Y

**A STRESS COPING-BASED APPROACH TO ORGANIZATION, WORK
GROUP, AND INDIVIDUAL EFFECTIVENESS AFTER DOWNSIZING**

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A STRESS COPING-BASED APPROACH TO ORGANIZATION, WORK GROUP, AND INDIVIDUAL EFFECTIVENESS AFTER DOWNSIZING

ABSTRACT

The need for a unified, cross-level (organization, work group, individual employee) model of organizational downsizing has been suggested by several authors (e.g., Kozlowski et al., 1993). The definition of "downsizing," in terms applicable only at the organization level, prevents researchers from developing a more cohesive view of the impact of downsizing for the organization, work groups and individuals. In this paper, we define downsizing more broadly as *a constellation of stressor events centering around pressures toward work force reductions which place demands upon the organization, work groups, and individual employees, and require a process of coping and adaptation*. This stress-based view of downsizing allows researchers to develop concepts to guide research on downsizing that are more broadly applicable across levels of analysis. To show the advantages of this stress-based view of downsizing, this paper uses concepts from the stress coping literature to identify a set of critical dependent variables that should be studied in downsizing research. We argue that these variables are applicable for organization, group, and individual employee-level research.

"Downsizing is a **deliberate** organizational decision to reduce the workforce that is **intended to improve organizational performance**" (Kozlowski, Chao, Smith & Hedlund, 1993, p. 267). Downsizing may encompass the divestiture of unrelated businesses or the sale of capital assets (Tomasko, 1990), but it is primarily associated with the reduction of human resources, whether by layoffs, attrition, redeployment or early retirement. The presumed benefits of downsizing include faster decision making, greater flexibility, improvements in quality, and increased efficiency and productivity (e.g., Freeman & Cameron, 1993; Tomasko, 1990). However, research has indicated that only one-fourth of firms that downsized have achieved improvements in productivity, cash flow or shareholder return on investment (Tomasko, 1992), and that downsizing may have unintended negative consequences for individuals and organizations (Cameron, 1994; Cascio, 1993; Kozlowski et al, 1993). In addition, downsizing is not always effective the first time an organization attempts it. Two-thirds of the companies that downsized had to do it again a year later (Pearlstein, 1994).

Both macro-level and micro-level models have been developed to explain the causes and effects of organizational downsizing (Cameron, Kim & Whetton, 1987; Cameron, Sutton & Whetton, 1988; Cameron, Whetton & Kim, 1987; Greenhalgh, Lawrence & Sutton, 1988; Leana & Ivancevich, 1987; Liem & Liem, 1988; Rowley & Feather, 1987; Sutton & D'Annunzio, 1989). At the macro-level, the most prominent of these models center around the concepts of convergence and reorientation of organizational strategies (Freeman, 1994; Freeman & Cameron, 1993), while the most prominent micro-level theories have been focused on equity-inequity, or models of layoff-induced stress. However, Kozlowski et al. (1993) point out that most current

writing about downsizing is "descriptive, normative, and prescriptive" (p.266), with little agreement on a theoretical foundation on which to base empirical research. According to Kozlowski et al. (1993), "... the sheer number of disciplinary perspectives contributing to the downsizing literature has tended to yield conceptual confusion. This has tended to hinder the development of theory and research focused on downsizing" (p. 266). The result, as Brockner (1988) suggests, is a body of literature that is at best characterized as "multi-theoretical."

Kozlowski et al. (1993) have argued that there is a need for a "comprehensive theory that addresses downsizing processes across levels of conceptualization and over time..." (p.266) and have proposed a framework for studying downsizing processes as a first step in the development of such a model. However, Kozlowski et al.'s definition of downsizing as a deliberate organizational decision intended to improve organizational performance portrays downsizing in terms of its function *for the organization*. We believe that this functional and primarily organizational view limits our ability to develop concepts of downsizing which cross levels of analysis, since the experience and perception of downsizing at the organizational level is very different from that at the group or individual level. At the same time, organizational actions are often initiated, maintained, or at a minimum, influenced by individual employees and work group forces. Consequently, if we are to develop a more comprehensive theory of downsizing, it is necessary to define downsizing in terms which are more easily transportable across levels of analysis.

