Organizational Downsizing, Discrimination, and Corporate Social Responsibility
Organizational Downsizing, Discrimination, and Corporate Social Responsibility

Zeinab A. Karake-Shalhoub
To Victor, my husband and friend;
To my daughters, Rana, Reem, and Ruba;
And to the better world I constantly pray for.
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Preface

In this book, I will analyze a topic that has received too much attention in recent years, and around which there has been much debate, dispute, and confusion. It is a topic that has direct relevance to the question of corporate social responsibility in the developed world, in general, and the United States, in particular. The topic is corporate social responsibility and corporate downsizing.

When social responsibility first burst into popularity in the late 1960s, it was a controversial subject that some observers suspected was inconsistent with the free enterprise system itself. Yet today there are indications that social responsibility has become an obligation for any business, and that it is a permanent fixture on the corporate scene. One fact that should be recognized at the outset is that all researchers, management scientists, and practitioners agree on the fundamental question that corporate social responsibility is an extremely difficult concept to measure.

Notwithstanding, social responsibility is an important function that affects organizational performance and corporate standing in the community. To ensure their commitment to social concerns, many corporations have created permanent, board-level committees to monitor social responsibility and ethical functions. These committees, often called “social responsibility” or “public policy” committees, serve two functions
within an organization. First, they lend legitimacy to the consideration of a social and ethics agenda at the highest level of organizational decision making. Second, they symbolically communicate to employees and external stakeholders of the organization their commitment to high social and ethical principles in conducting business.

How does downsizing reflect on corporations’ social responsiveness, and how do other corporate stakeholders view downsizing corporations and their fulfillment of their social responsibility obligations? These are just some of the unanswered questions that beg for thorough evaluation.

The question of “to downsize or not to downsize” has been troubling both academicians and practitioners alike for several years, without resolution. When the question of the effectiveness of business entities meeting their social responsibilities has been raised, both scholars and corporate stakeholders have shown an uncertain or a hesitant set of attitudes. Corporate stakeholders have, at times, expressed considerable respect toward corporations and their top executives; at other times, they have shown deep disappointment and criticism. Along with the renaissance of the private sector in many of the developed nations, led by the United States, a growing number of writings in management theory in the middle to late 1980s praised the skills, decision making, and even the values of corporate leaders. This followed the more negative and reform-minded works written in the late 1970s and early 1980s. This change of demeanor that occurred during this period was rather abrupt, though, for even as late as 1983, the public was experiencing largely negative attitudes toward corporations and the handling of their social responsibilities, whether toward their stockholders or their inner and outer communities. In contrast to the ideas and attitudes expressed in the 1970s and early 1980s, more recent work on corporate responsibility has typically been less negative in its general views of the corporation. Critics usually restrict their attention to specific areas of corporate social responsibility, such as promotional programs, advertisement, product safety, and the environment. Behind the changing attitudes lie very different theories of views of the nature of corporate social responsibility and the effectiveness of management in meeting those responsibilities. Few writers, social activists, managers, and civic and political leaders have directed their criticism toward the traitorous phenomenon of corporate downsizing that is exemplified by massive layoffs of loyal, dependent workers. One rationale for this deadly silence is Weber’s explanation of “good” actions leading to “bad” results. Weber writes:
If an action of good intent leads to bad results then in the actor’s eyes, not he but the world, and the stupidity of other men, or God’s will who made them thus, is responsible for the evil. However, a man who believes in an ethic of responsibility takes account of precisely the average deficiencies of people. (Gerth and Mills, 1946, p. 121)

What the future holds in terms of the “employment contract” is anybody’s guess. Some think that the new contract would be amended to include a conditional clause on job security. However, what the present shows is that the human side continues to be “downsized” in number as well as in significance. The 1980s and the 1990s have shown a continued imbalance of technology and other things over people. The fact is, for the human resource element to make a difference, organizations have yet to discover that the only sustainable competitive advantage is people, their ideas, their productivity, their adaptability to change, and their capacity to learn.

Numerous cases of companies failing to achieve the desired outcome of downsizing can be identified. In 1994, when Bell Atlantic North—as the NYNEX unit is now called—launched a reengineering and cost-cutting program, it planned on cutting 14,000 jobs. At that time, the company had an ambitious plan to reengineer work assignments and increase productivity. But the productivity gains necessary to make the plan a success were never achieved. This is just one example of many companies that were victims of overzealous downsizing.

The mystery to many observers, though, in light of the devastating impact of downsizing on employee morale is why companies continue to downsize when the benefits often prove elusive. Studies have shown that organizational restructuring, mainly downsizing, has little if any positive impact on earnings or stock market performance. As a matter of fact, the negative effects of downsizing are becoming increasingly evident. Companies are reporting that they are grappling with serious problems of low morale and mistrust of management, caused by years of restructuring. With a large number of empirical studies documenting the less-than-positive impact of the practices of downsizing and turnover on productivity, as well as the long-term measures on corporate financial performance, there is enough evidence to indicate that cost savings from layoffs or the use of temporary employees tend to be short term. Actually, the majority of “rightsized” firms find themselves worse off than when they started.
This book provides enough empirical evidence that concludes, in addition to negative financial impacts, that downsizing has affected the corporate “image” and “reputation” of those downsized companies. The reputation index is used as a proxy to measure a firm’s social performance. It is believed that the eight social dimensions represent the multidimensional nature of social responsibility and are commonly used by investment firms maintaining socially responsible investment portfolios. Furthermore, independent assessment of social corporate responsibility of these eight dimensions is available from the database provided by *Fortune* Magazine. The key attributes constituting the survey are (1) quality of management; (2) quality of products and services offered; (3) innovativeness; (4) value as a long-term investment; (5) soundness of financial position; (6) ability to attract, develop, and retain talented people; (7) responsibility to the community and the environment; and (8) wise use of corporate assets. These attributes reflect a multiple-constituency view of the firm as having many stakeholders. These include not only investors but also customers interested in quality, employees interested in rewarding employment, and the global community.

In rating the individual importance of each of the eight attributes, historically, 80 percent of the respondents pick quality of management as being the most important. The second most important attribute is the quality of products or services. Over the past years, however, a marked shift in the number of respondents who cite responsibility to the community and to the environment as being paramount to a corporate reputation has taken place.

The reputation of a firm constitutes an important signal about the firm’s managerial and control effectiveness, which is essential to the creation of a better image with all constituents. To create the right reputation, a firm signals its key characteristics to its stakeholders in order to maximize its social status. In addition, a good reputation can be perceived as a competitive advantage within an industry. This book shows that corporate social responsiveness was negatively affected for companies that heavily downsized.

This book was inspired by a number of factors:

1. The importance of the subject at hand.
2. The lack/scarcity of empirical research on the subject. All of the literature on the subject has been descriptive in nature.
3. While most writers have focused on the impact of restructuring and downsizing on the workforce and the survivors (i.e., employees who stay with the company after restructuring or downsizing), this is the first published book dealing with how downsizing affects the social responsiveness of a firm.

To conclude, I truly believe that the exercise of downsizing is a sign of corporate failure. What is badly needed is a strong commitment to preserve the human resource element by training and developing employees to effectively upgrade their skills so they will remain value-adding factors in the organization. In addition, it is imperative that corporate America consider the move to new techniques for evaluating corporate performance in a way that brings into the equation the value of the human factor. After all, greater value added comes from judicious management of physical assets and the contribution of human talent.

REFERENCE

Organizational Downsizing, Discrimination, and Corporate Social Responsibility
Establishing the Context

INTRODUCTION

The term downsizing refers to the reduction of the workforce through either voluntary or involuntary means or a combination of both. Corporate downsizing of privately and publicly owned firms has been a common occurrence in recent years. Restructuring has become a popular method for streamlining organizations. More than half of the Fortune 500 corporations have slashed their corporate staffs. Since 1979, over 1.5 million managerial and staff positions have been eliminated. The magnitude of downsizing events, both in terms of value and actual numbers, indicates that downsizing is an important corporate activity. Strategic orientation usually goes hand in hand with a reduction in the workforce.

Downsizing is perhaps the most significant business change of the 1980s. For the workforce as a whole, the Fortune 500 industrial companies alone lost more than 3.2 million jobs in the 1980s. This loss of jobs has not been limited to the industrial sector of the economy, but has also occurred in the service sector, as witnessed by the number of bank failures in recent years. According to a 1993 American Management Association (AMA) survey on downsizing, the percentage of companies that made workforce reductions grew, but at a slower rate than previous
years. Of the some 870 human resource managers who participated in the survey, 22 percent planned to make workforce reductions before the end of June 1994. Despite the fact that the number of companies making workforce reductions appears to have dropped, however, the percentage of the workforce being reduced is rising. In 1993, wholesale and retail trade companies reported the largest percentage of workforce reductions, and manufacturing reported the second highest percentage of workforce reductions.

Downsizing has changed the ways in which companies and their employees relate. Traditionally, loyalty was rewarded with security. However, with many organizations downsizing, they are no longer able or willing to guarantee lifelong employment. When companies downsize and lay off employees, they expect the remaining employees to pull together for the common good. Instead, companies often discover that employees have become suspicious and less productive. When employees feel less loyal, they focus on protecting their self-interests rather than on working for the good of the firm. To channel that self-interest to benefit the firm, managers can create a contract of mutual commitment between themselves and employees. In the contract, the manager commits to helping employees achieve personal goals, and employees commit to helping the manager attain the company’s goals.

In a survey of downsized insurance firms, 80 percent of the respondents reported that employee morale problems impeded financial recovery. Winning companies avoid the need to downsize by mastering the process of “rightsizing”—a continuous, proactive assessment of mission-critical work and its staffing requirements. To initiate such strategies, companies must begin at the top of the organization.

It is widely believed that downsizing will contribute to increases in a firm’s value. However, no research effort has yet been directed toward understanding and determining the sources of the increases. Nonetheless, several reasons for these wealth increases have been proposed and identified for financial corporate restructuring such as leveraged buyouts, leveraged cash-outs, equity carve-outs, and so on.

The global economic recession has forced companies to look closely at ways in which they can cut costs. In many cases, the solution has been found in downsizing, and outsourcing has been used as a vehicle.

Companies have gone well beyond traditional outsourcing opportunities and have challenged assumptions about what should be maintained as an in-house support activity and what should be turned over
to outside providers. By outsourcing noncritical functions, a company can leverage its financial resources, share its financial risk, and allow management to concentrate more fully on the core business. However, outsourcing introduces insecurity to the workforce when unneeded employees are terminated or transferred. It is projected that 80 percent of the Fortune 500 companies will outsource some or all of their information-technology functions by 1999. Successful outsourcing relationships include several factors: (1) development of a partnership mentality; (2) sensitivity to an overutilization of people; and (3) an effective transition (Winkleman et al., 1993).

In recent years, some of the United States’ biggest and best-known companies have downsized. For instance, Sears, Roebuck & Co. eliminated 50,000 jobs during 1994, and The Boeing Company, the world’s largest manufacturer of commercial aircraft, has been trimming its workforce almost yearly since the mid-1980s. As the downsizing process is being completed at many of these Fortune 500 companies, organizations are turning their attention to the survivors who, because of the reduction in workforce, are considered invaluable. Survivors of downsizing are looked upon as a group of uniquely talented people whose knowledge, experience, and skills need to be developed as fully as possible to ensure that the company’s new, lean management can reach its objectives. To succeed in today’s business environment, executives must be able to conceptualize, execute, delegate, motivate, and develop others to take on more responsibility. Companies want their executives to set high standards, and then motivate and develop their subordinates to do more, in other words, to decentralize the decision-making process.

Organizations that adopt the principles of total quality management typically flatten, downsize, or delayer. As the number of hierarchical levels is reduced, the opportunities for pay increases and career growth decrease. A frequent concomitant of the slowing down of promotional opportunities and organizational delayering is an increasing focus on lateral transfers. Lateral transfers are job changes to positions at the same level or pay grade. While determining the pay implications of a lateral transfer, compensation professionals are faced with numerous alternatives: (1) provide no compensation increases for lateral moves; (2) focus on career development; (3) treat lateral moves like promotions; (4) develop a special program; and, (5) prorate pay increases. Organizations that implement a program to support lateral transfers must carefully define what is considered a qualified lateral move.
CORPORATE SOCIAL RESPONSIBILITY

It is difficult to explain the social responsibility of any particular business because there is no clear-cut definition of this function. Practically, however, corporate social responsibility (CSR), in the minds of many, has been characterized by the image of a recently "downsized" employee who, after years of loyalty to his or her firm, is left with nothing more than an insufficient severance check and an uncertain future. While many deplore the behavior of these firms, others see these moves as sensible responses to changes in technology that have reduced the advantages of in-house production and reduced the benefits of scale in the product market. Managers of firms defend their layoff practices as being necessary in order to "meet global competitiveness," "improve efficiency," or "become leaner and meaner." Observers and constituents, however, are divided on the issue of social responsibility and downsizing. One school of thought, embraced by advocates of the social responsibility movement, argues that layoffs have devastated the industrial workforce, leaving workers with little hope for job security and improving economic prospects. Underlying this pro-social responsibility view is the belief that legal solutions are not always sufficient. It is suggested that the time-lag problem is at the heart of this argument in that the law is "primarily a reactive institution" (Stone, 1975, p. 94). This means that there may exist a significant period of time between when a problem is recognized and when the legislature can pass a law to solve the problem. Until new laws are passed "a great deal of damage—some irreversible—can be done" (p. 94). According to Peter Drucker (1993), organizations have to take on "social responsibility." There is no one else in the society of organizations to take care of society itself. Yet organizations must do so responsibly, within the limits of their competence, and without endangering their performance capacity.

Another school of thought suggests that American companies, pressured by global competition, have increased the quality of their foreign products and, with the emergence of new economic alliances among former rivals, have no choice but to restructure their firms, either through downsizing, downscoping, or retrenchment. Social responsibility for proponents of this school represents a commitment to not waste the resources of the society at large in unprofitable plants and lines of businesses. To those proponents, adopting new management strategies or using new technologies in order to produce more for less would increase their stockholders' wealth. This improvement of stockholders'
wealth is assumed to have a *trickle-over*\(^1\) effect on other stakeholders in terms of lower prices, better quality of goods and services, and even an increased rate of job creation in the not-so-distant future.

The principal idea behind the corporate social responsibility concern is now deeply imbedded in the corporate cultures of the largest companies in the United States and in a number of developed countries. However, the issue of how CSR affects individual companies engaged in these activities is not well understood. In addition, the distinction between legitimate and illegitimate CSR activities has not always been clearly drawn (Pava and Krausz, 1995). Is downsizing an indication of socially responsible behavior? Is it an indication of socially irresponsible behavior? How are companies' reputations affected by downsizing? Does the degree of downsizing affect the social perception of corporations? In this book, an attempt is undertaken to answer those questions totally or partially.

The main objective of this book, then, is to empirically test the impact of downsizing and organizational discriminatory practices on social responsibility performance, as measured by the company’s reputation index. It is important to note that downsizing does not imply that the level of economic activity or overall level of employment will decline. In fact, while the years 1991 and 1992 were notable for a series of layoffs at large firms, overall employment in the United States rose considerably. Hewlett-Packard’s John Young puts it this way: “The Fortune 500 is not growing, but what nobody looks at is how much they have rationalized and created a whole bunch of new jobs in other places.” The popular press and business press have been slow to recognize Young’s insight that downsizing is not synonymous with a decline in overall employment.

THEORIES OF CORPORATE SOCIAL RESPONSIBILITY

Within organizations, ethical and social principles are being institutionalized in a variety of ways. The goal of such activities is to ensure that organizational social responsibility concerns are treated in the same routine manner in which legal, financial, and marketing concerns are addressed.

Before beginning our coverage of how social responsibility performance is measured, let us examine the four theories of corporate social responsibility which are advanced in the literature. These are the classical, stakeholder, social demandingness, and social activist theories.\(^2\)

The classical theory is the oldest of the four theories, and it is grounded
in classical economic theory. This theory has two versions. In the first, business executives are said to be primarily responsible to the shareholders of the corporation, and their primary goal is to promote efficiency and to secure effective economic performance. In the second version, managers are said to be responsible to respond to the shareholders' demands. These views are often thought to coincide with each other, because it is usually assumed that the main demand of shareholders is to maximize economic performance. In addition, both versions agree that managers are to perform their corporate functions according to the laws and, thus, to avoid such things as fraud and deception. Friedman (1970) points out, "Here the businessman—self-selected or appointed directly or indirectly by stockholders—is to be simultaneously legislator, executive, or jurist. . . . He becomes in effect a public employee, a civil servant, even though he remains in name an employee of a private enterprise." This theory, albeit the oldest of the four, is still alive and well; and it has many supporters and proponents among academicians and practitioners.

The stakeholder theory assumes that corporate executives are responsible to stockholders. But it also insists that there are other groups directly affected by the conduct of the firm. Employees, consumers, creditors, suppliers, and legal subsystems are constituents who have a stake in the corporation and who might affect, in one way or another, corporate decision making. Therefore, corporate executives have a direct responsibility to promote the interests of these groups. There is disagreement among stakeholder theorists, however, over whether stakeholders' interests of these groups take precedence over the financial interests of stockholders, just as there is disagreement over which of the stakeholders' interests are the overriding ones.

Social demandingness theorists argue that corporations have a responsibility to protect and to promote certain interests of the general public. They agree with the stakeholder theorists that the interests of stakeholder groups are important, but they believe that these interests do not override nonstakeholders' interests or demands for such things as safety, health, freedom, and prosperity. As with the stakeholder theory, this one repudiates the notion that there is some balanced or sensible list of tangible responsibilities that corporate executives always have toward society. The list varies as the nature and ranking of the interests or demands of the public change.

The social activist theory is distinctively the most socially and morally demanding of the four theories. While agreeing with the stakeholder and
social demandingness theories that executives have responsibilities toward stakeholder groups and the general public, social activist theorists argue that corporate managers should sometimes strive to undertake projects that advance the interests of the public, even when these undertakings are neither expected nor demanded by them. Social activist theorists contend that such projects should, for the most part, be in the area of corporate know-how, but they sometimes urge that executives deliberately take on social projects for which they have no special training or expertise.

**DOWNSIZING AND SOCIAL RESPONSIBILITY**

To define the linkage between downsizing, corporate social performance, and business performance, some understanding of the business itself and its structure, objectives, and interactions with customers, suppliers, and the rest of the outer and inner environments is necessary, as each business has a particular relationship to its suppliers and customers. Each business buys materials, supplies, products, or services from suppliers, and sells materials, supplies, products, or services to a downstream enterprise. Over the course of the different processes, a business attempts to construct a competitive advantage by creating a distinctiveness that encourages the buyer to choose the company’s product over its competitors’ product, and encourages the supplier to provide preferential treatment to this company.

As with other types of restructuring, the market responds favorably to the announcement of organizational downsizing. Even though this author is not aware of any study linking stock prices to downsizing, there are many studies which examined how the market reacted to other types of restructuring, such as mergers, acquisitions, or leveraged buyouts. Research indicates that after a restructuring announcement, stock prices increase tremendously.

We are in an age of rapid technological development, compelling managers to redirect organizational efforts and to redefine roles for a high-tech society. The most spectacular aspect of this era is the pervasive impact of information technology on organizational structure, management, planning, and the role it plays in organizational restructuring and downsizing activities. If one considers businesses as subsystems in a whole system, one can easily observe that those economic entities are basically faced with two generic problems; the first is how to manage the internal components that have direct responsibility for the produc-
tion of their products, and the second is how to interact with outside forces responsible for their survival, such as customers, regulatory agencies, competitors, both national and international, and the general socioeconomic trends in their surrounding environment. The most powerful explanation of why businesses invest in information technology and build sophisticated information systems, then, is to solve internal problems, improve internal efficiency, and respond to changing domestic and global environments.

As external and internal organizational factors change and organizational problems emerge, new technologies become essential, and old structures must be adjusted using these new technologies to be compatible with the changing environments. Widespread implementation of information technology, however, creates two conflicting forces in most organizations. On the one hand, lower-level managers armed with databases, terminals, microcomputers, and the like would have rapid access to a larger pool of information. With these tools, they are able to supervise, control, and direct activities considerably better which, logically, would lead to centralized decision making and organizational downsizing. On the other hand, information technologies are being utilized to create large-scale centralized operations at the headquarters level. Robert Reich, Secretary of Labor and a former public policy professor, states that the new organizational structure will dictate speed, flexibility, and the ability to customize output (Neubarth, 1988). He also adds that the trend of the future is that more and more value added to a product consists of supplying customized information to customers. The recent move to link sales forces electronically to the organization in order to be more responsive to their customers is an example of such a trend.