Many of the concepts used to explain downsizing draw heavily from research on stress or closely related concepts such as "threat" (e.g., see Brockner, 1988 or Whetton, 1980). Brockner (1988) points to the possibility that equity and stress

theories "...might be related derivatives of a more generic 'stress hypothesis,' which posits that individuals experience stress when they perceive that they may not be able to muster the resources necessary to respond successfully to significant environmental demands" (p.241). We believe that a stress-based model of downsizing subsumes many of the other theoretical perspectives, including convergence/reorientation approaches and equity theory, into a more cohesive, parsimonious model to drive future research.

A STRESS-BASED VIEW OF DOWNSIZING: THE DEPENDENT VARIABLES

Defining downsizing as a "*constellation of stressor events centering around pressures toward work force reductions which place demands upon the organization, work groups, and individual employees, and require a process of coping and adaptation*" allows us to develop a set of common concepts to guide our thinking about how firms, work groups and individuals perceive and react to situations that may result in downsizing (Shaw & Barrett-Power, 1995, p. 5). In this paper, we will use this stress-based approach to develop a framework which identifies the major dependent variables that should be assessed in determining the overall effect of downsizing activities on organizations, work groups, and individuals. We will not attempt to present an overall model of downsizing, but will rather focus our attention at this time on the straightforward question of "what dependent variables should a overall model of downsizing attempt to predict?"

Applying Stress Concepts to Organizations, Work Groups and Individuals

Lazarus & Folkman define *stress* as "a particular relationship between the person and environment that is appraised by the person as taxing or exceeding his or her resources and endangering his or her well-being" (1984: 19). Although Lazarus'

view of stress is focused solely on understanding the behavior and perceptions of individuals, others have suggested that stress-based concepts can be used to examine **collectives** of individuals as well (e.g., Brief & George, 1991; Harris, 1991). As Staw, Sandelands and Dutton (1981) point out, the actions and reactions of organizations are driven by groups of top level executives, i.e., people acting on behalf of the organization whose decisions are guided by issues related to "what's good for the firm." Thus, while the specific outcomes of the process may differ for organizations, work groups, and individuals, the processes inherent in coping and adaptation may be similar. In our discussion of a stress based model of downsizing, we will use the term *entity* rather than individual or person to indicate this broader focus.

The Multi-Dependent Variable Theoretical Muddle

The current literature on downsizing provides a great variety of dependent variables, particularly at the individual and organizational levels. These dependent variables do not, however have any unifying theoretical theme which contributes to an overall view of the impact of downsizing situations on an organization and its members.

Individual-level dependent variables. Considerable attention has been paid to the effects of downsizing on individual employees. Downsizing has been found to result in feelings of job insecurity, anger, job stress, decreased loyalty and organizational commitment, lowered motivation and productivity, and increased resistance to change (Brockner, 1988; Brockner, Davy & Carter, 1985; Brockner, Grover, Reed, DeWitt & O'Malley, 1987; Cameron et al., 1987; Greenhalgh & Rosenblatt, 1984; Isabella, 1989).

Organization-level dependent variables. At an organization level, researchers have examined the effect of downsizing on planning and innovation (Cameron, Kim & Whetton, 1987), ability of the organization to retain skilled personnel (Greenhalgh, Lawrence & Sutton, 1988; Isabella, 1989), and various financial consequences (Feldman & Leana, 1989). The impact of downsizing on customer relations and internal relationships among managers (Elliot, 1990), level of bureaucracy, degree of long-term strategic perspective, and ability to monitor organizational units' performance (Heenan, 1990; McKinley, 1992) have also been investigated. Research in the related area of organizational decline has looked at managerial decision-making practices during decline situations (e.g., Whetton, 1980).

Work group-level dependent variables. One area that has been largely ignored, however, is the effect of downsizing on work groups. Research on group processes and performance suggests that layoffs should have a substantial impact on work groups, but this issue has received very little attention (Brockner, 1988; Kozlowski et al., 1993).

The Primary Issue: "Organizational" Effectiveness

Downsizing has been defined as an attempt to increase organizational effectiveness (Kozlowski et al., 1993) The issue, then, is what important variables should be measured in determining "effectiveness." A wide variety of organizational measures have been used to assess the effectiveness of downsizing, e.g., increased profits, improved cash flow, increased productivity, increased ROI, reduced bureaucracy, increased customer satisfaction, and the like (Cameron, 1994; Cascio, 1993; Heenan, 1992; Pearstein, 1994). However, these indices of effectiveness cannot always readily be applied to work groups or individual employees. Since

organizational outcomes such as return on investment or improved cash flow are dependent upon the activities of individuals and groups of individuals within the organization, a more encompassing view of effectiveness is needed.

Effectiveness: A Stress Coping Perspective

Lazarus and Folkman (1984) suggest that in terms of coping with a significant stressor there are two important aspects of "effectiveness" -- appraisal effectiveness and coping effectiveness.

Appraisal effectiveness concerns whether an entity appropriately evaluates the nature of a potentially stressful event. Is this really an event which must be dealt with if harm to the entity is to be avoided? If it is, what options does the entity have for dealing with it? The extent to which the entity is able to answer these questions accurately represents appraisal effectiveness. Appraisal effectiveness depends upon (1) information search activities and (2) information utilization activities, i.e., the decision process. Appraisal effectiveness is very much a longitudinal dependent variable, since the appraisal process occurs not only before any downsizing decisions are made but also during and following downsizing actions. It is possible for organizations, work groups, and individuals to be very effective in their appraisal processes before and early in the downsizing process, but become much less effective as downsizing continues, stress increases, and pressures upon the firm, group, and individual employee intensify. There is a large body of literature which discusses the antecedents and consequences of decision making under stressful situations (e.g., Hermann, 1963; Staw, Sandelands & Dutton, 1981). Aspects of appraisal effectiveness related to organizations, work groups, and individual employees are summarized in Table 1.

Insert Table 1 About Here

Staw, Sandelands and Dutton (1981) report that firms making decisions under stressful circumstances are likely to exhibit symptoms of the **threat rigidity syndrome**. The threat rigidity syndrome is characterized by **restriction of information processing, constriction of control, and rigidity of response**.

Restriction of information processing. A wide variety of studies served as the basis for Staw, Sandelands, and Dutton's suggestion that perceived threat affects the level of information processing. Staw et al. view threat as an environmental event that has impending negative or harmful consequences for the entity (1981, p. 502). Research indicates that under conditions of perceived threat there is a narrowing of the cognitive and perceptual field where individuals become less able to discriminate among various items of information provided to them and often ignore peripheral information relevant to the problem at hand (Postman & Bruner, 1948; Smart & Vertinsky, 1977; and Withey, 1962). Intense filtering of information also occurs (Downs, 1967). Fewer channels of communication are used and decision makers tend to rely on pre-existing internal hypotheses and expectations about the nature and solution to problems rather than on information that is currently available (Hermann, 1963 and Staw, Sandelands & Dutton, 1981). This concept of restriction of information processing would seem a worthwhile variable to examine in assessing the effects of downsizing processes on organizational decision makers, members of work groups, and individual employees, since information serves as the primary stimulus for actions taken to deal with the downsizing situation. To the

extent that information is incomplete or inaccurate, the behavior of individuals, work groups, and the organization as a whole are likely to be misdirected.

Constriction of control. In addition to a reduction of information processing activities, a number of studies indicate that authority over the decision making activities tends to become constricted during high stress situations. Hermann (1963) found evidence of this constriction of authority with groups showing a significant decrease in the level of group member participation under high stress circumstances. Decision making also tends to become more formalized and moves toward "core areas" of the organization (Fells, 1985). This movement towards core areas of the organization is often manifested by an exclusion of human resource professionals from the decision making process (HR is, after all, often seen as peripheral to the organization and purely operational in nature) with the finance or production areas of the firm taking the primary decision making role. While this notion of constriction of control might not seem readily applicable to individual employees, the extent to which employees allow their decision processes during downsizing to be influenced by others in their work or non-work environment would seem an appropriate dependent variable to investigate at the individual level.