Peter Drucker (1988) and Tom Peters (1988) have also sensed a necessity for organizational restructuring and downsizing as a consequence of information technology. Both authors believe that the design of organizations is changing as a response to the widespread use of information technology, and they stress that the organization of the future would have a strong emphasis on electronic networks that provide information flow within the organization as well as between the firm and its external constituents, such as customers, suppliers, shareholders, and so forth. In addition to the new structure, there will be a new corporate culture, telecommunications will be an absolute requirement for the functioning of the organization, and information resources will be managed at the strategic level by a chief information officer.
PURPOSE OF THIS BOOK

The purpose of this book is to add to the existing level of knowledge regarding the general phenomenon of downsizing by examining its relationship to the level and pervasiveness of corporate social responsibility (CSR). Studying the relationship between downsizing and CSR is an area of paramount interest which has not yet been explored by management researchers.

The main purpose will be accomplished by addressing three important questions: First, is corporate downsizing related to improvement in organizational financial performance? Second, is there any relationship between the phenomenon of downsizing and corporate social responsibility? And third, what is the nature of this relationship?

It is widely believed that downsizing will contribute to the increases in a firm’s value. However, little research effort has been directed toward understanding and determining the sources of the increases.

This research has been inspired by a number of factors, including (1) the importance of the subject at hand; (2) the lack/scarcity of empirical research on the subject. All of the literature on the subject has been descriptive in nature; and, (3) most writers have focused on the impact of restructuring and downsizing on the exiting workforce. This book will examine the impact on both the exiting workforce and the survivors (i.e., employees who stay with the company after restructuring or downsizing).

This book is aimed at the “low-to-middle” level of rigor. It is not designed to compete with extremely sophisticated modeling or quantitatively oriented books. Actually, this book does not know of any competitor. This level of rigor makes this book attractive to any student, professional, practitioner, or policy maker interested in organizational structure, human resources management, information technology, and economic trends, both globally and in the United States. Personally, I have been invited to lecture on this specific subject in management science courses, organizational development (OD) courses, management of information technology courses, and technology and society courses. The book also is appealing to policy makers and boards of directors of corporations.

The major thrust of this book, which is basically analyzing the phenomenon of organizational decline and downsizing and identifying the nature and type(s) of structural or functional relationship(s) that exist
between downsizing and corporate social responsibility, is quite unique and innovative in nature. The features of uniqueness and innovativeness, coupled with the radical changes in the use of corporate resources to improve organizational efficiency and effectiveness, and the effects of these changes on organizational structure and design make this book useful to many disciplines.

METHODS

As will be discussed in detail in Chapter 5 of this book, this research uses two different types of analysis and two different methods of data collection. As stated earlier, an empirical examination is conducted to determine significant organizational variables that are useful in explaining the phenomenon of organizational downsizing, on the one hand, and the levels of corporate social performance and financial performance, on the other hand. Specifically, statistical techniques are utilized to test the two primary hypotheses and three secondary hypotheses listed below. Data needed for this portion of the research was collected from public sources available from companies’ proxies and annual reports. Where possible, this data was cross-validated from the proxies against information provided by Standard and Poor’s Industrial Guide and Moody’s Industrial Manual. Both univariate and multivariate statistical analyses will be employed to test the hypotheses. The multivariate analysis used is the logistics regression analysis. As will be explained in detail in Chapter 5, the logistic regression model (logit) was selected because logit analysis avoids some of the strong assumptions of multivariate analysis techniques, such as discriminant analysis and multiple linear regression analysis (e.g., the independent variables are normally distributed, and there is equality of the variance-covariance matrix).

To test the hypothesis concerned with the impact of downsizing on company’s financial performance, an index which was developed by the author in 1997, the relative index for downsizing employees (RIDE), will be used to evaluate companies’ performance as a result of downsizing or restructuring.

ABOUT THIS BOOK

Organizational Downsizing, Discrimination, and Corporate Social Responsibility uses a theory-based, empirical investigation to describe the linkage between corporate social performance and organizational restructuring
activities through downsizing. In doing so, a number of company characteristics and performance are investigated; hypotheses linking the activity of downsizing, levels of discriminatory activities, and corporate social performance, along with a number of company-specific characteristics, are developed. Further, as a secondary question, this book investigates and explores the relationship between downsizing and a company’s performance by applying the RIDE index on a sample of American corporations. This book is divided into six chapters. Chapter 1 provides an overview of the entire book and establishes the context for the research. Chapter 2 is devoted to reviewing the literature on corporate social responsibility, and the theories of corporate social responsibility and performance; in addition, it examines the issue of discrimination in the United States, along with a review of the laws and regulations enacted to curb the teeth of discrimination in corporate America. Chapter 3 takes the reader through the roots and practical aspects of organizational downsizing activities in corporate America.

Chapter 4 covers the derivation of the relative index for downsizing employees (RIDE), which is based on the concept of the relative comparative advantage developed by Bellah. In addition, an empirical analysis is performed to examine the impact of downsizing on corporate performance.

Full development of hypotheses and an overview of methodology, experimental design, and a description of operational measurements are covered in Chapter 5. The various techniques of data collection and sampling procedures also are discussed in this chapter, along with the choice of statistical methods used to test the hypotheses. Chapter 5 also is devoted to covering data explanation and tabulation, empirical analyses, and results. Chapter 6 consists of concluding remarks and recommendations for future research.

NOTES
1. Author’s term and emphasis.
2. For comprehensive coverage of the four theories, refer to Brummer (1991).

REFERENCES


INTRODUCTION

What does it mean for a corporation to be socially responsible? This is a question that practitioners, academicians, and students have been trying to answer. Definitions are numerous and diverse. In 1960, Keith Davis suggested that social responsibility refers to corporations’ “decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest.” In 1971, the Committee for Economic Development (CED) used a “three concentric circles” approach to explain the concept of CSR (corporate social responsibility). The inner circle included basic economic functions—growth, products, and jobs. The intermediate circle suggested that the economic functions must be exercised with a sensitive awareness of changing social values and priorities. The outer circle outlined newly emerging and still vague responsibilities that corporations should assume to become more actively involved in improving the social environment in which they operate.

Later the attention shifted from social responsibility to social responsiveness by several authors and philosophers. Their basic argument was that the emphasis on responsibility focused exclusively on the notion of business obligation and motivation, and that action or performance were
ignored. The social responsiveness movement stressed corporate action, proaction, and realization of a social role. This was, in reality, an essential adjustment.

Theorists have, in general, identified four broad areas of corporate responsibility: economic, legal, moral, and social. The main premise of the four areas is found in the basic nature of the corporation, which is a privately based, economic entity with jural standing, whose members are expected to make decisions that will have a significant impact on a number of constituents (Brummer, 1991). Thinkers and researchers do not always agree that a corporation has all four responsibilities. Some do not believe that corporations have a moral responsibility; others believe that moral and social responsibilities come after economic and legal ones. In this book, the author does not try to defend any particular position; instead, the analysis will be based on the assumption that clear, well-stated definitions of the four responsibilities have been offered, and these definitions will be discussed.

The economic responsibilities of corporations have been defined in many ways. Milton Freidman, for instance, states that the economic responsibility of a firm is defined by the corporate overriding goal. To him, a corporate overriding goal is maximum returns to investors. As long as a corporation works toward achieving this goal, it is deemed economically responsible (Freidman, 1970). Based on the same philosophy, Manne (Manne and Wallich, 1972) argues that the overriding goal of the corporation is to maximize shareholders’ profits. In the majority of instances, maximizing investors’ returns would lead to maximum profits, and vice versa. Herbert Simon, on the other hand, disagrees with the concept of profit maximization and strongly argues for profit “satisfying.” He contends that because executives must respond to a number of other objectives, factors, and constraints, and must do so in the context of what he calls “bounded rationality,” they actually seek to reach a mere satisfactory level of profit. Whether maximization or satisfying, economic responsibility proponents believe that the number one responsibility of businesses is, first, its shareholders, and then other constituents.

However, the dilemma concerning the issue of harmonizing the firm’s economic alignment with its social orientation still lingers. A step in the direction of easing the confusion was taken when an inclusive definition of CSR was developed. A four-part conceptualization of CSR included the idea that the corporation has not only economic and legal obligations but ethical and philanthropic responsibilities as well (Carroll, 1979). The main point here is that for social responsibility to be accepted as legiti-
mate, it had to address the entire spectrum of obligations that business has to society, including the most fundamental—economic.

Organizational responsiveness to social needs had its debut when early industrialists reacted to the social malady that industrialization was seen to have caused. Early on, economists and philosophers began to argue about the role of business in society and about what obligation business has to society. Later, social theorists such as Bell (1976), Bellah (Bellah et al., 1985), and Wolfe (1989) continued the debate and elevated it to a higher level of abstraction. They were not only concerned about the role of the corporation as a social entity but even more concerned about how the corporate revolution has transformed social life.

The philanthropy of early industrialists is responsible for the sustained growth of several charitable institutions, such as the YMCA. In the United States, the railroad companies were the first to contribute to the YMCA, whose rail division directly served the educational, recreational, and social needs of railroad employees and their families.¹ By the beginning of the twentieth century, the legal issues revolving around the notion of property rights inherent in fictive personality and the notion of limited liability stood in the way of corporate social contributions. Two main issues were identified; the first dealt with the right of managers to give away assets technically belonging to the shareholders. The second had to do with income tax deductions and the nature of corporate matters.

One of the effects of the emergence of salaried executives and the distribution of ownership through stock offerings was a restriction on management’s range of activities. Heald (1970) affirmed that “the fundamental principle of management’s right to give away property technically belonging to corporate stockholders had never been fully clarified by legislation” (p. 157). Interestingly, the development of the legal concept of limited liability, while it solidified managerial control of corporations, restricted the use of the assets which were considered the property of the stockholders. Indeed, the Internal Revenue Service (IRS) continued to rule for 20 years after the enactment of the Internal Revenue Act of 1917 that corporate contributions to charity could not be considered legitimate business expenses unless some benefit was returned to the corporation as a result, some benefit other than good will. Even the U.S. Supreme Court threatened the status of corporate giving. In a 1934 case, the Court held that the use of corporate assets must contribute in one way or another to shareholders’ wealth and must show a direct benefit to the company (Heald, 1970). Nonetheless after lengthy debates and lobbying a change occurred in the summer of 1936. The “Five Per-
cent Amendment” was legislated, an amendment which permitted up to a 5 percent deduction for corporate income to charity. These changes, however, did not receive the full support of the various constituents.

What is important to emphasize here is that many scholars argue that only efficient organizations and institutions can survive over a long period of time. In other words, they exist because they are efficient. The overriding belief was that the efficiency of the firm determines the level of profits. However, many scholars do not support the idea of profit maximization, even though most of them argue for the primacy of economic performance over social performance. Many of those scholars follow Herbert Simon in their recommendation of “satisfying” profits. Moreover, scholars in the economic sociology field argue that the concept of efficiency itself is confusing and contradictory (Oberschall and Leifer, 1986). In addition, the role of profit as a predeterminant of a firm’s survival also has been questioned frequently. Meyer and Zucker (1989) explain that organizations are able to survive even if they are not profit maximizers, because they serve a variety of constituents. Scott (1992) states that, “Most people are more concerned with maintaining existing organizations than with maximizing organizational performance” (p. 348).

A number of issues such as those raised earlier remain unclarified, and this book will shed some light on them and will, without a doubt, raise more issues and a number of unanswered questions as well. This chapter is divided into two parts; the first deals with corporate social responsibility and the second with discrimination and the laws and regulations introduced to curb it. The first part covers the history of the corporate social responsibility debate, with a specific discussion of Bell, Bellah, and Wolfe’s work in this area. This is followed by a discussion of the various CSR definitions offered in the literature over the years; then, the four theoretical foundations of social responsibility are discussed. This discussion is followed by a coverage of the rationale for corporate social and financial performance, along with the several models addressed in the literature. The second part covers discrimination and the laws and regulations pertaining to this specific issue. The chapter closes with some concluding remarks.

**CSR: HISTORY OF THE DEBATE**

To a large and an outspoken group of researchers and thinkers who parade under the banner of social responsibility, the corporation has no
need to act irresponsibly, and therefore there is no reason that it should be regulated by the government or pressured by activists. The proponents of this position believe that the corporation’s leaders can be trusted to attend to social goals for their own interests, simply because it is a noble thing to do. Mintzberg, Quinn, and Voyer (1995) refer to this position as “trust it”; in other words, “trust the corporation to the goodwill of its managers” (p. 212).

The criticisms of this position from the right as well as from the left boil down to (1) whether corporate managers should be trusted when they claim to pursue social goals. E. F. Cheit (1964) refers to the “Gospel of Social Responsibility” as “designed to justify the power of managers over an ownerless system” (p. 172); (2) whether managers are capable of pursuing such goals. Many believe that managers and businesspeople lack the personal characteristics required to pursue social goals. Levitt (1968) argues that managers reach the top of the hierarchy in their corporations by dedicating themselves to their corporations. As a result, managers’ knowledge of social issues is highly restricted; and (3) whether managers have any right to pursue social goals. This is the most far-reaching criticism. From the left, scholars ask, “Who authorized them to do that?” What right have they to impose their interpretation of the public good on society? From the right, proponents argue that social responsibility amounts to spending other people’s money. Friedman (1970) concludes that social responsibility is “fundamentally subversive doctrine” representing pure socialism and supported by managers who are “unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades” (p. 33).

During the 1950s, scholars of the social responsibility issue articulated two opposing views of the discussion. H. R Bowen (1953) started the contemporary debate with the proposition that businessmen have an obligation to society, an obligation “to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (p. 6). Richard Eells (1956) argued that business cannot be considered in isolation from the broader social context in which it operates. He argued that the well-tempered corporation is the one which pursues its economic goals while responding to the values and needs of society at any given time, and under any circumstances.

At the heart of this position is (1) the existence of a social contract, and (2) the presence of moral character inherent in corporations. The debate on corporate social responsibility has centered on the moral na-
ture of the corporation, which extends the notion of the responsibility of the business enterprise beyond what are said to the sole concerns of business.

Milton Friedman has been considered the most outspoken advocate of a narrow interpretation of the extension of responsibility. The primary responsibility of business is to do business, to produce, and to be a productive enterprise. Society benefits from productivity. Friedman (1962) argued strongly, “Few trends could so thoroughly undermine the very foundations of our free society as the acceptance of corporate officials of a social responsibility other than to make as much money for their stockholders as possible” (p. 133). The way he sees it, morality is the obligation to make the corporation profitable. Thus profit making becomes the engine of corporate ethics. In seeking profitability, market forces will see to it that society benefits. Therefore, the market defines welfare and public good, and it will enforce morality as it affects transaction decisions.

During the 1950s as well, three other voices were raised to defend Friedman’s type of thinking. Theodore Levitt (1958) was concerned about the “responsibility syndrome” as it was used as a weapon against capitalism. He argued that businessmen had two responsibilities: to be civil and to seek material gain. Levitt viewed the “responsibility syndrome” as a weapon which would limit the freedom of everyone as the corporation assumes “all embracing duties, obligations, and powers” (p. 44).

Another proponent of this view is J. A. Livingston, who argued that top managers and company executives had developed a double-faced morality: one face toward the public, the other face toward the stockholders (1958). He maintained that as employees, executives’ main responsibility should be managing the stockholders’ wealth. In other words, it is not management’s prerogative to spend the owners’ money without their consent to not embark upon courses of action that might reduce their returns.

Similarly, Kelso and Adler (1958) defended the corporation in the language of property rights and the restrictive notions of previous decades. The corporation is an instrument of property rights and must be protected as such. They argued that, “For the management of a corporate enterprise to dispose of what rightfully belongs to its stockholders without their free, present, and affirmatively expressed consent is despotism and it remains despotism no matter how benevolent or wise management is in acting for what it thinks to be in the best interests of its stockholders” (p. 211).

The scope of the above-stated arguments was expanded by macro-
level theories that attempted to explain the relationship between business and society in terms of the influence that each exerts on the other. The concern for understanding societal values and their transformations has been stated very strongly in recent years. Noticeably, three social science thinkers—Bell, Bellah, and Wolfe—have attempted to explain the interrelation between business and society (i.e., the organizational impact of the economic sector on society as a whole).

Daniel Bell (1976) maintained that American capitalism has lost its legitimacy. Early on in U.S. history, business was bolstered by its embeddedness in local communities and the community values expressed in the Protestant ethic. Concern for one’s neighbor and reward for one’s labor were vital aspects of community life. Work was holy, a means of personal satisfaction. That ethic has been replaced by hedonism, which promises a life of ease and luxury and exonerates the unrestrained quest of personal greed. As a result, Bell stated that, “The social order lacks either a culture that is a symbolic expression of vitality or a moral impulse that is a motivational or binding force” (Bell, 1976, p. 84). One of Bell’s solutions is the reaffirmation of the American liberal tradition. Liberalism respects the separation of powers and realms within society and the freedom from government interference in those realms—the economic, religious, and private sectors.

Robert Bellah and his colleagues (1985) expressed the same concerns but in a more thorough way. The authors argue that a cultural debate is always a debate about the history and the future of a people. They show how the founding traditions of American life have been changed in the course of American history. They explain how the forces of justice and individual freedom have led to ambiguity in society. According to them, a change in American life has occurred during this century. It is a change from society in which economic and interpersonal relationships were perceived as pertaining to a context of broader common life to a “society vastly more interrelated and integrated economically, technically, and functionally. Yet this is a society in which the individual can rarely and with difficulty understand himself and his activities as interrelated in morally meaningful ways with those of others” (Bellah et al., 1985, p. 50).

In 1989, Wolfe maintained that the values of capitalism have thoroughly ignored traditional values. He raised a question that became the pivotal theme of his book—who will tell me how to treat the stranger? Our society no longer has recourse to its traditional sources of moral authority, which guided our action and framed our reasoning. We no longer turn to religion as a moral guide and a provider of universal
values. Nor do we turn to philosophy, which has bankrupted itself in the turn toward the subject and its efforts at establishing universal rules of reason. Nor do we turn to literature, which embodies the values and myths of our culture. Finally, politics no longer speaks a language of compelling moral obligation, not even to the common good, as it had become prey to powerful private interest groups (Wolfe, 1989, pp. 1–19).

Wolfe argues that Western society’s evolution has restricted contemporary members to only three sources for moral reasoning—economics, politics, and civil society. These are overlapping but distinct social systems. The agency of each system is, respectively, the market, the state, and civil society.

In addition, in his book, Wolfe advocates a rediscovery of civil society as a safeguard of moral choice and commitment. He states that, “To revive the notions of moral agency associated with civil society is to begin the development of a language appropriate to addressing the paradox of modernity and to move us away from techniques that seek to displace moral obligations by treating them purely as questions of economic efficiency or public policy” (p. 13).

All three authors believe that the notion of civil society defends the rights of independent sectors. The violation of any one sector of the rights of the other erodes the foundation of civil society. For Bell, Bellah et al., and Wolfe, that erosion has already commenced, not because business has assumed too much responsibility in society, but because the ethical foundation of the marketplace has spread out throughout the social system. Conventional communication principles and interpersonal bonds have been changed.

In summary, all of the above-mentioned authors are among those scholars whose insights influenced the earlier development of the business and society field, and whose work, whether theoretical or empirical, still shapes this evolutionary field.

DEFINITIONS OF SOCIAL RESPONSIBILITY

A recent review of the literature identifies no less than nine meanings for social responsibility. The nine meanings were classified by Sethi (1997) into three categories: social obligation, social reaction, and social responsiveness. Social obligation implies that a corporation engages in socially responsible behavior when it pursues a profit within the constraints of law as imposed by society. Thus legal behavior in pursuit of
profit is a socially responsible behavior, and any behavior not legal is socially irresponsible. Proponents of social responsibility as social obligation offer four primary arguments to support their views. First, they maintain that corporations are accountable to their shareholders. As a result, managers have the responsibility to manage the corporation in a way that would maximize owners’ interests. Second, socially responsible projects such as social improvement programs should be determined by law and left to the contributions of private individuals. Accordingly, the government, through legislation, is best equipped to determine the nature of social improvement programs and to realize social enhancements in society. Businesses contribute in this regard by paying taxes to the government that rightfully determines how they should be allocated. Third, it is a violation of management contract to allocate corporate profits for social improvement programs. These actions amount to taxation without representation, according to Friedman (1970). Management is taxing the shareholders by spending their money on activities, which does not contribute directly to maximizing shareholders’ interests. In addition, because managers are not elected public officials, they are taking actions that affect society without being accountable to society. Fourth, many people who subscribe to this school of thought believe that social programs financed by corporate managers may work to the disadvantage of society. In this sense, financial costs of social activities may, over time, cause the price of the company’s goods and services to increase, and customers would pay the bill.