Rigidity of response. The final component of the threat rigidity syndrome is a tendency for decision makers to become rigid in their response to high stress situations. Researchers have found that, under threat situations, decision makers often make incorrect attributions of causality followed by stereotypical (and usually incorrect) responses to the problems faced (Bougon, Weick & Binkjorst, 1977; and Whetton, 1980). Fewer options are considered, and there is a strong tendency toward dominant responses and/or well-learned standard operating procedures

(Hermann, 1963; Smart & Vertinsky, 1977; and Staw et al., 1981). Staw et al. (1981) acknowledge that rigidity of response need not always be maladaptive, point out that a rigid but previously successful response may be functional where the parameters of the threat are well known, or where only incremental changes are indicated. However, major or fundamental changes are likely to be involved when downsizing is being considered. Thus, the extent to which decisions made during downsizing tend to follow organizational or work group "standard operating procedures" or individual "habits" seem relevant for understanding the overall effectiveness of appraisal processes during downsizing situation.

Coping effectiveness deals with two important issues: (1) which coping methods does the entity use, and (2) do they work? The stress literature provides useful concepts to help us understand the different ways entities *might* cope with stress and the conditions under which these coping strategies can be considered to have worked. Aspects of coping effectiveness during downsizing situations, discussed below, are summarized in Table 2.

Insert Table 2 About Here

Coping methods. Literature on stress coping has resulted in a number of different coping typologies (e.g., Anderson, 1976; Latack, 1986; Latack & Havlovic, 1992; Moos & Billings, 1982; Newman & Beehr, 1979; Suls & Fletcher, 1985). According to Latack and Havlovic's (1992) review, strategies for coping with stressors vary along several dimensions, which we believe are readily applicable to downsizing situations at the organizational, group, and individual levels. Entities

may attempt to cope with a stressor **alone** or associate with some **collective** of similar entities in order to confront the stressful situation. Coping strategies may focus on **solving the actual problem** causing the stress or on alleviating the **emotional consequences** of the stressful situation. Coping may involve **controlling** the stressful situation directly or **withdrawing** from. Coping strategies that focus on problem solving and controlling activities may be classified as **active coping**, while emotional or withdrawal behavior represents **passive coping**. For some organizations, the typical approach to dealing with a downsizing situation is to lay off workers then exert energy into convincing survivors that "things aren't as bad as they seem." If the problem which caused the downsizing is the firm's lack of research activity to develop new products and improve existing ones, such coping actions represent a withdrawal strategy combined with attempts to alleviate the emotional reactions of workers to the layoffs.

Coping may vary in **severity**, with some approaches being more extreme in nature than others. For example, Greenhalgh, Lawrence and Sutton (1988) suggest that redeployment strategies are less severe than strategies which involve the layoff of employees. Within both redeployment and layoff strategies, specific options vary in their intensity as well. A selective hiring freeze is less severe than instituting a mandatory "work sharing" program. Similarly, layoffs without any outplacement assistance are significantly more severe than layoffs with such assistance.

Lazarus and Folkman (1984) point out that, since there are many different types of coping strategies, the number of different strategies used by an entity, which they refer to as **complexity**, as well as the **flexibility** of the coping response over time are important measures of coping activity. It seems that the nature of the

strategy used by organizations, work groups, and individuals to cope during downsizing events, along with the number of strategies employed and changes in those strategies over time, represent important dependent variables within any unified model of downsizing. The nature of the coping strategies used would also be important independent variables for predicting the next aspect of coping effectiveness, i.e., does the coping work.

Does coping work? The second and perhaps most important issue relating to coping effectiveness is simply whether the coping strategies had a desired, beneficial effect. In determining what is meant by "desired, beneficial effects," we must return to Kozlowski et al.'s (1993) definition of downsizing as well as to our own stress-based definition. For downsizing strategies to be effective they must enhance the organization's ability to compete in the marketplace by increasing efficiency of operations. However, few studies have attempted to examine the issues of efficiency and effectiveness directly.

The stress literature indicates that the concept of "coping effectiveness" is multi-faceted. A coping strategy is effective to the extent that the entity is able to survive. While survival as a primary function of downsizing strategies seems widely accepted by organizations (Buchanan & Campbell, 1992), we found no research which compared the short or long term survival rates of firms who had used different strategies to cope with downsizing situations. Related to the issue of survival is a second aspect of effectiveness. To survive over time, the entity must maintain both the perception of self-efficacy as well as its reality. As Isabella (1989) and Brockner (1988) point out, one of the critical issues for employee survivors of downsizing is whether or not they maintain their ability to be competent in the new

work environment. Mechanic (1974) suggests several other aspects of coping effectiveness. He states that the major functions of coping strategies are to (1) deal directly with the demands placed on the entity, (2) create motivation to meet those demands, and (3) maintain a level of psychological equilibrium within the entity so as to help direct energy and skill towards the sources of those demands.

The concept of coping effectiveness must also take into account the extent to which beneficial effects of a coping strategy significantly outweigh any unintended negative consequences. For example, a common unintended consequence of layoffs is that highly skilled workers whom the organization would like to retain are likely to leave (e.g., Cameron, Whetton & Kim, 1987; Heenan, 1990; Perry, 1986). Work groups who react to a potential downsizing situation by finding more efficient ways of doing their jobs, may actually cause the laying off of at least some group members. Individual employees who cope with downsizing by accepting new work roles and assignments, might find themselves in jobs which they cannot perform and thus hasten their own departure from the organization.

In summary, by decomposing Lazarus and Folkman's (1984) concepts of appraisal and coping effectiveness, there seem to be four major categories of dependent variables that any model of downsizing should help researchers predict: (1) the extent to which an entity is able to collect a sufficient amount of accurate information from the environment concerning a potential downsizing situation, (2) the manner in which the information collected is utilized, (3) the nature of coping options selected to deal with a potential stressor, and (4) the long and short-term effectiveness of those coping activities. The important components of long and short-term effectiveness are the extent to which (a) the entity is able to survive, (b) an

action directly alleviates the cause of the original stressor, (c) the strategy motivates those involved toward action needed to deal with the situation, (d) the strategy maintains a "psychological equilibrium" within the entity, (e) actions taken enhance the self-efficacy of the entity, and (f) negative outcomes from the strategy are minimized.

Research Issues: Dependent Variables

The critical research issue related to dependent variables is obviously that of measurement. Work by Staw et al. (1981) on the threat rigidity syndrome and Greenhalgh et al. (1988) on the ways that firms deal with labor oversupply provide direction for what aspects of information search and coping strategies should be measured. However, there is very little work that clarifies what is meant by "effective downsizing" and how this should be measured at the organization, work group, and individual levels. Taking guidance from Lazarus and Folkman (1984), the effectiveness of coping strategies should be measured according to the specific criteria mentioned above in points "a" through "f." Defining and operationalizing these criteria is the critical area for future research. For example, at the organizational level, "ability to survive" could be defined in a number of ways, e.g., profitability, market share, or whether the firm is still in existence after various time periods. Similarly, "psychological equilibrium" could be operationalized as the maintenance of core organizational values and practices or the sustaining of levels of employee commitment to the firm. Work on defining each of these criteria at the organizational level is certainly needed, as is the translation of these concepts to the work group and individual level, if we are to identify the effects of downsizing that appear at and across the different levels of analysis.