Social responsibility as a social reaction is based on the premise that a corporation reacts to prevailing social norms, values, and performance expectations. This view emphasizes that society’s expectations of corporations go beyond the provision of goods and services. At minimum, corporations must be accountable for the ecological, environmental, and social costs incurred by their actions; at maximum, corporations must react and contribute to solving society’s problems. This view is interpreted, in a narrow sense, as involving corporate voluntary actions only. This interpretation seeks to separate corporate actions that are required by economic or legal imperative and those that are initiated voluntarily. Whether corporate actions are voluntary or involuntary, a broader interpretation of the social action view identifies as socially responsible those actions that go beyond the law. Typically, these actions are reactions to the expectations of specific corporate constituents—shareholders, social activists, unions, and so on. Because the expectations of these con-
stituents go beyond legal minimums, businesses can decide not to react to such circumstances. Favorable reaction, however, is considered socially responsible.

Frederick, Post, and Davis (1992) provide a somewhat comprehensive definition of corporate social responsibility. "Corporate social responsibility means that a corporation should be held accountable for any of its actions that affect people, their communities, and their environment. It implies that negative business impacts on people and society should be acknowledged and corrected if at all possible" (p. 30).

While the concept of CSR as defined by the numerous authors has been unstable to some extent, the status of profits in the context of social responsibility has never been seriously challenged. On the contrary, the notion of profit as "the basic economic mission of business" has been a main assumption for almost all authors. The term socially profitable business refers to all types of payoffs necessary to meet expectations of those interacting with business—including economic profit expectations.

Steiner and Steiner (1994) define CSR as follows:

The major social responsibility of a company is to operate profitably and utilize efficiently the resources at its disposal. While important, other activities relating to the use of corporate resources to further national goals, employee and community welfare, or other social interests, are today second to this purpose, and except for a limited number of cases are pursued to contribute to the achievement of the first purpose in the short and in the long run. (p. 163)

Steiner and Steiner also concede that profit maximization is not a workable doctrine for business any more. They suggest, "But the economist’s strict concept of profit maximization is not an acceptable operational goal for today’s larger corporation" (1994, p. 122).

Carroll (1993) pronounces the importance of economic performance in defining corporate social responsibility. He suggests a four-part definition of social responsibility: economic, legal, ethical, and discretionary responsibilities. To explain the relative importance of each responsibility, he suggests a pyramid of corporate social responsibility in which economic responsibilities are explained as "the foundation upon which all others rest" (p. 36).

Carroll (1979) argues that the foundation of social responsibility is economic. He states that, "The first and foremost social responsibility of business is economic in nature. Before anything else, the business institution is the basic economic unit. . . . All other business roles are predi-
cated on this fundamental assumption (p. 500). It is interesting to note that Carroll talks about the responsibility of the “business institution.” In addition, he does not make a distinction between business as a social institution and individual businesses as organizational entities. Carroll’s model is the founding model of corporate social responsibility. It was developed further by Wartick and Cochran (1985) and Wood (1991a, 1991b).

Peter Drucker (1974) argues against Friedman’s (1962) strong opposition to corporate social responsibility. Concerning Friedman’s argument that management has only one responsibility, to maximize the profits of its owners and stockholders, Drucker states, “Friedman’s pure position to eschew all social responsibility is not tenable. . . . Business and other institutions of our society . . . cannot be pure, however desirable that may be. Their own self-interest alone forces them to be concerned with society and community and to be predisposed to shoulder responsibility beyond their own areas of task and responsibility” (Drucker, 1974, p. 349). This statement shows that Drucker acknowledges the necessity of corporate social responsibility. His following statement tells us that he also believes that there is a limit to this responsibility. In other words, Drucker thinks that the business institution’s first and foremost responsibilities are economic in nature:

The first task is to make the institution . . . perform the function and make the contribution for the sake of which it exists. . . . Performance of its function is the institution’s first social responsibility. (p. 343)

In his 1963 book, *Business and Society*, McGuire, one of the earliest proponents of corporate social responsibility, states that,

The concept of corporate social responsibility implies that the modern business corporation should recognize that, in this day and age, it can no longer hungrily pursue the single goal of profits to the complete neglect of its table manners. . . . The corporation today must take an interest in politics, in the welfare of community, in education, in the “happiness” of its employees—in fact, in the whole social world about it. In a sense, therefore, it must act “justly” as a proper citizen. (p. 144)

All in all, theorists are still struggling to come up with a universal definition of corporate social responsibility. This author takes a contingency approach view to corporate social responsibility; while agreeing
with Carroll’s four-part definition to CSR, the relative importance of the parts should change contingent upon internal and external environmental conditions.

THE FOUR THEORIES OF SOCIAL RESPONSIBILITY

In this section, an examination of the four theories of corporate social responsibility is presented. In so doing, major consideration will be given to the issue of how each of the theories answers the question of maintaining a proper balance between the economic and noneconomic responsibilities of corporations.

As mentioned previously, the four theories that have emerged regarding corporate social responsibility are the classical, stakeholder, social demandingness, and social activist theories.

In general, classical theorists subscribe to the idea that economic performance can best be accomplished when top executives respond only to the economic interests of the company’s stockholders; this is what will ensure production efficiency and productivity in the marketplace. Furthermore, corporations can best serve society by concentrating solely upon their institutional economic functions. Consequently, a manager’s first obligation is to the shareholders and, as a top executive, a manager should protect and promote the economic interests of the stockholders (Jones, 1980, p. 61). From the classical theory viewpoint, if members of society strongly desire some good or service not provided by the market, they should either seek to build a market for it or petition the government to either provide the good directly or to supply firms with the necessary motivation to provide the good. They should not look to corporations to provide it voluntarily at the risk of not meeting their required economic objectives.

Among the many rationalizations advanced for the classical theory, perhaps the most widespread is that from an economic performance point of view. It is maintained that when corporations respond to stockholders’ interests by focusing on improving their economic well-being, the company and society both benefit (Davis, 1977, p. 40). Classical theorists believe that when managers commit corporate funds to social causes not directly linked to their primary economic mission, they impose an undue cost on their shareholders, workers, customers, and fellow citizens. In addition, they raise the level of their marginal costs without generating a corresponding increase in their marginal revenues or benefits (Brummer, 1991, p. 107). Some classical theorists also contend
that a system that demands that managers respond primarily to the financial interests of shareholders gives executives the greatest degree of freedom (Hayek, 1976, p. 107).

A second argument for the classical position focuses on certain features of the relationship that exists between the shareholders and the managers of a company, which is grounded in management’s loyalty to shareholders. This argument has several magnitudes. One centers on the ownership status of the shareholders and their rights. Pilon (1982), for instance, states that because shareholders have an equity interest in a corporation that is based on their positive rights of ownership, they have a special claim to the loyalty of the managers (p. 31). In the contemporary corporation, there is a separation of ownership and control. Still, most classical theorists remind us that an important basis of the accountability relationship between managers and shareholders is founded upon the ownership status and rights of the latter. Therefore the market authority of managers is in large part grounded upon the legitimate claim shareholders have to the assets used in market transactions.

A third argument stresses the economic constraints on corporate executives. Manne (Manne and Wallich, 1972) argues that managers have little discretionary funding available to them with which to carry out social programs (p. 13). He declares that if corporate social or moral spending can be assumed to follow the pattern of private giving for charitable causes, only 3 percent of a corporation’s taxable income would be available for spending in social areas. Useem (1979) claimed that companies typically give between 1 percent to 2 percent of their pre-tax net income in donations to not-for-profit entities (p. 77). As Manne (Manne and Wallich, 1972) views it, since shareholders do not favor any corporate expenditure that reduces their wealth position, they will sell their share of stocks if they believe a policy of corporate spending for social programs has reduced the value of their equity interest. As they do so, the value of stock will decrease, leading to an increase in the expense of accumulating capital in the future.

Another argument is the concern that classical theorists express about whether corporate executives have sufficient expertise to perform social projects. Davis (1977) states that classical theorists believe that managers are trained in the economic rather than the social sciences. Because managers do not have social expertise in judging the merit and likelihood of the success of social projects, they should restrict themselves to decisions concerning economic projects. Manne (Manne and Wallich, 1972) provides an example of what can happen when programs of moral or social
spending are initiated by individuals who lack the relevant expertise. He recounts a case where the introduction of certain corporate social measures actually hurt a share of the group these measures were meant to help. He specifically tells us that Coca-Cola, in an effort to respond to criticism concerning the living conditions of migrant workers employed in the company’s orange groves in Florida, sought to improve these conditions by increasing the migrants’ wages and medical benefits. The program was costly, and in an effort to keep prices in line with competitors, managers at Coca-Cola introduced automated methods of orange picking that eventually put one-third of these migrant workers out of work (p. 28).

The last argument for the classical theorists concerns power firms, should they become major providers of social services. Theorists argue that, under such circumstances, our society would become a monolithic one. In other words, if people became more dependent on corporations for their social as well as economic well-being, corporate values would become the primary ones in society. Levitt (1958) believes that this would be unhealthy and unwise.

In summary, then, the two principal theories of legitimacy assumed by classical theorists are the performance and rights theories. These theorists emphasize the overall positive outcomes that are supposed to result from a corporate policy of limited social activity. In addition, they argue that their theory best respects the property and fiduciary rights of stockholders and the right of freedom of choice for all market actors (Brummer, 1991).

The classical theory has its challengers, though. Various theorists have responded to the classical theory of corporate responsibility. Classical theorists argue that the specialization of function that occurs when managers focus on their economic responsibility toward the shareholders provides the overall social system with a synergistic, creative, and productive order. Opponents of the classical theory reject, or at best question, various aspects of this performance claim. As those opponents see it, the classical theory has resulted in a host of negative consequences. Goldman (1980) and Velasquez (1982), for instance, simply reject the idea that the classical theory leads to the most just, effective social system. Specifically arguing against Friedman and Hayek, opponents state that the classical theory does not best preserve the freedom or liberty of all parties in the social system. Pichler (1983), for example, contends that the liberty principle demands greater respect for the decisions of other market participants than typically given in the classical theory (p. 22). In
addition, opponents question the willingness of most classical theorists to equate the concept of performance with that of efficiency. In particular, opponents question the concept of Pareto efficiency. According to them, the Parito criterion cannot be used to arbitrate the dispute between the various positions on corporate responsibility. Some people will be made worse off whether managers tighten their loyalty to the shareholders of the company or respond more directly to the interests and needs of other groups of market participants. An added criticism concerns the nature and authority of the method of proof that is used to show that one policy of action is more efficient than another. It is contended that problems arise when the response of personal preference is defined as the standard of judging efficiency.

The second theory is the stakeholder theory. Sethi (1997) and Bock (1979) state that the stakeholder theory holds that there are other constituents than the shareholders of the corporation to whom corporate managers are directly responsible. These constituents are groups that are likely to be affected, either directly or indirectly, by the decisions of executives, thus they are said to have a stake in the corporation. Stakeholder theorists recognize that corporate managers may act from various incentives. In addition, many stakeholder theorists recognize that the interests of noninvesting stakeholders may not always override the financial interests of shareholders. Two reasons are typically given for the inclusion of nonstockholders among the stakeholders: they usually have entered into a contractual or a contractlike agreement with the firm or its members, or they are directly affected by the decisions of the corporation. There is, however, a difference of opinion among theorists about who the actual or legitimate constituents of a corporation are. All are in agreement that individuals who make explicit contracts with a corporation are among its stakeholders. The disagreement, however, concerns the other consideration used to define a stakeholder. Theorists such as Ackoff (1981) contend that only those who are directly or primarily affected by the actions of a corporation are its stakeholders. Others, like Freeman (1984), state that a stakeholder is also anyone who can directly affect the corporation. In this latter definition, essentially everyone is a stakeholder of a firm, even those who are actually nonmembers, because nearly everyone can affect corporations directly or indirectly.

The most commonly endorsed argument for the stakeholder theory is the performance one, which is advanced by some strategic management theorists such as Ackoff (1981), who emphasizes the advantages that amass to firms that follow the stakeholder approach. Ackoff believes that
the long-term survival of a firm is improved when it responds to stakeholder interests as a major part of corporate strategy. These theorists go one step further to suggest that the stakeholder theory does not only lead to better performance for the firm but to better performance for society as a whole. Ackoff, for instance, argues that the various elements of the overall social system function more efficiently and coherently when management respects the interests of stakeholders (1981, p. 33).

A principal assumption of those stakeholder theorists who endorse the performance argument is that corporate managers are accountable for at least the direct effects of their corporate decisions, because they are not sufficiently informed about the indirect effects of their corporate actions.

The social demandingness theory is the third theory of corporate social responsibility. Some proponents refer to this as the quality of life management theory (Hay and Gray, 1977, p. 138). Sethi (1997) refers to it as the social responsibility model (p. 74). Brummer (1991) calls it the social demandingness theory. Regardless of how it is referred to, the basic idea behind this theory is that corporations are responsible for carrying out those activities that are expected or demanded of them by society. This theory is based on the premise that both the market and the moral and social forces of society supply the normative or ethical side of corporate decision making. As a result, this theory differs from the stakeholder theory in maintaining that managers are in some way directly responsible to society or the general public, even to those who are indirectly affected by their decisions. The main theme of the theory is that managers are required to respond to the interests and needs of society, thus they should seek to promote social welfare as it is expected by society.

As with the classical and stakeholder theories, two versions of the performance argument have been used to defend the social demandingness position. The first equates performance to the benefits that accrue to individual businesses; the second equates it to whatever contributes to the overall social welfare (Brummer, 1991). The most distinctive argument for the social demandingness theory is the social contract argument. Unlike classical theorists, who base the legitimacy of the corporation directly on its performance, social contract theorists base corporate legitimacy on the permission of the public. Social contract theorists focus on three characteristics of a corporation: entity status, limited liability, and perceptual duration or continuous self-renewal. A main argument for this theory stems from a fairness that expects firms to respond to the demands of the public because they have so much power in society. Firms are expected to be active socially, that is, they should
seek to solve social problems, because in most cases corporate actions are the ones that have caused those problems.

Some other theorists believe that the principle of respect for persons simply demands that one respect the independence of others; it does not require persons to seek to promote their general welfare. This view demands that corporations not interfere with, or otherwise bias, the process of forming social or moral expectations.

Social activist theorists believe that there exists a universal standard for determining responsible corporate conduct that is independent of the interests of the stockholders and the claims of the stakeholders. Although the standards demand concern for the welfare of the public, it is concern for their welfare as an expression of their ideal or rational interests rather than merely their present interests that is of importance. The standard that usually requires a greater level of corporate activism may be said to have an ethical, a religious, or a metaphysical basis.

Whatever it is, it must be admitted that activist theorists are not entirely in agreement about the precise nature of the independent standard used to judge corporate conduct.

**RATIONALE FOR SOCIAL PERFORMANCE**

A number of approaches are advanced for the measurement and disclosure of social performance. The first is the *social contract* argument. Here it is assumed that corporations must behave in a way that maximizes social welfare, as though a social contract existed between the corporation and society. By behaving in such a manner, corporations gain what is called “organizational legitimacy” vis-à-vis the society in which it operates. While the social contract is assumed implicitly, a number of societal laws may render certain covenants of the contract explicitly. These laws and regulations become the terms of the social contract (Gray, Owen, and Maunders, 1988). In the United States, the enactment of these laws and regulations concerning social performance created the need for tracking environmental risk (Belkaoui and Pavlik, 1992). With the 1989 Securities and Exchange Commission (SEC) requirement that companies disclose any potential environmental cleanup liabilities that they may face under the Superfund law, 1990 annual reports of companies started the disclosure process. The 10-K disclosures led to the creation of databanks that provided information on companies specializing in tracking environmental risk.

The second argument is the social justice one. Three authors presented
their theories of justice: J. A. Rawls, R. M. Nozick, and A. Gerwith. In his book *A Theory of Justice* (1971), Rawls presents a theory of just social institutions which, when applied to corporations, calls for management choices that yield eventual solutions for societal problems; solutions that are neutral, fair, and socially just. This theory also suggests an expanded role of corporations in the making of just institutions and the definition of the social minimum advocated by Rawls. Nozick (1974) presents his views in his book *Anarchy, State, and Utopia*. His perspective is libertarian in nature, based on the principle of justice in acquisition and in transfer. This concept of distributive justice does not allow for adequate dealings with fairness as a distributive function. It is presumed to fail to take the social obligations of humans to each other into account; it perpetuates past violations of principles of acquisition and transition, and it distorts the meaning of “well-offness” in a world of scarcity (Williams, 1992). The reliance on market mechanisms, the absence of a moral language to discuss social obligations, and the absence of a concept of redistributive justice are the reasons for the cited failures of the libertarian theory of justice. Gerwith’s (1979) theory of justice suggests the importance of the concern for the rights of freedom and well-being of all constituents affected by the activities of the corporation and for the creation of institutional arrangements to guarantee these rights. These arrangements call for some form of rectification through the establishment of a “support system” and well-defined social rules to be followed by corporations and their members. Basically, the Gerwithian principles include a recognition of the rights of all those affected by the activities of the organization and, as stated by Gerwith himself, “a recognition of the rights of others, a positive concern for their having the objects of these rights, and a positive regard for them as persons who have rights or entitlement equal to his own as well as the rational capacity to reflect on their purposes and to control their behavior in light of such reflection” (Gerwith, 1979, pp. 147–48). In a nutshell, this calls for corporate behavior that is voluntary and supportive to affirm an egalitarian moral principle.

The third argument presented for the measurement of social performance is the users’ needs argument. The basis for this stems from the needs of users of financial statements for information on social activities by firms. This information is then utilized in the allocation of their resources. Due to the change in investors’ orientations, stockholders, according to a recent survey, want corporations to direct resources toward cleaning up plants, stopping environmental pollution, and making safer products.
The fourth argument is the social investment one. The basis of this is the existence of an "ethical investor" group that relies on social information presented in companies' annual reports in order to make investment decisions. The disclosure of social information becomes a necessity if investors are going to consider the impact of social awareness expenditures on their profitability. The ethical investor bases investment decisions not only on economic considerations but also on sociological considerations. Many believe that ethical investors form a clientele that responds to demonstration of social concerns. Investors of this type tend to avoid particular investments for entirely ethical reasons and would prefer to favor socially responsible corporations in their portfolios. Those social investors are not necessarily sacrificing their economic well-being. As a matter of fact, an emerging theory of social investments proposes that social and economic values can be maximized together, and that this creative synergism is the practical direction taken by social investors today (Bruyn, 1987). This type of investor is assumed to contribute to the development of social economy geared to promote social values and corporations as well as self-interests.

**CSR AND FINANCIAL PERFORMANCE**

Many authors have tried to explain what determines social performance. These studies differ in terms of their methodologies' definitions of social performance and samples used. The majority of these studies come from either the accounting or management literature.

The issue of the relationship between social disclosure and social performance is based on the belief that firms are eager to disclose their social contributions in their annual reports to show that they have engaged in some type of socially responsible activities. Ullmann (1985) tested the hypothesis that the quantity and quality of a firm's social disclosure are positively correlated with its social performance. Studies that have examined the relationships between social disclosure and social performance are numerous. What follows is a review of some empirical work that has been conducted in order to determine the relationship, if any, between corporate social responsibility and financial performance.

An examination of the empirical studies over the past 30 years, which studied the effects of CSR on the economic performance of a firm, has produced mixed results. Some studies have yielded a positive relationship, others a negative one, and still others suggest little or no relation at all (Arlow and Gannon, 1982, p. 238). Studies examined are classified
into three categories. The first one is comprised of studies which have shown a positive correlation between CSR and corporate economic performance. The second category consists of those empirical studies which have found a negative relationship between CSR and economic performance. Studies that were inconclusive comprise the third and last category. On the positive side is the work of Sturdivant and Ginter (1977), Bragdon and Marlin (1972), Eibert and Parket (1975), Bowman and Haire (1975), and Jones (1987).

On the negative side are two studies conducted by Vance (1975), who found a negative correlation between companies’ stock value performance and their ranking with respect to social responsibility. Studies that have shown no significant relationship between CSR and economic performance include Folger and Nutt (1975); Alexander and Bucholz (1978); Abbott and Monsen (1979); Kedia and Kuntz (1981); Wokutch and Spencer (1987); and Cochran and Wood (1984).

Questions have been raised about the divergent nature of these empirical studies, about the methods used, the sizes of the samples examined, and the proxies employed to measure corporate social responsibility. Questions have also been raised about whether the researchers have properly isolated social performance as a causative factor in their studies and investigated the relation of social to economic performance over a long enough period of time to draw relatively conclusive inferences about the true nature of the relationship among these variables. Even the more recent studies can or have been questioned in these regards. What these studies do suggest is that when managers respond directly to the needs and interests of individuals other than shareholders, they do not necessarily sacrifice the financial performance of the corporation. One inference is apparent from these studies, which is if corporate executives ignore the social and moral impact of their corporate decisions, or if they refuse to initiate social or moral programs, greater levels of government regulation can be expected in these areas. It is maintained that the growth in government regulation that has occurred during this century is in large part due to the perception that businesses are unwilling or unable to regulate themselves, especially in the areas of greater social impact.

To summarize, then, the many attempts consisted of a number of strands which were directed toward assessing whether shareholders were rewarded, penalized, or indifferent to companies with a better-than-average social performance. In broad terms, the research is inconclusive, but it seems to suggest that investors do care about social
disclosure and social performance only when it will affect financial performance, and to the extent that investors care about the intrinsic ethical positions of organizations, they care very little.

These are depressing results—depressing in that they suggest that the most socially sensitive management will be excessively limited in its options unless its social contributions repay the investors financially. The profound ethical question this raises is among the most important in business today. Socially responsible funds were first launched in the United States in the early 1970s, and by the late 1980s controlled $50 billion in assets. This shows that there is a small but significant and growing proportion of the capital markets that is willing to undertake investment on something other than purely financial grounds.

Furthermore, the evidence is mixed about the extent to which “ethical investors” actually do sacrifice financial returns. Reports have suggested that the stronger the definitions and criteria used by the fund, the more likely it is to “underperform” against a nonethical portfolio. The ethical/socially responsible funds are still, however, a relatively new phenomenon, and it would be too early to jump to definite conclusions. Certainly any fund looking for “totally socially responsible” companies will have a very small portfolio. At a minimum, therefore, it is possible to conclude that an investor may be “slightly ethical” to no financial detriment. Stronger views are likely to be costly.

As Nobel laureate Herbert Simon (1990) observed:

It is of no little moment for the human future whether people are necessarily and consistently selfish, as is sometimes argued in populations genetics and economics, or whether there is a significant place for altruism in the scheme of human behavior. (p. 1665)

The fact is that there are distinct liabilities to a worldview that emphasizes individualism to the exclusion of responsibility to a larger public good. Of course, it cannot be denied that emphasis on individual accomplishment and the notion that time is money have created a fast-paced competitive climate that has brought technological advancement and great material prosperity to Western countries. But it cannot be denied that such advancement has not been without a hefty cost. Examples abound of the unhealthy search for self-interest. Even academicians are not immune from the sense of unconcerned individual gain. In addition, the sense of individualism might well explain the rise of the “me generation.”
What is needed is a greater sense of balance between this individualism and concern for a larger society. In his book *The Duality of Human Existence*, David Bakab (1966) argues that each person has two fundamental but opposed senses: a sense of self that is demonstrated in self-protectiveness and self-assertiveness, and a sense of selflessness that manifests itself through communion with others. Although both are necessary for survival, the difficulty facing individuals and social entities is to reconcile these two polar senses. In the West, the balance is tilted in favor of self-assertiveness; in the East, in favor of communion. There is a need to move more toward a balance—to cultivate a concern for the society rather than an indifference to it.

In addition, studies in psychology have shown that striving for individual achievement can often be self-defeating and counterproductive. Spence and Helmreich (1983) found that interpersonally competitive individuals were less likely to achieve than their less competitive peers. The compulsively driven Type-A individuals may succeed in the short run, but only at the expense of their long-term health. The phenomenal economic success of Japanese and Asian countries in the 1980s and early 1990s is testimony to the role that a more inclusive self, a more altruistically driven self, can play into increasing rather than decreasing business effectiveness. The award for altruism may go beyond “good business sense” to one’s own personal health and well-being.

Business organizations in the United States are in transition, moving from an information-based to a knowledge-based society. As the transition is made, complexity and turbulence are increasing at each step of the journey. To respond to such an environment, organizations are no longer viewed merely as economic machines designed for technological progress and for the personal benefit of those who control them. Instead, they must be seen as sociotechnical systems responsive to human needs, both in their inner and outer environments. As human systems, organizations must develop a moral obligation to respond to the needs of their constituents. In other words, organizational philosophies must shift toward more collaborative relations and a sense of purpose that includes the organization’s effectiveness as well as the improvement of the quality of life of its members. The individual personal value also needs to shift from self-centered achievement and independence to altruistic self-actualization and interdependence.
CORPORATE SOCIAL PERFORMANCE MODELS

The corporate social performance model was first proposed by Carroll in 1979. The concept gained more attention with the work of Wartick and Cochran in 1985. Most recently Donna Wood (1991a, 1991b) articulated the principles, processes, and outcome of corporate social performance.

The other major scholarly treatment of Carroll’s work is his colleagues’ empirical research of the four-part definition of corporate social responsibility. Aupperle (1991) and Aupperle, Carroll, and Harfield (1985) argue that their empirical results give tentative support to the relative weighting Carroll assigned to each of the four components: economic, legal, ethical, and discretionary responsibilities. Aupperle (1991), in a study of managerial values as a CSP indicator, states that, “the relative weight the corporate community placed on each component percentage was: economic = 35.0, legal = 25.4, ethical = 22.2, discretionary = 13.0” (p. 48). However, these studies have not drawn “explicit empirical links between managers’ expressed values and their behaviors” (Wood and Jones, 1994, p. 20).

Wartick and Cochran (1985) use Carroll’s (1979) methodology in conceptualizing corporate social responsibility as economic, legal, ethical, and discretionary. They explain the relationship between economic responsibility and other responsibilities as follows:

Capital formation and, thus, profitability, is the most fundamental responsibility of the firm. Other responsibilities follow profitability and should not be excluded from management’s consideration solely because they decrease profits. (Wartick and Cochran, 1985, p. 164)

Here the authors make it clear that they are not outright after-profit theorists, though neither are they expressing a before-profit CSR notion.

It can be seen then that Carroll (1979) as well as Wartick and Cochran (1985) could not overcome the underlying after-profit orientation since they assumed that economic responsibility is the most important responsibility upon which all others rest. In other words, corporate social performance scholars succeeded in differentiating themselves from followers of Friedman, but they continued to rely upon the after-profit logic and could not move much beyond the idea of corporate social responsibility as being voluntary or expected by society.

On the other hand, Donna Wood (1991a, 1991b) does not provide a
clear definition of corporate social responsibility. Instead, she suggests three structural principles of CSR that represent the framework for understanding normative guidelines of managerial behavior. She explains Carroll’s four-part social responsibilities as domains of corporate social responsibility rather than hierarchical ordering of social responsibilities. Furthermore, her three principles of CSR, especially managerial discretion, provide a means of avoiding the after-profit CSR mentality. She further argues that managers and other organizational employees are moral actors and that, within every domain of corporate social responsibility, they are obliged to overview such discretion as it is available to them.

Buchholz (1991) articulates that after-profit CSR is based on the traditional view of the corporation as a rational profit maximizer. Harte (1988) characterizes the firm in the traditional view as “a legal entity with a production set from which a manager, acting rationally with full information, chooses the set most likely to maximize profits or the present value of the firm” (p. 1758). Basically, rationality and profit maximizing behaviors are presented as the two basic assumptions of neoclassical economics. Since neoclassical economics provides a parsimonious solution of otherwise intractable problems, after-profit CSR prescribes the responsibilities of corporations in ways that can be measured, and it provides relatively clear guidelines for managerial decision making (Buchholz, 1991, p. 23).

In the following statement, Weidenbaum (1980) demonstrates the heart of the economic view of corporate social responsibility:

As an economic unit, if the business firm has any fundamental obligation to the society of which it is a part—aside from or even in contrast to its commitments to its shareholders—it is to produce those goods and their services that consumers desire in order to enhance their welfare as they see it. (p. 31)

This statement signifies an additional representation of the firm in neoclassical economics; that the firm is exclusively an economic entity. Consequently, the firm in the neoclassical view can be described as: (1) a profit maximizer; (2) a rational actor with complete information; and (3) a societal instrument that exists exclusively to function economically.

DISCRIMINATION

Of all the stakeholder relationships a business has, its relationship with employees is one of the most central. As Wood (1991a) states, “[Em-
ployees] are the organization’s lifeblood.’’ The idea that companies have stakeholders was developed from the earlier concept of individuals as members of role-sets (Merton, 1957). People are connected to various other people and organizations in society. Each connection represents a role relationship, and each such relationship carries with it a role, or a set of behavioral expectations and privileges. Many of the issues surrounding business and employees can be understood in the context of the various relationships that people have and the roles that they play (Wood, 1991a, p. 475). Roles of interest include: (1) employees’ roles as contractors with their employers, with contractual rights and obligations; (2) employees as members of the human race, with human rights and obligations; (3) employees as citizens of a nation, with civil rights and obligations; (4) employees as choice makers, with ethical rights and obligations; and (5) employees as members of families, with familial rights and obligations. These five roles define the intent to protect the rights and well-being of individuals and to guarantee that employees and employers can meet their obligations (implicitly or explicitly). The first of these obligations, and the most obvious, is the employee-employer contractual relationship, whereby employees agree to trade their work in exchange for salaries, wages, and benefits, on the one hand, and employers trade compensation in exchange for labor. Determining factors here include the amount of work needed, the amount of money available (or deemed economically feasible), and the wages (or salaries) and benefits the employer and employee are willing to pay and receive, respectively. In the United States, the wage-labor contract model has driven employee-employer relations to a large extent, particularly in management dealings with layoffs, downsizing, and plant closings, among other things. Arguments regarding this important issue depend on the positions that advocates of the different schools of thought of social responsibility take. Downsizing by laying off employees puts a corporation’s social responsibility principles to the test. A discussion of this important issue usually centers around the nature and interdependence of the economic, moral, legal, and social responsibilities of top management.

For many years, firms in the United States could downsize employees or close one or more of their facilities without having to meet early notice or severance pay requirements. By 1974, only Maine and Wisconsin had plant closing laws. In 1988, Congress passed the first federal law requiring advance notice in certain cases of layoff due to plant closings, relocations, or downsizing—the Worker Adjustment and Retraining
Notification Act (WARN). In general, this law requires that firms of 100 or more employees give 60 days’ advance notice of a plant closing, a mass layoff, or a severe downsizing to the affected employees/workers or their representatives (in unionized firms). They also are required to give advance notice to certain governmental agencies. Failure to meet these requirements can lead to penalties, such as providing back pay to the workers or continuing to contribute to their pension or health insurance plans. This legislation has brought the United States closer to certain European countries. In Great Britain, for instance, employees with at least two years of continuous service with the same employer are entitled to severance pay and benefits. Even Japan requires notification of government and labor representatives in certain officially designated jobs.

Because of the importance of this subject, the following constitutes a brief description of the major rules and regulations which were introduced over the past 35 years in order to shield against discrimination in the workplace. Even though we, as a society, are still far from being a nondiscriminatory entity, it appears that the legal system and the rules and regulations which were enacted have, to some degree, clipped the nails of discrimination in the workplace.

Equal employment opportunity is a very important topic in human resource management, and it has many managerial implications in the decision to downsize or restructure a company. In addition, and regardless of the absence of any empirical work assessing the impact of discriminatory practices of companies on their social performance standing, it is the belief of this author that companies that discriminate should be viewed as being less socially responsible than those that do not.

For comprehensiveness, the following section covers both the legal framework of equal employment opportunity and the specific organizational requirements for its implementation. Equal employment opportunity refers to the right of all people to work and to advance on the basis of merit, ability, and potential.

Discrimination in society and in the workplace was the main motivating force behind the civil rights movement which, in turn, influenced the U.S. Congress to pass laws designed to eliminate discrimination. As a result, Congress passed a number of laws to ensure equal employment opportunity.

In 1865, the Thirteenth Amendment of the U.S. Constitution abolished slavery. Then Congress passed the Civil Rights Act of 1866 and the Civil Rights Act of 1871.

Discrimination against women was based on the common belief that
women were not equipped to perform certain jobs and that men should work to support their families, while women should remain at home to care for their families.

**TITLE VII, CIVIL RIGHTS ACT (1964)**

This act is the backbone of equal employment opportunity. Organizations and entities presently covered by this act include the following:

- All private employers of fifteen or more people who are employed 20 or more weeks per year.
- All public and private educational institutions.
- State and local governments.
- Public and private employment agencies.
- Labor unions that maintain and operate a hiring hall or hiring office or have fifteen or more members.
- Joint labor-management committees for apprenticeships and training.

To oversee and administer Title VII of the Civil Rights Act, the Equal Employment Opportunity Commission (EEOC) was created.

Several important provisions of Section 703 of the Civil Rights Act state that:

(a) It shall be an unlawful employment practice for an employer—

   (1) to fail or refuse to hire or to discharge any individual, or otherwise to discriminate against any individual with respect to his compensation, terms conditions, or privileges of employment, because of such individual’s race, color, religion, sex, or national origin; or

   (2) to limit, segregate, or classify his employees or applicants for employment in any way which would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his status as an employee, because of such individual’s race, color, religion, sex, or national origin.

(b) It shall be an unlawful employment practice for an employment agency to fail or refuse to refer for employment, or otherwise to discriminate against, any individual because of his race, color, religion, sex, or national origin, or to classify or refer for employment any individual on the basis of his race, color, religion, sex, or national origin.

(c) It shall be an unlawful employment practice for a labor organization—
(1) to exclude or to expel from its membership, or otherwise to discriminate against, any individual because of his race, color, religion, sex, or national origin;

(2) to limit, segregate, or classify its membership or applicants for its membership or to classify or fail or refuse to refer for employment any individual, in any way which would deprive or tend to deprive any individual of employment opportunities, or would limit such employment opportunities or otherwise adversely affect his status as an employee or as an applicant for employment, because of such individual’s race, color, religion, sex, or national origin; or

(3) to cause or attempt to cause an employer to discriminate against an individual in violation of this section.

(d) It shall be an unlawful employment practice for any employer, labor organization, or joint labor-management committee controlling apprenticeship or other training or retraining, including on-the-job training programs, to discriminate against any individual because of his race, color, religion, sex, or national origin in admission to, or employment in, any program established to provide apprenticeship or other training.

As can be seen from the wording of Section 703, it embodies two areas of discrimination: disparate treatment and disparate impact.\(^2\) Section [703(a)1] deals with disparate treatment which refers to intentional discrimination, and Section [703(a)2] deals with disparate impact which refers to the unintentional discrimination and involves employment practices that appear to be neutral on the surface but adversely affect a protected class of people. The 1964 Civil Rights Act was amended in 1972 by the Equal Opportunity Act.

**EQUAL PAY ACT (1963)**

The Equal Pay Act of 1963 is part of the minimum wage section of the Fair Labor Standards Act (FLSA). This act prohibits sex-based discrimination in rates of pay to men and women working at the same or similar jobs. Specifically, the act states:

No employer having employees subject to [the minimum wage provisions of the Fair Labor Standards Act] shall discriminate, within any establishment . . . ; between employees on the basis of sex by paying wages to employees in such establishment at a rate less than the rate at which he pays wages to employees of the opposite sex in such establishment for equal work on jobs the performance
of which requires equal skill, effort, and responsibility, and which are performed under similar working conditions.

The Equal Pay Act allows wage differentials based on seniority, merit, quantity and quality of production, or a differential due to any factor other than sex. Generally, the act covers employers engaged in commerce or the production of goods for commerce and which have two or more employees, and labor organizations. Responsibility for enforcing the Equal Pay Act was initially assigned to the secretary of labor, but this was transferred later to the EEOC on July 1, 1979.

A controversial issue in equal employment opportunity is the comparable worth theory. This theory states that every job, by its very nature, has a worth to the business and society that can be measured and assigned a value. Each job should be remunerated on the basis of its value and paid the same as other jobs with the same value. According to this theory, market factors such as availability of qualified workers and wage rates paid by other companies would be disregarded. This theory further states that entire classes of jobs are traditionally undervalued and underpaid because they are held by women, and that this inequality amounts to sex discrimination and violates Title VII of the Civil Rights Act.

Advocates of the comparable worth theory maintain that the Equal Pay Act extends little protection for female employees because it applies only to those jobs in which men and women are employed, while the most grave form of pay discrimination occurs when women arrive at the workplace with education, training, and ability equivalent to that of men but are assigned lower-paying jobs that are held primarily by females. In the 1981 case of County of Washington v. Gunther, the Supreme Court looked into a claim of sex discrimination between prison matrons and prison guards. Prison matrons were paid 70 percent of what the guards were being paid. In deciding on this matter, the Supreme Court ruled that sex-based pay discrimination was in violation of Title VII of the Civil Rights Act. However, the Court’s decision precisely stated that it was not ruling on the comparable worth issue. The first procedural statement on the issue of comparable worth was issued in 1985 by the EEOC. This statement maintained that unequal pay for work of a similar value was not by itself proof of discrimination. The agency held that it would not pursue “pure” comparable worth cases but that it would act in cases where it could be shown that employers intentionally paid different wages to women and men in comparable jobs.
In *AFSCME v. State of Washington*, the employer had carried a comparison of jobs but had not adjusted the wage rates of the female-dominated jobs to eliminate the wage differential between males and females. A district court had ordered the employer to make the adjustment partially on the basis of the comparable worth theory. However, this decision was overturned by the Ninth Circuit Court of Appeals. The circuit court ruled that the value of a particular job to an employer is only one factor that influences the rate of compensation for that job. The parties in the *AFSCME v. the State of Washington* suit reached an agreement in 1986, settling the dispute. Under this agreement, 35,000 employees in female-dominated jobs reached pay equity with males in 1992. The estimated cost of the settlement to the state was $482 million.

**Pregnancy Discrimination Act (1978)**

In its decision in *General Electric Co. v. Gilbert*, the Supreme Court made a decision that had a significant impact on the passage of the Pregnancy Discrimination Act in 1978. In this case, General Electric (GE) provided nonoccupational sickness and accident benefits to all employees under its sickness and accident insurance plan in an amount equal to 60 percent of an employee's normal straight-time weekly earnings. Several women employees at GE's Salem, Virginia, plant who were pregnant presented a claim for disability benefits under the plan to cover the period they were absent from work as a result of their pregnancies. These claims were denied by the company on the ground that the plan did not provide disability-benefit payments for such absences. The employees filed suit, alleging violation of Title VII, which prohibits sex discrimination. The Supreme Court ruled that the exclusion of pregnancy-related absences from the plan did indeed constitute sex discrimination.

In an effort to protect the rights of pregnant employees, Congress, in 1978, passed the Pregnancy Discrimination Act as an amendment to the Civil Rights Act. Formally referenced as Section 701(K) of Title VII, the Pregnancy Discrimination Act states:

> Women affected by pregnancy, childbirth, or related medical conditions shall be treated the same for all employment-related purposes, including receipt of benefits under fringe benefit programs, as other persons not so affected but similar in their ability or inability to work.
The official body responsible for enforcing this act is the EEOC. Under this act, businesses must treat pregnancy as they would any other medical condition with regard to fringe benefits and leave policies.

**Civil Rights Act (1991)**

The Civil Rights Act of 1991 provides the right to women, persons with disabilities, and persons who are religious minorities to have a jury trial and to sue for punitive damages if they can prove that they were victims of intentional hiring or workplace discrimination. The law covers establishments with fifteen or more employees. Prior to the passage of this law, jury trial and punitive damages were not permitted, except in intentional discrimination lawsuits involving racial discrimination. Based on the size of the employing business, this law places a cap on the amount of damages a victim of intentional, nonracial discrimination can seek. For businesses with fifteen to 100 employees, the maximum is $50,000; for companies of 101 to 200 employees, the cap is $100,000; for companies of 201 to 500 employees, the cap is $200,000; and for businesses of more than 500 employees, the cap is $300,000.

A very important aspect of this law concerns the burden of proof for businesses with regard to intentional discrimination lawsuits. The act dictates that companies must provide evidence that the practice that led to what appeared to be discriminatory was not in fact so, but was related to job specifications and was consistent with business requirements. Since 1989, however, the Supreme Court began to ease the burden-of-proof requirements on companies.