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Table 1

Potential Dependent Variables Related to Appraisal Effectiveness

Restriction Of Information Processing:

Extent to which sufficient amounts and quality of information are used in making decisions about how to react to downsizing events. Important components of this category of dependent variables are:

- Utilization of “peripheral information,” i.e., the breadth of information utilized in decision making
- Level of information filtering, i.e., whereby information (particularly negative information) is cognitively or “administratively” filtered by individuals in the decision making process
- Number of channels of communication used to collect and transmit information
- Extent to which decisions are made based on internal hypotheses and pre-existing expectations, rather than the information currently at hand

Constriction Of Control:

Extent to which the organization, group, or individual employees allow participation by appropriate others in the decision making process. Important components of this category of dependent variables are:

- Level of participation by organizational or group members in decision-making activities. At the individual employee level, this would relate to the extent to which the individual shares problems and information with others in the organization and allows them to influence his/her decisions. At the organization and group level, this would mean the extent to which decision making is concentrated in the hands of only a small proportion of relevant organization/group members.
- Level of formalization of decision making, i.e., the extent to which formal, analytical modes of decision making are used, where decision making follows some set procedure, typically involving extensive documentation. This might include the use of formal arbitration or legal procedures for dealing with the situation.

Table 1 (cont.)

- Movement of decision making into “core areas” of the organization or groups, e.g., the finance and production areas of the firm, or to the most senior technical specialists within a work group. At the individual level, this would relate to the extent to which “core” individuals influence the employee’s decisions, e.g., spouse and close family versus family, friends, professional associates.

Rigidity Of Response:

The extent to which organizational, group, or individual decision makers are faulty in their assessment of the causes of the downsizing situation and respond in limited, stereotypical fashion. Important components of the category of dependent variables are:

- The prevalence of correct or incorrect attributions about the causes of the downsizing situation
- The extent to which multiple options for dealing with the situation are considered
- The degree to which “standard operating procedures” are used to deal with the downsizing situation

Table 2

Potential Dependent Variables Related to Coping Effectiveness

Coping Strategies:

1. Nature of coping:

A) Alone v. Collective --- for example

- an organization joining with other firms in its industry to lobby government for help in placing workers displaced during downsizing versus an organization developing its own outplacement system
- a work group developing a collective plan for addressing potential layoffs versus individual workers considering only their personal options
- an individual seeking help from his/her union versus an employee exerting increased effort on the job to "save" his/her job

B) Problem Solving/Controlling vs. Emotional/Withdrawal --- for example

- an organization or work group engaging in problem solving activities to identify ways of improving production efficiency versus holding meetings directed toward primarily venting and /or assuaging members' fears and anxieties
- an organization choosing to withdraw from a particular product market versus attempting to acquire one of its main competitors so as to insure its own competitive survival (and thus the jobs of its employees)
- an individual employee examining ways to "add value" to the organization and thus protect his/her job versus an employee seeking psychological counselling to manage the stress of a downsizing work environment, or simply resigning from the organization

2. Severity --- for example

- at the organization level, using attrition to reduce employee numbers versus direct layoffs announced without warning or outplacement
- if layoffs are implemented, layoffs involving employee assistance programs (e.g., retraining incentives, job search assistance, or outplacement counselling) versus layoffs without employee assistance the proportion of the workforce and/or total number of employee laid off
- at the work group and individual level, quiet acquiescence to the situation versus confronting the problem through alternative proposals, union action or resigning from the organization

3. Complexity ---

- the number of different types of coping methods used at any one time by the organization, work group, or individual employee

4. Flexibility ---

- the extent to which the methods used to deal with the situation change over time and circumstances

Table 2 (cont.)

Long/ Short-Term Effectiveness -- depends upon the extent to which actions taken:

- Alleviate original cause of stress, e.g., increase efficiency, improve quality of product and service sufficiently to enhance competitive advantage
- Motivate those involved toward action, e.g., enhance employee loyalty and motivation toward the firm or work group, or are "self-motivating" in nature to an individual employee
- Maintain internal psychological equilibrium, e.g., maintain employee and managerial morale and job satisfaction
- Enhance self-efficacy of the entity, e.g., keep individuals with key skills in the organization or work group, or maintain a self of self-esteem and "I can do it" attitude in the individual employee
- Minimize negative and unintended outcomes, i.e., reduce the likelihood that gains in efficiency will result in additional layoffs, cuts in pay, added work load, etc., to members of the organization or work group, or reduce the likelihood of positive actions and outcomes by individuals being followed by negative one.