**Executive Orders 11246, 11375, and 11478**

The main objective of executive orders is to provide direction to governmental agencies. These orders are issued by the president of the United States. Executive Order 11246 was issued in 1965, and it directs all contractors and subcontractors with a contract exceeding $10,000 to not discriminate against employees because of race, sex, color, religion, or national origin. The Office of Federal Contract Compliance Programs (OFCCP), within the U.S. Department of Labor, is responsible for ensuring equal employment opportunity by federal contractors and subcontractors and for administering this executive order. The equal
employment opportunity clause detailed by this order compels federal contractors and subcontractors to agree to:

1. Comply with the provisions of the executive order.
2. Comply with those rules, regulations, and orders of the secretary of labor that are issued under the order.
3. Permit access to its books and records for purposes of investigation by the secretary of labor.
4. Include the equal employment clause in every subcontract or purchase order so that such provisions will be binding on each subcontractor or vendor.
5. In the event of noncompliance with the executive order, the contract may be canceled, terminated, or suspended.
6. After a hearing on the noncompliance, the contractor may be declared ineligible for future government contracts.

In addition, Executive Order 11246 requires all federal contractors and subcontractors with 50 or more employees and with contracts exceeding $50,000 to have a comprehensive, documented affirmative action program (AAP). The AAP must incorporate an evaluation of minority employment problem areas within the employer’s workforce, and where deficiencies are identified, employers must establish workable goals and timetables for the timely attainment of equal employment opportunity. An important component of the AAP is called the utilization evaluation, which contains analyses of minority group representation in all job categories, present and past hiring practices, and upgrades, promotions, and transfers.

A basic procedure involves the development of a competent affirmative action plan. The EEOC has recommended the following eight steps:

1. The chief executive officer of an organization should issue a written statement describing his or her personal commitment to the plan, legal obligations, and the importance of equal employment opportunity as an organizational goal.
2. A top official of the organization should be given the authority and responsibility for directing and implementing the program. In addition, all managers and supervisors within the organization should clearly understand their own responsibilities for carrying out equal employment opportunity.
3. The organization’s policy and commitment to that policy should be publicized both internally and externally.
4. Present employment should be surveyed to identify areas of concentration and underutilization to determine the extent of underutilization.
5. Goals and timetables for achieving the goals should be developed to improve utilization of minorities and females in each area where underutilization has been identified.

6. The entire employment system should be reviewed to identify and eliminate barriers to equal employment. Areas for review include recruitment, selection, promotion systems, training programs, wage and salary structure, benefits and conditions of employment, layoffs, discharges, disciplinary actions, and union contract provisions affecting these areas.

7. An internal audit and reporting system should be established to monitor and evaluate progress in all aspects of the program.

8. Company and community programs supportive of equal opportunity should be developed. Programs might include training of supervisors in their legal responsibilities and the organization’s commitment to equal employment, and job and career counseling programs.

A number of Supreme Court decisions have eased the pressure for such plans, except in cases of specific and probable acts of discrimination. The Court has not ruled out voluntary programs to encourage minority hiring and promotion, but it has opened the door to reverse-discrimination suits by white males who feel harmed by affirmative action programs.

**SEXUAL HARASSMENT**

One of the major concerns of equal employment opportunity is sexual harassment. The EEOC *Guidelines on Discrimination because of Sex* specifies as unlawful any undesirable sexual conduct that “has the purpose or effect of unreasonably interfering with an individual’s work performance or creating an intimidating, hostile, or offensive work environment.” Sexual harassment, by nature, is very difficult to verify. The reality is that such behavior is typically done secretly, without the knowledge and consensus of the employer, which makes the investigation of sexual harassment charges quite hard.

A great number of us watched (1) as Anita Hill described a series of incidents that she found offensive; (2) as Clarence Thomas denied that those incidents occurred; and (3) as a number of men who should have known better revealed their ignorance of the real world. Whatever the truth, the Thomas hearings forced the issue of sexual harassment to the front burner and placed it at the top of the national agenda. In the months that followed the hearings, popular magazines and newspapers
around the country ran a series of personal stories of harassment in which working people were complaining until lawsuits were filed or the targets quit in disgust. The *Wall Street Journal* covered how employers reacted to the problem and examined the recommendations of a group of experts whose advice to employers was to issue a formal policy prohibiting sexual harassment, to establish internal procedures for filing complaints, and to provide sexual harassment training.

Formal policies prohibiting sexual harassment come in many varieties. Some are simple statements, while others define at length what behavior constitutes sexual harassment, what procedure an employee may follow to file a complaint, and what disciplinary actions will be taken against harassers. When establishing a procedure, the key thing to remember is that the victim must not be required to complain to the harasser.

As mentioned earlier, even though we have not reached a pure non-discriminatory societal state, the enactment and implementation of these guidelines have moved us closer to a just system. However, not a month passes without a new scandal being unveiled, whether it is sexual harassment, age discrimination, or gender-based discrimination. The objective in this book is to assess the impact, if any, of these discriminatory practices and to measure their effects on corporate social performance.

**CONCLUSION**

The empirical evidence on social responsibility is not encouraging. Brenner and Molander, comparing their 1977 survey of *Harvard Business Review* readers with one conducted fifteen years earlier, concluded that the “respondents are somewhat more cynical about the ethical conducts of their peers” than they were previously (Brenner and Molander, 1977, p. 59). Nearly half of the respondents agreed with the statement that “the American business executive tends not to apply the great ethical laws immediately to work. He is preoccupied chiefly with gain” (p. 62). Only 5 percent of the respondents stated social responsibility as a factor “influencing ethical standards,” whereas 31 percent stated different factors related to pressure campaigns and 10 percent to regulation.

In today’s corporation, professional amorality turns into economic morality. When the screws of the performance control systems are turned tightly, economic morality can turn into social immorality (Mintzberg, Quinn, and Voyer, 1995, p. 213). This is exactly the situation when companies decide to downsize citing economic realities as the main reason. However, strategic decisions, such as the decision to downsize, ulti-
mately encompass social as well as economic outcomes that are positively interrelated. The systematic difference between economic objectives in the private sector and social objectives in the public sector just does not hold up practically.

To dismiss social responsibility is to allow corporate behavior to drop to the lowest level, propped up only by external controls such as regulations and pressure from politicians and local and federal governments. On the other hand, we certainly cannot accept the claim that only business can solve the social ills of society.

Some other thinkers call for a change in corporate behavior, assuming that social needs should be met in the pursuit of economic goals. Basically, the proponents of this school of thought believe that to be socially responsible is a good thing. In other words, it pays economically to be good. Even Milton Friedman would agree with this position if the corporation benefits economically from satisfying its social demands. This stand, however, seems to encourage average behavior at best.

There also is another position which is referred to as “pay it to be good” (i.e., “be good only when it pays.”). Here the corporation does not actively pursue social goals at all, whether as ends in themselves or as a means to economic ends. Rather, it undertakes socially desirable programs only when induced economically to do so—usually through government incentives. If society wishes to fix urban damage, then let the government provide incentives in the form of subsidies to corporations in the private sector in order to renovate the buildings. A few years back, a bill was presented to Congress that provided companies with some kind of subsidies if they hired downsized military personnel.

Despite the rhetoric that passes for social responsibility and the discouraging evidence about the behavior of large organizations, I remain firmly convinced that without honest and responsible people in high-up places, society would be in big trouble. We have to trust that managers and top executives will do the “right thing,” because those people will always have a great deal of power that has social as well as economic components. The position of classical theorists such as Milton Friedman ignores the social consequences of corporations not living up to their social responsibility obligations. I truly believe that there are many forces that interfere with social responsibility. Pressure campaigns have brought about necessary, new regulations and have highlighted the case for corporate democracy. However, regulations by themselves are neither a panacea nor a menace. They are much needed where the corporation can abuse its power as a social, productive entity.
NOTES

1. For a detailed discussion of early corporate contributions, see Williams (1930).
2. See Byars and Rue (1994).

REFERENCES


The Literature

INTRODUCTION

Although downsizing was largely associated with the restructurings of heavy industry, affecting blue-collar workforces, these cutbacks now affect the composition of virtually all industries, regions, companies, and employees at all levels of skill and education. As a result of volatile and chaotic changes in the external environment, few companies have escaped some form of restructuring over the past 15 years. In fact, part of the dilemma we are currently faced with is that in an increasing number of instances, organizations are going through these changes, not by choice but by necessity (Bowditch and Buono, 1994). Organizations and their constituents must change in order to compete and survive in a rapidly changing, globally competitive, and dynamic world. True restructuring involves much more than simply adding or selling a business, trimming staff, or reorganizing departmental configurations. Those restructuring efforts with the highest probability of creating long-term value focus on a restructuring of employee attitudes, values, and orientations (Weinstein and Leibman, 1991). Unfortunately, these intangible dimensions of organizational life are usually the last factors to be ad-
dressed in a restructuring program because they are the most difficult to control.

In 1992, the American Management Association’s (AMA) annual downsizing survey recorded the highest projected percentage of corporate cutbacks in the history of the survey (Greenberg, 1993a). By the fall of 1992, one-fourth of the 836 companies that participated in the survey already had plans in place to downsize operations by mid-1993. If past experience is any measure, downsizing will increase as time progresses. In addition, downsizing is not a one-time exercise anymore. On average, 63 percent of the companies that make cuts in a given year repeat those cuts the following year. Nine percent to 10 percent of the total workforce is let go in a typical downsizing exercise. Furthermore, downsizing in no longer a result of economic recession; the majority of the cutbacks that firms project in the future will be for strategic rather than recession-driven reasons. Typically, strategic reorganizations hit middle-level managers harder than other workers, since companies try to eliminate layers of bureaucracy and reduce expensive payrolls.

The term *downsizing* refers to the reduction of the workforce through either voluntary or involuntary means, or a combination of both. Prior to the early 1980s, organizations that were experiencing stress were forced to downsize or to reduce their workforce and were largely ignored by management and organizational theorists. In recent years, however, there has been an increasing interest in this specific area of research. Gilmore and Hirschhorn (1983) argue that it was not only the recession of the mid-1970s that stirred interest in this phenomenon, but the fact that for the first time, large numbers of white-collar workers and professionals were laid off. In reality, few American and foreign corporations will be sheltered from the trauma of massive layoffs caused by mergers and acquisitions, unfavorable industry conditions, or company-specific performance deficiencies (Tomasko, 1990). During the decades of the 1950s, 1960s, and 1970s, corporations were expanding and providing new jobs and opportunities for their constituents. With the beginning of the 1980s, conditions for growth were no longer appropriate, and companies started feeling the need for a leaner workforce by cutting their staff.

This chapter will examine the phenomenon of downsizing and its relationship to crisis management. Following this is a discussion of the strategies employed in implementing restructuring and downsizing of U.S. corporations, the impact of downsizing on the human resource element, and an analysis of the relationship, if any, between downsizing
and investment in information technology. Last, the management of organizational restructuring and downsizing is presented, and its impact on various American industries.

**DOWNSIZING: THE PHENOMENON**

If one closely examines environmental changes, one observes that downsizing is, perhaps, the most significant business change of the 1980s. Since 1979, the jobs of more than 1 million managerial and staff professionals have been eliminated (Heenan, 1989). For the workforce as a whole, the *Fortune* 500 industrial companies alone lost more than 3.2 million jobs in the 1980s (Henkoff, 1990). This loss of jobs has not been limited to the industrial sector of the economy but also has occurred in the service sector, as witnessed by the number of bank failures in recent years. According to a 1993 AMA survey on downsizing, the percentage of companies that made workforce reductions grew, but at a slower rate than previous years. Of the some 870 human resource managers who participated in the survey, 22 percent planned to make workforce reductions before the end of June 1994. Despite the fact that the number of companies making workforce reductions appears to have dropped, however, the percentage of the workforce being reduced is rising. On the industry level, and for 1993, wholesale and retail trade companies reported the largest percentage of workforce reductions, and manufacturing reported the second highest percentage of workforce reductions (Weinstein and Leibman, 1991, p. 24).

The practice of downsizing has swept organizations across the board, both public and private. Even organizations and companies which had prided themselves on maintaining employment security for their employees have had to resort to layoffs to improve efficiency and to change the course of organizational decline. The literature shows that three aspects of organizational decline leading to downsizing have received primary attention by researchers and practitioners. These are: (1) the organizational and environmental characteristics contributing to organizational decline and downsizing; (2) organizational responses to decline; and (3) the effect of decline and downsizing on employees who remain in the organization (i.e., the “survivors”).

Organizational responses to decline consist of two major categories, namely, the strategic responses that aim at coping with conditions of decline (Cameron, 1983) and the structural responses consisting of internal changes that occur within the organization itself (McKinley, 1987).
Although it is agreed by many researchers that economics is the primary force behind downsizing, Greenberg (1993a) reported that fewer than half of the reductions were forced by actual or anticipated economic downturn. “Improved staff utilization” was the stated rationale in nearly one-third of the cases and was the most frequently cited reason for large firms participating in Greenberg’s study. A common denominator in nearly all cases of downsizing is the termination of large numbers of mid-level managers. According to Drucker (1988), in the next 20 years the typical large company will have fewer than half the levels of management of its counterparts today and no more than a third the managers. Corporations will be faced with the issue of easing some employees off of the payroll as humanly as possible and of motivating the employees who remain to meet the challenges of a leaner operation (Ropp, 1987).

CRISIS MANAGEMENT AND DOWNSIZING

When we speak of organizational decline, we are referring to a “prolonged decrease in the number of personnel in an organization” (Robbins, 1990, p. 475), which is synonymous with any form of permanent retrenchment. Another term closely affiliated with organizational decline, and sometimes used interchangeably with it, is downsizing. Organizational decline, or downsizing, is becoming a fact of life for an increasing number of managers, especially those in large organizations in established industries. In recent years, for instance, Ford cut its workforce by more than 10,000 employees, AT&T eliminated 24,000 jobs, CBS cut more than 2,000 people, Motorola reduced its semiconductor group by nearly 9,000 employees, and Du Pont sweetened its retirement program to encourage 13,000 employees to make an early exit. Since the mid-1980s, few of the Fortune 500 companies have escaped this need to reduce the size of their workforce. In some U.S. industries—such as steel and textile—almost every firm has recently closed manufacturing plants and laid off a large number of employees.

Organizational decline and downsizing literature draws many of its theoretical foundations from the subfield of crisis management. The crisis management literature deals mainly with the effective management of crises in order to (1) minimize potential loss to the organization, and (2) minimize the adverse impact on the well-being of organizational members, since organizational crises produce individual crises in the form of stress (Hall and Mansfield, 1971). Consequently, organizational re-
Organizational Crisis and Downsizing

Responses to a crisis will depend to a large extent on how individuals respond to the stress from the crisis, since these same individuals determine the organizational responses to the crisis (Milburn, Schuler, and Watman, 1983). Crises originate in either the external environment or the internal environment, that is, from within the organization itself. When faced with a crisis, many organizations take a passive approach, resulting in their denials that a crisis even exists, or engaging in a variety of delaying tactics to avoid taking action. Many organizations that had experienced absolute contraction during the past two decades are characterized by the refusal of their corporate spokespersons to publicly acknowledge that a crisis existed and by the vigor with which they maintained a deceptively optimistic stance.

Fink, Beak, and Taddeo (1971) present a model of organizational crisis which describes the various stages an organization goes through as it adapts to a crisis situation. It demonstrates how organizational leaders change their responses to decline, even though the actual causes of decline remain the same (Ford, 1985). As members of the organization become aware of the fact that the survival of the organization is threatened, the organization goes through an initial stage of shock. During this period, interpersonal relations become fragmented as individuals grow more concerned with themselves, intergroup relations break down, communication is difficult, and decision making is paralyzed. The organization enters a second stage, which is called “defensive retreat,” whereby the organization imposes strict controls in order to survive. During this stage, the organization becomes more centralized, information is restricted, and planning and goal setting are short-term oriented. At this stage of the crisis, performance criteria, which prior to the crisis may have been more intangible, are now often changed to something more tangible. Hall and Mansfield (1971), in a study conducted in three research and development laboratories that had undergone downsizing, found that the primary emphasis in each case was changed to applied research from pure research. This one is much easier to quantify than the other.

The next stage of the model is the acknowledgment phase, where individuals look toward resolving the situation. Attempts are made to improve communication, leadership, and decision making to become more participative, and planning and goal setting extend beyond the short term. Here the organization also explores changes in organizational structure, since uncertainty still surrounds solutions because the system has not yet regained confidence. The most important issue at this stage
of the crisis is whether top management should be replaced so that the organization can resolve the crisis. In other words, to what extent is top management seen as part of the crisis? Starbuck, Greve, and Hedberg (1987) argue that entire groups of top managers need to be replaced in order to bring the organization out of its crisis. A number of reasons are given for this. First, a symbolic act is needed to demonstrate that the organization is on the verge of renewal; second, top management represents past strategies that have failed; and third, the organization needs new perceptions and ideas about the situation.

Organizations typically respond to decline by cutting back their scale of operations, which usually means that the size of the workforce is reduced. Many of the organizational responses to decline involve some sort of downsizing of the workforce. The two primary techniques for adjusting the workforce are attrition and layoff programs, which are discussed next as strategies for downsizing.

**STRATEGIES FOR DOWNSIZING**

Two main strategies are typically employed in downsizing: (1) early retirement and (2) forced resignation or layoff. Both usually comprise placing a ceiling on hiring. Layoffs are used broadly as a cost-cutting tactic, though some writers maintain that layoffs incur hidden costs which, in reality, outweigh any short-term cost benefits (Perry, 1984; Hardy, 1987).

Early retirement programs vary from corporation to corporation, however, all have one element in common: a financial stimulus to retire before the normal age of retirement. The degree of incentive is determined by the company’s capability to fund the cash requirements and the amount of personnel trimming needed. A potential problem with early retirement programs is that valued employees with highly desired skills may be motivated into leaving the company (Feuer, 1985). Layoffs likewise reduce operating costs by trimming the labor force, although layoff strategies differ from those of early retirement in that the decision regarding who leaves rests with the company. This control provides the company with the advantage of choosing who leaves and who stays, but such action may result in considerable economic and emotional trauma to the laid-off employees. An additional disadvantage of layoffs is the increased risk of legal action. The Age Discrimination Act of 1978 prohibits discrimination against an employee age 40 or older regarding any term or condition of employment. Violations of this act are increasing,
and layoffs are high on the list of complaints. In addition, layoffs might be in direct conflict with equal employment opportunity.

Studies have reached conflicting conclusions regarding the cost efficiency of the two strategies. Kuzmits and Sussman (1988) indicate that early retirement is likely to be a more expensive strategy than layoffs. Greenhalgh and McKersie (1980) developed a simulated downsizing scenario for the state of New York to compare the cost-effectiveness of two principal strategies: layoff and attrition. Their study showed that layoff strategy typically is not cost-effective when compared to a planned attrition strategy. The authors argue that a reduction in workforce through layoffs results in immediate, apparent savings but also costly side effects that are not fully counted and therefore not needed in decision making. These side effects include the cost of voluntary termination of valuable employees, loss in productivity, unemployment insurance charge-backs, and increased alcohol abuse. Planned attrition programs represent one way of eliminating many of the costs of these side effects while maintaining most of the savings of layoffs.

Layoffs could be viewed as a reactive response to organizational decline, whereby little regard is given for the human resource element in the organization. This diminished consideration for human resources tends to have a negative impact on individuals remaining within the organization. Hardy (1987) argues that there are numerous other methods for achieving downsizing that would take into consideration the needs of the organization, as well as the needs of individuals leaving and individuals remaining within the organization, and as such could be viewed as being more proactive. These might reduce many of the uncertainties associated with cutbacks and might persuade individuals remaining in the organization that the specific actions were taken in order to increase efficiency and profitability (Hardy, 1987). These methods include attrition, severance pay to induce attrition, early retirement, outplacement assistance, transfers to other locations, retraining allowances, work sharing, and leaves of absence (Perry, 1986). It is argued that the use of these techniques, along with the manner in which the downsizing program is designed and implemented, will determine whether the organization will in fact achieve increased efficiency and cost-competitiveness, and whether the organization can avoid the dysfunctional outcomes associated with downsizing.

Greenhalgh, Lawrence, and Sutton (1988) present a five-level hierarchy of strategies for reducing the size of the workforce. These are natural attrition, induced redeployment, involuntary redeployment, layoffs with
outplacement assistance, and layoffs without outplacement assistance. The choice of the appropriate strategy is influenced by the trade-off managers are willing to make; that is, protection of employees’ well-being versus short-term cost savings to the organization. Layoffs without outplacement assistance provide the least protection for employees and natural attrition the most. Yet from the organization’s standpoint, layoffs without outplacement assistance provide the greatest short-term savings and natural attrition the least.

Applebaum, Simpson, and Shapiro (1987) argue that a well-planned downsizing program can lead to a revitalization of the organization. Such a program would integrate human resources planning and strategic planning so that strategies for the future would include the organization’s future employment needs and human resource adjustments needed to meet them. They also argue that all possible alternatives to layoffs should be considered. However, if downsizing is unavoidable, the following factors are important for successful implementation: (1) choosing appropriate selection criteria, such as seniority, job analyses, performance appraisals, and division profits analyses; (2) choosing an appropriate time frame; (3) conducting the planning for downsizing in sufficient secrecy to avoid the negative effects of the internal grapevine; and (4) clearly communicating the reasons for downsizing. Applebaum et al. also propose that various outplacement assistance programs should be implemented. This not only benefits departing employees but also serves to maintain a reputation of a good employer and should have a positive impact on employees remaining in the organization.

A frequent concomitant of the slowing down of promotional opportunities and organizational delayering is an increasing focus on lateral transfers. Lateral transfers are job changes to positions at the same level or pay grade. While determining the pay implications of a lateral transfer, compensation professionals are faced with numerous alternatives: (1) Provide no compensation increases for lateral moves; (2) Focus on career development; (3) Treat lateral moves like promotions; (4) Develop a special program; and (5) Prorate pay increases (Kanin-Lovers, 1993). Organizations that implement a program to support lateral transfers must carefully define what a qualified lateral move is.

Until recently, implementing layoffs in organizations has been thought of as a procedure to be “gotten through” rather than one that affords the company with an important opportunity (Brockner, 1988). Several problem areas are identified during the implementation phase of a layoff program. The most striking problem is what Levine (1979) refers to as
the "efficiency paradox." Across-the-board cuts leave the efficient manager exposed, while the inefficient manager can easily absorb cuts by adopting his or her more efficient techniques.

Managers of human resources who have masterminded downsizing programs emphasize the fact that there is no magic formula to downsizing. Silverthorne (1987) outlined the following principles as being part of a successful downsizing strategy to ensure that a reasonable situation exists when a decision is made to downsize:

1. View any attrition in staff as an opportunity for change. The decision to fill a vacancy should not be an automatic response to the fact that it exists.
2. Select and develop employees more carefully than ever. When filling positions, particularly in the management ranks, organizations must seek out generalists.
3. Plan for a certain level of turnover. Employees today tend to be loyal to a profession rather than to a particular organization.
4. Encourage open communication within the organization.
5. Recognize that change will be continuous. The best way to handle workforce reductions is to put into place an ongoing model that ensures that continuous change can occur (Silverthorne, 1987, pp. 62–63).

Outplacement programs afford a means for managers to express their concern for terminated employees. It is a common practice in our day for organizations to provide counseling, coaching, lessons in job hunting, interview techniques, career planning, and resume writing for their terminated employees. In a survey of Fortune 500 corporations, Fulmer (1985) found that 63 percent of the chief operating officers who responded to the survey reported that their companies had some kind of outplacement programs for their employees.

**IMPACT OF DOWNSIZING ON HUMAN RESOURCES**

Downsizing often achieves its immediate objective of increased efficiency, but it does have a price; the relationship between remaining workers and the company may never be the same. The commitment of employees to their companies has long been seen as an essential element of a successful corporation. In fact, many who study Japanese businesses contend that one secret to their success is their emphasis on ensuring that workers’ interests match those of their companies’ so that everyone is working toward a common set of goals. Employees who see their
colleagues being let go all around them are much less likely to remain loyal to their company. Persons who feel that their jobs are on the line may start thinking more about their personal security than about company loyalty. Downsizing and the resulting change in employee commitment threaten to change the way American workers view themselves and their jobs. Afraid of being laid off, many employees are now more concerned with how their skills will appear in the job market than with how well they are climbing the corporate ladder.

Downsizing, then, has changed the ways in which companies and their employees relate. Traditionally, loyalty was rewarded with security. However, with many organizations downsizing, they are no longer able or willing to guarantee lifelong employment. When companies downsize and lay off employees, they expect the remaining employees to pull together for the common good. Instead, companies often discover that employees have become suspicious and less productive. When employees feel less loyal, they focus on protecting their self-interests rather than on working for the good of the firm.

The small number of studies focusing on the impact of downsizing on the surviving workforce has concluded that, depending on inner and outer environmental conditions, downsizing may affect a variety of survivors’ work behaviors and attitudes. Survivors’ reactions to downsizing have potentially important implications on the survival of organizations. Empirical research dealing with organizational decline and downsizing has been associated with low levels of morale (Billings, Milburn, and Schaalman, 1980), loss of leader credibility (Kantz, 1985), increased uncertainty and ambiguity (Hall and Mansfield, 1971), heightened level of mistrust and insecurity (Hardy, 1987), and a decrease in participation and greater emphasis on control (Cameron et al., 1983).

In an early study, Hershey (1972) compared employees’ behavior during an anticipatory period between those employees who knew they were to be laid off and others who knew they would be retained. Production efficiency, absenteeism, and lateness to work were measured in each of the two groups using secondary data. The study was limited to manufacturing, nonsupervisory, hourly personnel. Hershey found no significant difference between the two groups. He did, however, raise the issue that his study was carried out during a period when it was relatively easy to find another job, and this may have influenced his findings.

Gannon, Foreman, and Pugh (1973) studied the effects of a reduction in the workforce on the attitudes of engineers. They compared the atti-
tudes of engineers still working for the company with those who were laid off. Results of the study showed no significant difference between the two groups in the three attitudinal scales of indifference, job involvement, and sense of duty. Gannon et al., however, found that the terminated engineers showed significantly more positive attitudes toward their ability to adapt to nondefense work, which might be attributed to the fact that many terminated engineers had found work elsewhere.

Relationships between beliefs about why employees voluntarily leave the organization and the job attitudes of employees in the organization were examined in a study performed by Mowday (1981). Participants in the study were reminded that several of their fellow employees had voluntarily left the organization and were asked to indicate which reason they thought was most important in explaining the turnover that had taken place. The choices available were: (1) dissatisfaction with their job; (2) attraction to a job elsewhere; and (3) both reasons were of equal importance. Results of the study pointed to the fact that organizational commitment was the most important variable in differentiating between survivors and those laid off, followed by job satisfaction.

Similarly, Krackhardt and Porter (1985) examined the effects of organizational turnover on the attitudes of those who remained in the organization. Three fast food restaurants were chosen for the study because of their history of high rate of turnover. The main hypothesis tested by the authors was that the effects of turnover on coworkers is dependent on how close in the friendship network the employee who left the organization was to the employee who stayed, as perceived by the latter. The findings supported this hypothesis, that is, the authors concluded that there is a positive correlation between commitment to work and the degree to which friends leave. The closer the friendship, the higher the degree of respondent commitment.

Brockner and his associates have completed several studies focusing on the survivors of downsizing. Most of their work utilized equity theory as the backbone to study the impact of several factors on survivors’ behaviors and beliefs. In their initial study, Brockner, Davy, and Carter (1985) studied the effect of downsizing the workforce on the subsequent productivity of survivors. Results of the study showed that survivors increased the quantity but not the quality of their work content.

In a recent study, Brockner, Grover, O’Mally, DeWitt, Reed, and Glynn (1992) examined the effects of downsizing-produced job insecurity on survivors’ reaction to the layoff. The results of the study showed that as job insecurity moved from low to moderate levels, work effort increased.
However, as job insecurity moved from moderate to high levels, work effort decreased.

To sum up, when companies downsize, they often focus their energies on the people who are to be dismissed. These organizations tend to ignore the problems experienced by employees who remain with the company. Unfortunately, the emotional fallout and alienation of those who stay can have a negative influence on individual and corporate productivity. It has been suggested in the literature that the solution might lie in a carefully constructed corporate policy aimed at alleviating fears and bringing the new, leaner workforce back. The first step is to ensure that employees understand the case for change. The decline and downsizing of the organization can be threatening to employees, and this threat is experienced as some level of job insecurity. Previous research suggests that a survivors’ perception of fairness and stress plays a significant role in mediating the behavioral and attitudinal consequences of downsizing. In addition, the review of the research on downsizing has proven that the impact of downsizing goes beyond mere economic considerations. The method chosen to reduce the workforce affects not only the organization’s economic status but also the performance of the surviving workforce, the success of current and future business strategies, and the organization’s culture and image.

From this extensive literature review, both theoretical and practical, one could conclude that winning companies avoid the need to downsize by mastering the process of “rightsizing”—a continuous, proactive assessment of mission-critical work and its staffing requirements. To initiate such strategies, companies must begin at the top of the organization.

DOWNSIZING AND INFORMATION TECHNOLOGY

Different organizational objectives require different information technology (IT) as well as dissimilar implementations of that technology. One of the objectives of this book is to show that some form of relationship exists between the downsizing activity and the level of investment in information technology.

The recession of the late 1980s and and the 1990s turned out to be more severe than previously expected, which caused companies to cut their IT budgets. However, this was done carefully, since IT is perceived as an establisher of competitive edges, a money maker, and a means to strategic ends. While wanting to reduce costs, organizations are not willing to sacrifice key strategic potentials, especially those related to cus-
Organizational Crisis and Downsizing

Customer service. As a result, companies are giving their chief information officers (CIOs) more leeway. A majority of CIOs are facing their greatest challenge of paring down while moving ahead. Robert Cawly, managing director of the applied technology center at Price Waterhouse, said the trick is to run “lean and mean” but to not cut into bone and muscle. Michael Simmons, Bank of Boston’s Group Executive for Technology and Operations, noted that some IT investments are crucial in keeping downsizing efforts from damaging the company. Simmons is counting on information technology to be able to use resources more efficiently (Freedman, 1991).

Information technology is enabling and, in some cases, driving dramatic changes in the structure and operation of organizations. Movements such as downsizing and delayering, team-based organizational structures, dominance of knowledge workers, and global communication networks are reflections of changes that have become reality. Corporations are facing a new economy, new competitors, new rules of competition, new technologies, and a changing workforce; to survive, these organizations will have to think and act globally, focus clearly on customers, develop greater flexibility and responsiveness, and shrink their information float—the time it takes to make decisions—to remain competitive. It now is a known fact that competitive advantage is derived from the quality and speed of information handling.

IMPACT OF THE VARIOUS INDUSTRIES

In the past few years, many corporations that downsized their workforce and restructured their design introduced some changes in their IT investment levels, design, and structure. These changes were more pronounced in some industries than others. In the petroleum industry, for instance, companies continue their restructuring efforts. Chevron Corporation has made progress in its cost-cutting efforts. As a result of a study focusing on cutting headquarters staff costs, the company will reduce its headquarters staff in San Francisco by about 28 percent. The changes will result in a net reduction of about 1,000 positions from early 1992 staff levels. Chevron also is in the process of restructuring its in-house information technology service organization, Chevron Information Technology Co., a move which is expected to reduce costs another $35 million to $45 million a year. In other restructuring action, Arkla Inc. approved a restructuring plan that includes the sale of its upstream unit, effectively pulling out of exploration and development. In addition,
Arkla had exited the intrastate gas pipeline business in Louisiana and divested certain distribution properties in noncore areas. Meanwhile, France’s Total is implementing a comprehensive restructuring program, which started by taking charge of 600 million francs against 1992 earnings related to the restructuring and a write-down of undisclosed assets, which is associated with a revamping of its information technology systems (‘‘Companies press restructuring moves,’’ 1992).

In the information technology industry, some hardware prices have fallen by more than 25 percent per year. As profits fell, it became clear to many companies that the ratio of support workers to those directly earning revenue, whether through hardware, software, or services, must decrease in order to enhance revenue and restrain or reverse the reductions in margins. IBM had to resort to voluntary redundancy and offer appropriate incentives to its employees. It targeted groups ranging in age from 40 to 50 years old. Scarce skills had to be protected, as it would be foolish to pay large sums for the departure of employees whose knowledge and competencies would have to be replaced. A lump-sum payment of one month’s pay for each year of service, at a maximum of 24 months’ pay, was given to some employees to take a pension at age 50 instead of age 53.

Economic recession and rapidly changing business models forced many electronic businesses to write off nonproductive units and dead-end businesses in the period 1991–1993. Large corporations such as IBM, DEC, and National Semiconductor took one-time charges to downsize their workforces, refocus on core businesses, and adjust to the more open, service-heavy business models of the 1990s. Besides recession, other pressures that contributed to the restructuring included computer price wars, accounting changes, and currency fluctuations. With the weak recovery doing little to increase revenues or profits, many industry observers predict a continuing cycle of write-offs and layoffs. For major computer companies in the United States, 1991 was about rapid reorganization, while 1992 and 1993 became the years of realization. Companies such as IBM and DEC were forced to acknowledge that hasty layoffs and restructuring activities were not sufficient to halt the trend of receding revenues. As a result of negative results, there was an unprecedented number of high-profile resignations in the last months of 1992 and in 1993. Executives departing firms in the fiscal year 1992 included: (1) Ken Olson, founder of Digital Equipment Corporation; (2) John Young, president and chief executive officer of Hewlett-Packard Company; (3) Richard Miller, chairman and chief executive officer of
Wang Laboratories Inc.; and (4) John Akers, chief executive officer of IBM Corporation. Tom Willmott of the Aberdeen Group noted that the 1990s have been geared toward components-based information technology, which had to be managed according to a different set of economies. Willmott predicted the 1993 and 1994 success for internetworking suppliers, color laptop vendors, suppliers of point-and-click development tools, and independent relational database management vendors (Eastwood, 1993).

After its managerial restructuring, Lockheed Corporation recently announced the “Year 2000,” a master plan for implementing a new information technology strategy that will effectively change the way in which the company operates. The most immediate effect of the plan will be the consolidation of thirteen subsidiary IT operations into a newly formed division, Lockheed Information Technology Co. The purpose of the consolidation is to eliminate redundancy, cut costs, and make IT more responsive to business requirements. The reorganization also will allow Lockheed to realize greater efficiencies associated with running a large-scale data processing operation (Flynn, 1992).

The teeth of downsizing took a large bite out of the telecommunications industry. U.S. West Communications, for instance, was forced to downsize to remain competitive (Tarr and Juliano, 1992). Consolidation of three separate companies led to three staff groups doing the same work. The pressure to downsize resulted from a higher cost structure relative to newer communications firms. The consolidation of information systems functions reduced the cost structure and provided the opportunity to become more efficient in delivering information technology services to clients. Uncertainty about job security resulted from a series of layoffs. A large part of the job security issue involved giving employees confidence in the company’s direction and then implementing the workforce reductions needed to achieve company goals. While continued competition mandated that cost structure be reduced, senior management was open and honest about the potential for continued downsizing. At the departmental level, downsizing has been positive in that it has forced consolidation of the organization and the responsibilities of a large number of employees.

One of the most dynamic/changing sectors of the U.S. economy is the health care segment. Restructuring and downsizing has affected many health care companies in the 1990s. Hospitals and health care entities are mainly concerned about the effects of health care reform on their local economies. If reform dictates a more intensive need for cost containment,
many hospitals may downsize their workforces. Layoffs could be a problem in large cities with a surplus of hospitals and in rural communities in which hospitals are the largest employers. Lost jobs may not be the inevitable consequence of reform, however. Some believe that the surge in access to health care which will follow universal coverage will increase utilization and hospital funding, specifically in revamping their information technology structure. Spending could rise, which would be good for health care employers, but consolidation and mergers could be devastating. Under integrated information technology systems, middle managers, support staff, and semiskilled and unskilled workers may find themselves out of work, however. In May 1993, for instance, the governor of Washington State signed the Health Services Act, which requires that all Washington State residents have access to a uniform array of health care services by 1999. The law required employers to provide insurance coverage to employees by 1995 and placed a cap on premiums that insurers could charge for health care plans. This led hospitals to downsize and consolidate services. A number of factors have combined to accelerate the rate of health care changes in Washington. Hospitals have been challenged to determine what customers want and to develop the correct structure that allows them to first bid and receive contracts. This necessitated collaboration and affiliation with other hospitals. Business had to be conducted with new rules, which consequently required better telecommunications and information technology systems.

In the pharmaceutical industry, restructuring and downsizing has been the latest game played by many firms. Johnson & Johnson (J&J), for instance, is projected to change more over the next decade and a half than in all of the previous years of the company’s history combined. J&J is becoming more cost-effective by improving productivity, leveraging its physical and human resources, upgrading its information technology systems, and reducing the size of its managerial bureaucracy. The company also is becoming more quality conscious and more aggressively competitive. In addition, J&J is in the process of redefining the role of the corporation from one of passive compliance to one of active leadership in its industries and communities. The success that J&J has achieved to date is the result of a relentless effort to become closer to, and to better understand, the needs of people (Larsen, 1993).

Bristol-Myers Squibb Co., the nation’s second largest drugmaker, announced the elimination of 2,300 of its 38,000 jobs in 1992. Bristol’s weak gains in earnings for 1992 and 1993 is evidence that drugmakers expe-
rienced difficulties. In 1992, several dealt with subpar sales, disappointing earnings, or layoffs. Prospects will not improve any time soon either. The government is insisting that makers of pharmaceuticals contain price hikes. During the 1980s, drugmakers hiked prices an average of 9.6 percent annually—more than double the inflation rate (Weber, 1992). Double-digit gains in annual revenues and profits were regularly tallied by these same companies. Now, cost cutting to fend off hard times is becoming routine. In early 1993, Syntex announced a plan to downsize either through layoffs or attrition, while Eli Lilly & Co. streamlined manufacturing. The industry contraction is symptomatic of a much deeper problem: drugmakers have few blockbuster products in development.

Public relations (PR) firms are facing dramatic changes just as much as the clients they serve, principally corporate United States. Costs must be reduced and controlled, productivity must increase, and organizations—agency or PR departments—must be more customer driven. The profession has permitted itself to be perceived as a commodity product and not as an integral part of management’s decision-making process. This has given rise to the creation of specialties, each designed to tap into a popular need of a client at a particular time (Budd, 1993). It is a desperate effort to find ways to be of service and to absorb the immense overhead burden that is making the client second to the income statement. Agencies and large corporate PR departments are downsizing. In addition to improving and upgrading their information technology systems, especially telecommunications, agencies must look for capable generalists whose mastery of skills is applicable across the board.

Restructuring and downsizing has also had a great impact on several branches of the federal government. According to the Clinton administration’s plan to reinvent government, information technology will and is playing a central role in streamlining federal bureaucracy and improving public services. The plan calls for wide deployment of networks, on-line databases, and citizen-accessible applications intended to create an electronic government in which federal agencies establish digital links with one another and with the public.

Downsizing has not been the name of the game only in the United States; as a matter of fact, this game is being played internationally. The French aerospace industry is experiencing a severe decline, putting French companies under pressure to improve efficiency, to downsize, to revamp their information technology structure, and to increase exports. In 1992, sales dropped 9 percent to $17.5 billion at current exchange rates,
and the workforce declined by 7 percent to 111,300. A lack of planning by the French Ministry of Defense was blamed for these changes (Velocci, 1993).

Buoyed by the bubble economy and worried about widespread projections of future manpower shortages, Japanese companies went on a hiring binge for several years. Now an estimated 1 million redundant employees are wandering around Japan’s big corporations. Many of these corporations are using the current economic slump to dismantle the headquarters structure, downsize support divisions, invest heavily in information technology, and, for all practical purposes, put an end to the lifetime employment system. The productivity of salaried employees at Japan’s major corporations is surprisingly low. They have sold themselves to the corporate community on the basis of their loyalty to the firm, not their ability to do the job. Clearly the time when the salaried employees of large corporations could expect to relax and be taken care of is past. Employees must strike out on their own, developing their own skills and making their own way in the corporation (Uchida, 1993).

In an attempt to make Thailand’s soldiers more professional, the Thai military has initiated a reform program to downsize the 200,000-strong standing army, tighten the reserve corps, improve training, and generally make the country’s military more efficient and responsive (Tasker, 1993).

From the above-mentioned examples, it is clear that many corporations have combined their organizational-managerial restructuring function and downsizing activities with a change in (1) the structure and design of their information technology, (2) the management of their information technology, and (3) the patterns of investment in information technology. What is not yet clear is the nature of the relationship(s) between the restructuring/downsizing activities and the changes in information technology management and investment; one of the objectives of this book is to clarify this issue.

MANAGING ORGANIZATIONAL DOWNSIZING

Research suggests that there are a number of issues that should be considered and support structures that should be developed prior to any downsizing initiative (Heenan, 1989). These issues include, but are not limited to (1) problem recognition and initial downsizing decision, (2) strategic planning, (3) consideration of alternatives, (4) preparatory actions, (5) development of specific action plans, (6) downsizing program
components, (7) communication and implementation, (8) assistance to 
displaced personnel, and (9) follow-up and rebuilding.

Many problems face managers during the course of organizational 
decline and downsizing. These include: (1) increased conflict; (2) in-
creased politicking; (3) increased resistance to change; (4) loss of top-
management credibility; (5) change in workforce composition; (6) 
increased voluntary turnover; and (7) decaying employee motivation.

There are no magic techniques available to management that can over-
come the many negative outcomes associated with organizational down-
sizing and decline. But some things seem to work better than others. 
These include clarifying the organization’s strategy, increasing commu-
ication, centralizing decision making, redesigning jobs, and developing 
innovative approaches to cutbacks (Robbins, 1990). Management needs 
to attack directly the ambiguity that organizational decline and down-
sizing creates among employees. This is best done by clarifying the or-
ganization’s strategy and goals. Where is the organization going? What 
is its future and potential? By addressing these questions, management 
demonstrates that it understands the problem and has a vision for what 
the new, smaller organization will look like. Employees want to believe 
that management is not content to sit back and run a “going-out-of-
business” sale.

Organizational downsizing demands that management do a lot of 
communicating with employees. The primary focus of this communica-
tion should be downward; specifically, explaining the rationale for 
changes that will have to be made. But there also should be upward 
communication to provide employees the opportunity to vent their fears 
and frustrations, and to have important questions answered. This will 
place a premium on management’s making every effort to explain clearly 
the reasons for and implications of all significant changes.

Centralizing decisions is another action that makes a great deal of 
sense. When cuts are made in personnel, the opportunity is created for 
management to consolidate and redesign jobs. If the decline appears to 
be arrested and fears of further layoffs subside, redesigning jobs to make 
them more challenging and motivating can turn a problem into an op-
portunity. Another recommendation for managing organizational down-
sizing is for management to look for innovative ways to deal with the 
problems inherent in cutbacks. Some organizations, for instance, have 
offered attractive incentives to encourage employees to take early retire-
ment; some have provided outplacement services to laid-off employees;
and some have imposed work-hour reduction programs to replace layoffs, whereby all employees shared in the cutback by working only 25 to 30 hours a week (Robbins, 1990).

While the above considerations propose an enlightened approach to the difficult decisions inherent in the downsizing process, in far too many instances such recommendations are not followed, leading to rising tensions and conflicts and stressful uncertainties for organizational members. There is usually: (1) an overly narrow, restricted focus on technical concerns at the expense of broader organizational realities; (2) an emphasis on finances and tactics at the expense of production, service, innovation, and long-term strategies; (3) an emphasis on short-term shareholder value at the expense of broader stakeholder needs; and (4) an emphasis on power and the political machinations at the expense of the individuals who are caught up in the process (Buono and Bowditch, 1989).

SUMMARY

While a number of the top U.S. companies are exhibiting stronger earnings, this is not largely the result of efforts over the past few years to restructure and downsize, but may be the result of a strengthening U.S. economy. The unemployment rate is holding steady at over 7 percent, and the only business sector that looks reasonably healthy is small businesses with new products. Even the service sector is overloaded with workers. Health care, financial services, food service, wholesale-retail trade, and transportation are all downsizing now, just as manufacturers did in the 1980s.

Faced with a tough economic climate, rising costs, and severe competitive pressures that have forced big corporations to downsize in recent years, small companies are going through their own painful restructuring. There are differences, however, in the remedies available to these small companies as they strive to become more efficient. Small companies have to take more innovative approaches. Some are pooling their efforts in fields such as marketing and distribution. Many have even formed purchasing cooperatives so they can buy in bulk and obtain better prices from suppliers. Others are training their workers to be more productive, while some are investing in technology to keep their businesses growing.
REFERENCES


Relative Index for Downsizing Employees (RIDE) and Company Performance

INTRODUCTION

Despite frequent and ongoing downsizing activities by U.S. corporations, expected positive economic outcomes of downsizing are often elusive (Cascio, 1993). For example, downsizing may not always lead to improvement in firm profitability. A 1991 Waytt Company report indicated that 54 percent of organizations that undertook the downsizing exercise were unable to reduce overall expenses, and 78 percent were unable to increase productivity. This same report stated that 88 percent of those companies failed to increase their market share. Many organizational benefits fail to develop as expected. As stated by Heenan (1993), these expected organizational benefits include lower overhead, less bureaucracy in the control and implementation of decisions, better quality and faster pace of decision making, and smoother communications.

Organizations can decline without downsizing, and they can proactively downsize without experiencing decline (Sutton and D’Aunno, 1989). It is extremely important to not mistake cause with effect. Downsizing is a deliberate strategy to be implemented rather than a condition that management might desire to correct. Downsizing, then, is a strategic
move made by management to improve the organization’s performance relative to its environment.

This chapter adds to the existing level of knowledge regarding the general phenomenon of downsizing and its relationship to the level and pervasiveness of the quality and performance of the organization. Two chief objectives are addressed and accomplished here. First, the development of an objective measure of the relationship between the level of downsizing and a company’s performance relative to its competitors; and second, the empirical application of this objective measure on a number of large U.S. corporations which have downsized their employees in the past fifteen years.

Corporate downsizing of privately and publicly owned firms has been a common occurrence in recent years. This phenomenon has become a popular method for streamlining organizations. More than half of the Fortune 500 corporations have slashed their corporate staffs since 1979, and millions of managerial and staff positions have been eliminated. The magnitude of restructuring events, both in terms of value and actual numbers, indicates that downsizing is an important corporate activity which is usually accompanied by strategic orientation, leading to a severe reduction in the workforce.

The global economic recession has forced companies to look closely at the ways in which they can cut costs. In recent years, some of the United States’ biggest and best-known companies have downsized. For instance, Sears, Roebuck & Co. eliminated 50,000 jobs during 1994, and The Boeing Company, the world’s largest manufacturer of commercial aircraft, dramatically scaled back production and employment levels by more than 20,000 jobs in 1995.

The research literature on downsizing has focused on two broad areas: the effect of downsizing on departing employees, and the consequences of downsizing on survivors.

The purpose of this chapter is to analyze and assess the general phenomenon of downsizing and its relationship to the level and pervasiveness of the quality and performance of an organization.

The following section of this chapter summarizes the literature on restructuring and downsizing; then an objective measure is devised to relatively evaluate the impact of downsizing on a company’s performance. This is accomplished through the development of the Relative Index for Downsizing Employees (RIDE), which is the major contribution of this chapter. The RIDE index is then applied to 598 large corporations in the United States to test the hypothesis that employee downsizing has not
accomplished the primary objective cited by the majority of corporations which have undertaken that exercise, that is, achieving a more effective, efficient use of their resources and improving performance.

CORPORATE DOWNSIZING AND PERFORMANCE

Corporate downsizing is a concept that is not completely defined or specified. In a general perspective, however, it is used to describe different types of corporate renewal. The activities included under this broad concept range from internal organizational change to activities designed to facilitate changes in strategic orientation. In defining downsizing, we will employ Freeman and Cameron’s (1993) four attributes of downsizing. First, downsizing is an activity that members of an organization undertake in a purposeful manner. Second, downsizing typically involves a reduction in personnel. Third, the focus of the downsizing activity is on improving effectiveness and/or efficiency in the organization. And fourth, downsizing affects the work processes (directly or indirectly) within an organization. According to Freeman and Cameron, the above-stated attributes are important in distinguishing downsizing from organizational decline, growth in reverse, and non-adaptation. Other researchers also have distinguished downsizing from what they refer to as “downscoping” (Hoskisson and Hitt, 1994). In this book, then, corporate downsizing refers to the process through which organizations redirect their actions in order to achieve a more efficient, effective use of their resources, thereby increasing the wealth of the stockholders through a reduction of the workforce. Downsizing activities may be brought about either internally or externally, depending on management’s preferences and organizational characteristics. Some researchers (Hoskisson and Turk, 1990, and Hoskisson and Hitt, 1994) have suggested that many corporate downsizing activities are a response to a firm’s relatively poor performance. Those researchers concluded that organizational poor performance was an outcome of diversification strategies and conglomerate activities of the 1960s, 1970s, and 1980s. More recently, the literature provided empirical studies that supported the relationship between overdiversification, poor performance, and corporate downsizing, where the restructuring activity focused on reducing diversification through downsizing. In addition, there is some indication that most firms engaging in strategic reorientation reduced the level of their workforce.

It also should be recognized that managers may anticipate reductions
in a firm’s performance and engage in corporate downsizing prior to the actual decrease in performance. In other words, downsizing activities may be either internally or externally induced in response to either an actual or anticipated reduction in a firm’s performance. The inability of corporate managers to effectively evaluate and monitor division-level managers may lead to inappropriate division-level managerial activity and relatively poor corporate performance. In this context, corporate restructuring implies that firms reduce their size and/or scope through downsizing in an effort to correct the problem and restore the firm to an acceptable level of performance.

In the past few years, many corporations that downsized their workforce and restructured their design introduced some changes in their resource deployment levels, design, and structure. These changes were more pronounced in some industries than others. Hard hit were the retail, aerospace, and petroleum industries.

To define the linkage between the degree of downsizing and business performance, some understanding of the business itself, and its structure, objectives, and interactions with customers, suppliers, and the rest of the outer and inner environments, is necessary as each business has a particular relationship to its suppliers and customers. Each business buys materials, supplies, products, or services from suppliers, and sells materials, supplies, products, or services to a downstream enterprise. Over the course of the different processes, a business attempts to create a competitive advantage by creating a distinctiveness that encourages the buyer to choose the company’s product over its competitors’, and encourages the supplier to provide preferential treatment to this company. Does the action of downsizing employees help in the differentiation process through improving the quality of the product itself or changes in the ways in which the product is provided to the buyer? I do not believe any of us possess the answer to that question. On the other hand, though, and as with other types of restructuring, the market responds favorably to the announcement of organizational downsizing. However, this author is not aware of any study linking stock prices and downsizing; there are many studies which have examined how the market reacts to other types of restructuring, such as mergers, acquisitions, or leveraged buyouts. Amihud (Amihud and Mendelson, 1989), for instance, indicates that stock prices increase approximately 24 percent over the stock price 20 days prior to the announcement of a leveraged buyout attempt. Kaplan (1989), Lehn and Poulsen (1989), and Maupin (1987) all report stock price increases ranging from 13 percent to 29 percent around the announcement date of the leveraged buyout. In addition, the author is
not aware of any study or attempt to study the objective relationship between the degree of downsizing and improvement in a company’s performance, if any. It is safe to state then that in many instances the degree of downsizing is decided arbitrarily, and that many companies adopt a “follow the leader” attitude in their downsizing decisions. A perfect example is the announcement by AT&T in 1995 to downsize 40,000 jobs, which the company turned around a week later and modified its numbers to 20,000 jobs!

For most organizations, the outcome of organizational downsizing is not only painful but unsuccessful. In many cases, firms fail to take into consideration the “people factor.” Sometimes firms that undertake this “exercise” fail to keep managers and employees adequately informed about the changes taking place in their organizations. Moreover, top management does not give middle-level managers, who are responsible for implementing change, adequate training for those tasks. This results in poor worker morale, management confusion, reduced worker productivity, and a lack of commitment to the downsized firm.

It is the belief of this author that many organizations that have downsized have not achieved the benefits of increased productivity, but rather have simply become smaller companies. This happens because companies do not realize that to achieve increased manpower productivity, an organization needs a number of control measures. Equally necessary is the ability to monitor budgets accurately and regularly, which requires an effective investment in various resources. For instance, an effective computerized personnel information system is most needed during periods of immense organizational change and downsizing. To both reduce costs and to improve the service that personnel provides, administrative routines have to be automated. In addition, data needs to be captured at the source, and the line should have direct access to information and be able to run many of its personnel processes without intervention. Unfortunately, implementing such measures happens to be the exception rather than the rule in the United States, and most likely globally.

In the following section, the author develops an objective index that measures the relative impact of downsizing on organizational performance, as measured by the return on sales (ROS).

**RELATIVE INDEX FOR DOWNSIZING EMPLOYEES (RIDE)**

Based on the discussion in the previous section, it can be concluded that the decision of how much to downsize is a nagging question that
concerns human resource managers and top-level executives in many corporations, not only in the United States but globally in most developed countries. Most important, empirical research dealing with the relationship between corporate performance and the degree of downsizing has been absent.

To define the relationship between the size of the corporation as it is measured by the number of employees, and the number of jobs to cut, some understanding of the organization and its structure, goals, and objectives is imperative, since each firm has its organizational-specific characteristics. Each organization has a different way of interacting with its inner and outer environments, and each has a particular relationship with its customers and suppliers. In this section, an index is developed to measure the degree of downsizing in a corporation. This index is called the relative index for downsizing employees (RIDE). As discussed earlier, most companies reduce their labor force, or downsize, in an effort to cut costs and become more efficient and effective. However, how deep a company cuts its labor force can be measured in a variety of ways. But all appropriate measures are necessarily dynamic, since they must be related to indicators of change in the firm’s employment profile and its performance in a given area and over a period of time. Since the level of downsizing is industry-specific, its impact on a corporation’s financial performance can be evaluated through looking at its “relative comparative advantage.” Examining the observed pattern of downsizing and performance relationships according to this criterion allows the influences determining a company’s comparative advantage of reducing its labor force to be taken into consideration without testing them directly.

Relative advantage, in general, has been defined by Rogers (1983) as “the degree to which an innovation is perceived as being better than the idea it supersedes” (p. 213). The revealed comparative advantage criterion for a specific company boils down to developing an index that is obtained by dividing the company’s downsizing index by the industry’s downsizing index, or the RIDE. The company’s downsizing index is the ratio of the incremental return on sales (ROS) generated and the number of employees downsized. This would yield the incremental ROS generated (in percentage terms) for each employee cut. Performance is most often measured by profits to sales or profits-to-assets ratios. In this book, the ROS measure is utilized to avoid the effects of differential asset valuations resulting from new investment and depreciation. The company’s downsizing index is computed by taking the difference between average ROS figures for the three years prior to downsizing and average ROS
figures for the three years subsequent to downsizing. The judgment to use the average figures is reasonable in that it reduces the bias introduced by abnormal ROS figures for a single year. For instance, the year of downsizing is characterized by abnormal profits due to turmoil in the inner environment, or to untenable frenzy in the marketplace. The confusion caused by the negative response of the subsystems constituting the company’s microenvironment might subsequently lead to lower performance, hence, to lower-than-normal profits. On the other hand, stock market response might be so positive that it would drive the stock price above its rational level, leading to more profits than expected. In summary, profits generated in the year of the downsizing decision should be treated with extreme care. The reason behind using the profits generated two years after downsizing is based on the belief that it takes at least two years for the downsized company to stabilize.

The industry’s downsizing index is the average downsizing index for the whole industry. In other words, it is the ratio of the sum of incremental return on sales of all companies in a particular industry and the sum of all employees downsized for the same companies. If the revealed downsizing index for a specific company is greater than 1, this company has a downsizing-related advantage over its competitors. (In other words, among other factors, the downsizing decision of a company resulted in a higher level of performance vis-à-vis its competitors.) On the other hand, if the revealed downsizing index is less than 1, the company is not benefiting from its reduction in the labor force, and/or it is not adjusting appropriately to compete in the industry.

The RIDE measure of downsizing/performance circumvents the problem of industry specificity, since it takes into account the level of labor force reduction in the entire industry. In other words, someone can conduct an empirical study on a sample of corporations in different industries without worrying about the bias introduced by industry specificity. The following section describes the application of RIDE on 598 corporations in the United States that downsized their labor force between 1980 and 1993.

**DESIGN AND SAMPLING PROCEDURE**

Different types of research designs are appropriate to different questions and situations. To collect data on the number of downsized employees, the author relied on the popular press and on the specific company’s annual reports. Where possible, data on profits was cross-
Table 4.1
Sample Distribution by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
<td>12</td>
<td>0.020067</td>
</tr>
<tr>
<td>Automotive</td>
<td>18</td>
<td>0.030100</td>
</tr>
<tr>
<td>Business Machines</td>
<td>14</td>
<td>0.023411</td>
</tr>
<tr>
<td>Chemicals</td>
<td>31</td>
<td>0.051839</td>
</tr>
<tr>
<td>Computers</td>
<td>111</td>
<td>0.185619</td>
</tr>
<tr>
<td>Conglomerates</td>
<td>9</td>
<td>0.015050</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>23</td>
<td>0.038462</td>
</tr>
<tr>
<td>Containers</td>
<td>8</td>
<td>0.013378</td>
</tr>
<tr>
<td>Electrical</td>
<td>17</td>
<td>0.028428</td>
</tr>
<tr>
<td>Electronics</td>
<td>21</td>
<td>0.035117</td>
</tr>
<tr>
<td>Food</td>
<td>14</td>
<td>0.023411</td>
</tr>
<tr>
<td>Fuel</td>
<td>17</td>
<td>0.028428</td>
</tr>
<tr>
<td>Health Care</td>
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</tr>
<tr>
<td>Housing</td>
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</tr>
<tr>
<td>Instruments</td>
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<td>0.065217</td>
</tr>
<tr>
<td>Leisure Time</td>
<td>13</td>
<td>0.021739</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>102</td>
<td>0.170569</td>
</tr>
<tr>
<td>Metal and Mining</td>
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<td>0.010033</td>
</tr>
<tr>
<td>Paper Products</td>
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<td>0.010033</td>
</tr>
<tr>
<td>Semiconductors</td>
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<tr>
<td>Service Equipment</td>
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</tr>
<tr>
<td>Telecommunications</td>
<td>15</td>
<td>0.025084</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>598</strong></td>
<td><strong>1.000000</strong></td>
</tr>
</tbody>
</table>

*Total does not exactly equal 1 due to rounding.

validated from the proxies against information provided by *Standard and Poor's Industrial Guide* and *Moody's Industrial Manual*. Data on downsizing was collected from public sources or, whenever possible, the specific company’s own publication. The search resulted in 598 corporations. Table 4.1 is a composition, by industry, of the companies included in the research.

Applying the RIDE concept to the 598 companies resulted in 351 com-
panies with a RIDE index of less than 1 and 247 companies with a RIDE index greater than 1. This supports the argument that many companies have been over-downsizing their labor force, or they may simply have not yet realized the benefits from their downsizing decision. This author believes that the major problem is a “people” one. Overload, conflict, and low morale and insecurity are consequences of the change in the work processes accompanying downsizing. To reduce these negative effects, downsizing should be accompanied by efforts focusing on transforming employees attitudes, values, and orientations. Unfortunately, these intangible dimensions of organizational life usually are the last factors to be addressed in a downsizing program, because they are the most difficult to control, which leads to morale problems, which leads to lowering “survivors’” performance and hence lower profits.

Layoffs could be viewed as a reactive response to organizational decline whereby little regard is given for the human resources element in the organization. This diminished consideration tends to have a negative impact on individuals remaining within the organization. A number of other methods are available for achieving downsizing that take into consideration the needs of the organization as well as the needs of the individuals leaving and the individuals remaining within the organization and, as such, could be viewed as more proactive. These might reduce much of the uncertainty associated with cutbacks and might persuade individuals remaining in the organization that the specific actions were taken in order to increase efficiency and profitability in the short run and effectiveness in the long run. These methods include attrition, severance pay to induce attrition, early retirement, outplacement assistance, transfers to other locations, retraining allowances, work sharing and leaves of absence. It is argued that the use of these techniques, along with the manner in which the downsizing program is designed and implemented, will determine whether the organization will in fact achieve increased efficiency and cost-competitiveness, and whether the organization can avoid the dysfunctional outcomes associated with downsizing.

CONCLUSION

If one closely examines environmental changes, one observes that downsizing is perhaps the most significant business change of the 1980s and the 1990s. Although downsizing was largely associated with the restructuring of heavy industry, affecting blue-collar workforces, these cutbacks now affect the composition of virtually all industries, regions,
companies, and employees at all levels of skill and education. As a result of volatile, chaotic changes in the external environment, few companies have escaped some form of restructuring over the past ten years. In fact, part of the dilemma we are currently faced with is that in an increasing number of instances, organizations are going through these changes not by choice but by necessity. Organizations and their constituents must change in order to compete and survive in a rapidly changing, globally competitive world. True restructuring should involve much more than simply adding or selling a business, trimming staff, or reorganizing departmental configurations. Downsizing should be accompanied by efforts focusing on transforming employees’ attitudes, values, and orientations. Unfortunately, these intangible dimensions of organizational life usually are the last factors to be addressed in a downsizing program, because they are the most difficult to control. Although it is agreed upon by many researchers that economics is the primary force behind downsizing, Greenberg (1993a, 1993b) reported in his study that fewer than half of the participating companies’ reductions were forced by an actual or anticipated economic downturn. “Improved staff utilization” was the stated rationale in nearly one-third of the cases and was the most frequently cited reason for large firms participating in Greenberg’s study. A common denominator in nearly all cases of downsizing is the termination of a large number of mid-level managers. According to Drucker (1988), in the next 20 years the typical large company will have fewer than half the level of management of its counterparts today and no more than one-third the managers. Corporations will be faced with the issue of easing some employees off of the payroll as humanly as possible, and of motivating the employees who remain to meet the challenges of a leaner operation (Ropp, 1987).

It should be noted, however, that the level of workforce productivity is defined as the ratio of sales revenue to number of employees. A high ratio indicates that employees are highly productive and are being well utilized. The contribution and productivity of human capital depend on the industry. In some industries downsizing may affect a firm’s performance dramatically, while in others the impact may be less significant. For example, in highly automated industries, downsizing may have less of an impact on performance, since there is less of a contribution by the human element to the value added to the product. On the other hand, in low automated industries, downsizing may have a greater impact on a firm’s performance because of the higher contribution of the human element to the value added.
The practice of downsizing has swept organizations across the board, both public and private. Even organizations and companies which had prided themselves on maintaining employment security for their employees have had to resort to layoffs to improve efficiency and to change the course of organizational decline. The literature shows that three aspects of organizational decline leading to downsizing have received primary attention by researchers and practitioners. These are: (1) the organizational and environmental characteristics contributing to organizational decline and downsizing; (2) organizational responses to decline; and (3) the effect of decline and downsizing on employees who remain in the organization (i.e., the “survivors”).

Organizational responses to decline consist of two major categories, namely, the strategic responses aimed at coping with conditions of decline and the structural responses that consist of internal changes that occur within the organization itself.

The main objective of this chapter is to add to the existing level of knowledge regarding the general phenomenon of downsizing and its relationship to the level and pervasiveness of performance in the organization. This objective was accomplished by addressing two important issues; (1) developing an objective measure of the relationship between the level of downsizing and a company’s performance relative to its competitors, the relative index for downsizing employees (RIDE), and (2) empirically applying the index to 598 large U.S. corporations that have downsized their employees in the past nine years.

The results indicate that the majority of the companies studied had a RIDE index of less than 1, indicating that the companies have either downsized to the bare bones and/or have not achieved the results intended from their downsizing.

However, it should be mentioned here that providing disengagement incentives by a firm as a means to reduce its workforce may cause the loss of valuable employees whose skills are highly regarded by the external labor market (Lincoln, 1990). This “brain drain,” as it is referred to by Byrne (1994), may mean that the organization will not have enough of the right mix of talent and expertise to accomplish important tasks, thus hindering its ability to improve efficiency. In addition, public announcements of corporate downsizing are used as a signal to the market that a shake-up and refocusing of organizational resources are about to take place. Empirical work has shown that investors evaluate downsizing firms differently, depending on the amount and extent of the organization’s downsizing. Research has shown that small levels of
downsizing generated significant positive stock returns, while large percentage layoffs are viewed as being significantly negative by the market. Also, early retirement incentives generally impact employees who are near or already qualified for retirement from the organization. These individuals frequently have substantial tenure with the organization and consequently may receive above-average compensation compared to the organization’s general workforce. Thus, the compensation of this group of potential retirees may represent a significant cash flow that might affect the organization financially.

REFERENCES


INTRODUCTION

Although organizational downsizing and retrenchment were largely associated with the restructuring of heavy industries, affecting blue-collar workers, these cutbacks now affect the composition of virtually all industries, regions, companies, and employees at all levels of skill and education.¹

As discussed at length in Chapter 2, corporate downsizing is a concept that is not completely defined or specified. In general, however, it is used to describe different types of corporate renewal. The activities included under this broad category range from internal organizational changes to activities designed to facilitate changes in strategic orientation. In this book, corporate downsizing refers to the process through which organizations focus their actions in order to achieve a more efficient, effective use of their resources. Restructuring activities may be brought about either internally or externally, depending on managements preferences and organizational characteristics. Various researchers (Hitt, Hoskisson, and Ireland, 1990; Hitt, Keats, Harback, and Nixon, 1994; Hoskisson and Turk, 1990; Hoskisson and Hitt, 1994; and John, Lang, and Neter, 1992) have suggested that many corporate restructuring activities are a re-
response to a firm’s relatively poor firm performance. In addition, as Hoskisson and Johnson (1992) indicated, most firms engaging in strategic reorientation reduced the level of their workforces. For most organizations, the outcome of organizational downsizing is not only painful but unsuccessful. A recent study (1997) of 212 companies that have downsized their workforces showed that the performance of 39 percent of those downsizing companies was worse after downsizing than it was before (Karake, 1997).

The main objective of this chapter is to empirically test the impact of downsizing and organizational discriminatory practices on corporate social responsibility performance (CRP), as measured by the company’s reputation index. It is important to note that downsizing does not imply that the level of economic activity or the overall level of employment will decline. In fact, while the years 1991 and 1992 were notable for a series of layoffs at large firms, overall employment in the United States rose considerably. Hewlett Packard’s John Young put it this way: “The Fortune 500 is not growing, but what nobody looks at is how much they have rationalized and created a whole bunch of new jobs in other places” (Chicago Tribune, February, 21, 1993, Sec. 1, p. 15). The popular and business press has been slow to recognize Young’s insight that downsizing is not synonymous with a decline in overall employment.

The following section reviews the methods employed to measure corporate social responsibility; next, a sample selection is discussed, followed by the methods and statistical analysis employed. This chapter concludes with the results and discussion of the findings.

CORPORATE SOCIAL RESPONSIBILITY: MEASUREMENT

Within organizations, ethical and social principles are being institutionalized in a variety of ways. The goal of such activities is to ensure that organizational social responsibility concerns are treated in the same routine manner in which legal, financial, and marketing concerns are addressed.

In his book The Moral Manager (1988), Clarence Walton describes the organizational philosophy underlying the prosocial responsibility movement as “covenant ethics,” as opposed to “contact ethics.” Walton explains, “The covenant model . . . draws much of its inspiration from religion and places people above pockets: to belong to a community is to have claims upon it” (p. 209). He further argues that the advantage of the covenant model is that “it invites leaders to take a large view of
their responsibilities because, under it, corporations are seen as much as moral organizations as they are money-making machines’’ (p. 210). Based on a similar conviction, S. Prakesh Sethi (1994) calls on corporations to elevate their CEOs to the status of public figures. According to him, executives would make the equivalent of campaign promises, which later would be tested and evaluated, hence, making executives responsible and accountable for their social agenda and promises.

In a recent review about social responsibility, Sonia Labatt (1991) discovered that during the past two decades, corporations experienced an increase in social pressure that resulted in a business climate characterized by increased environmental regulations. In this same study, the author indicated that corporate social responsibility is a function of the evolutionary nature of corporate social responses to environmental concerns. In addition, a number of recent studies suggest that environmental issues and social responsibility have become increasingly important to a large segment of American society (Lipon et al., 1993; Shetzer, Stackman, and Moore, 1991; Suter, 1990).

Based on the above discussion, one can conclude that social responsibility is an important function that affects organizational performance and corporate standing in the community. To ensure their commitment to social concerns, many corporations have created permanent, board-level committees to monitor social responsibility and ethical functions. These committees, often called “social responsibility” or “public policy” committees, serve two functions within an organization. First, they lend legitimacy to the consideration of a social and an ethics agenda at the highest level of organizational decision making. Second, they symbolically communicate to employees and external stakeholders of the organization their commitment to high social and ethical principles in conducting business.

All researchers, management scientists, and practitioners agree on the fundamental question that corporate social responsibility is an extremely difficult concept to measure (Aupperle, 1991; Aupperle, Carroll, and Harfield, 1985; Graves and Waddock, 1994; Miles, 1987; Wolfe and Aupperle, 1991; Wood, 1991a). Each of the techniques developed by those researchers has limitations. Some use financial performance as a proxy for social performance; others use measures that introduce bias and cause inconsistencies; and still others suffer from lack of generality.

Generally, however, there are two accepted methods of measuring corporate social responsibility (CSR). The first method is the “reputation index,” where knowledgeable observers rate firms on the basis of one or
more dimensions of social performance. The advantages of this method lie in the fact that (1) it summarizes the responses of a key constituency of various firms, and (2) it tends to be internally consistent because one evaluator is applying the same criteria to each firm. The most important disadvantage of this method is the degree of subjectivity inherent in the ranking. However, this method is still one of the most popular ones used because of its comprehensiveness and availability. The survey consists of an annual polling of executives, directors, and financial analysts in particular industries on eight key attributes of reputation in order to establish overall reputation scores for the corporations of interest.

The second method of measuring CSR is content analysis. Normally in content analysis the extent of the reporting of CSR activities in various firm publications, especially in the annual report, is measured. This can consist of simply noting whether or not a specific item (such as pollution control) is discussed either qualitatively or quantitatively, or it can mean actually counting a number of items.

In this book, the reputation index is used as a proxy to measure a firm’s social performance. It is believed that the eight social dimensions represent the multidimensional nature of social responsibility and are commonly used by investment firms maintaining socially responsible investment portfolios. Furthermore, an independent assessment of social corporate responsibility on these eight dimensions is available from the database provided by Fortune magazine. The reputation index method of corporate performance is, relatively, a more unbiased measure of social responsibility than content analysis, which relies heavily on information provided by the company itself.

Each year for the past 18 years, Fortune magazine has surveyed over 8,000 senior executives, outside directors, and financial analysts in over 300 companies in over 30 industry groups. The sample of companies is selected based on the fact that their sales are at least $500 million in their particular industry group. Those participating in the survey are asked to rank each company, within the industry with which they are familiar, on eight key attributes, utilizing a scale of 0 (poor) to 10 (excellent). Fortune then publishes the individual rankings of companies based on the averages obtained from the survey.

The key attributes constituting the survey are: (1) quality of management; (2) quality of products/services offered; (3) innovativeness; (4) value as a long-term investment; (5) soundness of financial position; (6) ability to attract, develop, and keep talented people; (7) responsibility to the community and environment; and (8) wise use of corporate assets.
These attributes reflect a multiple-constituency view of the firm as having many stakeholders. These include not only investors but also customers interested in quality, employees interested in rewarding employment, and the global community.

In what concerns the individual importance of each of the eight attributes, historically, 80 percent of the respondents pick quality of management as being the most important. The second most important attribute is the quality of products or services. Over the past years, though, a marked shift in the number of respondents who cite responsibility to the community and environment as being paramount to a corporation’s reputation has taken place.

The reputation of a firm constitutes an important signal about its managerial and control effectiveness, which is essential to the creation of a better image with all constituents. To create the right reputation, a firm signals its key characteristics to its stakeholders in order to maximize its social status (Belkaoui and Pavlik, 1992). In addition, a good reputation can be perceived as a competitive advantage within an industry (Fombrun and Shanley, 1990).

THE SAMPLE

The focus of this research is the impact of downsizing on a firm’s reputation as a measure of corporate social performance. The data for this research is based on the downsizing activities of large, publicly traded corporations, mainly the Fortune 1,000 ones, which have publicly announced their intentions to downsize during the period 1990–1992. Because downsizing is a strategy deliberately implemented to enhance organizational efficiency, competitiveness, or productivity, information regarding a firm’s actions is necessary (Freeman and Cameron, 1993). Public announcements are an indication that management and control agents are serious about the downsizing event. In addition, public downsizing announcements may help a firm comply with the 1988 Worker Adjustment and Retraining Notification Act (WARN), which requires a 60-day advance notice of a plant closing or a massive layoff to employees and to local government officials. Here the Wall Street Journal Index was used to identify companies that announced their intention to downsize during the period of study. A total of 932 articles was listed (as indicated in Table 5.1). From the 932 articles listed, a total of 553 announcements were for U.S. firms.

The sample was reduced due to lack of available data on reputation
Table 5.1
Sample Firms by Year

<table>
<thead>
<tr>
<th>Year</th>
<th># Listing in Wall Street Journal</th>
<th>U.S. Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>235</td>
<td>116</td>
</tr>
<tr>
<td>1991</td>
<td>328</td>
<td>216</td>
</tr>
<tr>
<td>1992</td>
<td>369</td>
<td>221</td>
</tr>
<tr>
<td>Total</td>
<td>932</td>
<td>553</td>
</tr>
</tbody>
</table>

published by *Fortune*, or lack of other economic data needed in this analysis. In total, the sample consisted of 178 firms which appeared in *Fortune* magazine’s published survey of corporate reputation, for which all appropriate data was available. The appendix at the end of this chapter lists the 178 firms included in this analysis.

DEVELOPMENT OF HYPOTHESES

The dependent variable here is the company’s reputation index (RI) one year after the downsizing announcement took place. The decision to exclude the year of downsizing announcement is based on the judgment that during the year of announcement, the company’s situation, in terms of its interaction with its inner and outer environments, was unstable. Therefore, financial as well as human resources indicators are, at best, unreliable.

Two primary independent variables were identified: first, the level of downsizing employees as a percentage of total employees (DOWN%); second, the involvement of a company in discrimination lawsuits by employees (DISCRM).

*Level of Downsizing*. The rationale behind the first independent variable is based on the belief that for any company, a negative relationship between a firm’s social performance and the degree of downsizing is expected. Firms that downsize heavily are thought of as being less socially responsible than other firms. Consequently, one expects those companies’ reputation indices to be affected downward, and a negative relationship between RI and DOWN% is expected, hence the first hypothesis:

H01: There exists a negative relationship between corporate social performance as measured by a company’s reputation index and the level of organizational downsizing.
Discrimination. With respect to the second independent variable, it is the belief of this author that if a company discriminates against its employees, based on sex, national origin, sexual orientation, age, and so on, it is viewed by various constituents as being less socially responsible than a company with a "clean" standing in this area. Corporations are bound by law. This is a fact, and one can say that laws are some of the most effective ways society has of imposing its demands and making explicit the responsibility of corporations. If social responsibility is understood to include legal responsibility, as it usually is, then a company can claim to be socially responsible and to be a good citizen to the extent that it keeps its hands legally clean. If a company, on the other hand, discriminates, or if it is perceived by its employees to pursue some discriminatory practices, then this implies that the corporation has violated the law and is socially less responsible.

In many instances, discrimination lawsuits are settled out of court, where the company pays the plaintiff an undisclosed amount of money to drop its case against it. It is adequate to state that reaching an out-of-court settlement is an admission of guilt on the part of the company involved. Consequently, corporations classified as "discriminatory" are those in which the employees won the lawsuit against the company, and/or where the company reached an out-of-court settlement with the parties involved. The variable (DISCRM) is operationalized as a binary variable having a value of 1 when a proof of discrimination is found and a value of 0 otherwise. Data on this variable was collected from the Wall Street Journal Index under the heading "Discrimination," hence the second hypothesis is formulated:

H02: There exists a negative relationship between a company's social performance as measured by its reputation index and that company's discriminatory practices.

Control Variables. In reviewing the literature, three variables were perceived to affect the social responsibility performance of businesses. Trotman and Bradley (1981) suggest that companies that provide social responsibility information are, on average, larger in size than companies that do not disclose this information. Arlow and Gannon (1982) propose that social responsibility might be linked to factors such as industry and organizational size. Finally, McGuire, Sundgren, and Schneeweis (1988), using Fortune magazine's annual survey of corporate reputations, conclude that total assets, as a measure of size, were positively linked to
social responsibility reputations. Pava and Krausz (1995), in comparing a sample of socially screened companies versus a control group, found that companies with higher corporate social performance have a slight advantage in terms of financial returns over the control group.

Based on the above, three variables will be utilized as control variables in this study: size of the firm, return on equity, and industry type. Total assets of the corporation will be used as a proxy of size (SIZE). Total assets are measured at the end of the year prior to downsizing ($t - 1$). With respect to return on equity (ROE), and to minimize the effect of bias introduced by the figures of one accounting year only, the average return on equity for the three years prior to the downsizing announcement will be used in the analysis.

The type of industry is operationalized using a series of dummy variables to classify firms into industry categories. Firms were classified into one of five categories: (1) human and financial services; (2) high-tech manufacturing; (3) retail and wholesale; (4) communications and transportation; and (5) industrial and food manufacturing. Based on its 2-digit SIC, each firm was coded one (1) for its industry and zero (0) for the remaining four industries. Variable names for the five types of industries are INDTYPE1, INDTYPE2, INDTYPE3, INDTYPE4, and INDTYPE5, respectively. Table 5.2 provides a description of these categories. It is important to note that while each company was coded in all five industries to facilitate a complete correlation matrix, the variable INDTYPE5 was removed from the multiple regression model in order to avoid a problem with unitary metrics.

### Table 5.2
Distribution of Firms by Industry

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>2-SIC</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10–35</td>
<td>Industrial and Food Manufacturing</td>
</tr>
<tr>
<td>2</td>
<td>36–39</td>
<td>High-Tech Manufacturing</td>
</tr>
<tr>
<td>3</td>
<td>40–48</td>
<td>Communication and Transportation Services</td>
</tr>
<tr>
<td>4</td>
<td>49–59</td>
<td>Retail and Wholesale</td>
</tr>
<tr>
<td>5</td>
<td>60–80</td>
<td>Financial and Human Services</td>
</tr>
</tbody>
</table>
OVERVIEW OF METHODOLOGY

As stated earlier, the sample of firms included in the present study is limited to those that engaged in a specific type of organizational restructuring, namely, downsizing in the workforce. The investigation is limited to this type of restructuring for two reasons. First, downsizing as a form of restructuring is a phenomenon that has swept American organizations across the board, regardless of industry, type, size, or structure. Second, the study is limited to this one type in order to keep it to a manageable size.

Experimental Design

A cross-sectional experimental design is used to test the two hypotheses formulated previously. It is one type of correlational design, and it is the simplest and most effective of the correlational designs in which all measurements are taken at one point in time. In other words, in empirical research, this design requires nothing more than the collection of two or more measures on a set of subjects or research entities at one point in time, and it requires no treatments or manipulations. The cross-sectional approach is useful in determining if two or more variables have any relationships and in establishing those relationships. This design is popular because of its ease, simplicity, and effectiveness. In this research, the relationships between the dependent variable and independent variables are examined. At the same time, the measures on the dependent variable and independent variables will be collected at signal time frame, for example, at a moment in time and not over time, necessitated by the fact that corporate information is issued at signal time frame and not over time.

Data Analysis and Functional Relationships

For this particular study, both univariate and multivariate analyses will be conducted. The purpose of univariate analysis is to identify any differences in characteristics between firms that are classified as highly reputable and those classified as less reputable in terms of their social performance. For example, if the independent variable is the company’s book value of gross assets, using univariate analysis will help us understand whether there is any difference between the two groups of firms.
with respect to this variable. On the other hand, multivariate analysis is used to test the two hypotheses identified earlier in the chapter.

The functional relationships can be stated as follows:

\[ Y = f(X) \]

In the multivariate analysis, the functional relationship is determined as follows:

\[ RI = F(\text{DOWN\%}, \text{DISCRM}, \text{SIZE}, \text{ROE}, \text{INDTYPE1}, \text{INDTYPE2}, \text{INDTYPE3}, \text{INDTYPE4}, \text{INDTYPE5}). \]

**CHOICE OF STATISTICAL METHODS**

**Univariate Analysis**

In the univariate analysis, the t-test statistic will be employed. As stated earlier, the purpose of univariate analysis is to distinguish characteristics between firms with higher reputation indices and those with lower reputation indices. The purpose of the t-test is to discriminate between two groups based on the characteristic of the independent variables. In other words, this statistical technique is a measure with which the independent variable discriminates between two groups of the dichotomous variable. The first step is to transform the reputation index variable into a dichotomous one. By examining the data on reputation indices for the past ten years, a ten-year average index was computed. Companies in our sample were classified as highly reputable if their reputation indices fell above this ten-year average, otherwise they were classified as less reputable. The ten-year average was computed to be 6.42. Applying this criterion to our sample of 178 companies, 102 were categorized as highly reputable and 76 as less reputable. The transformed variable equals 1 for highly reputable companies and 0 for the less reputable ones.

The t-test procedure computes a t-statistic for testing a hypothesis that the means of two groups of observations in a data set are equal. Means of the independent variables are computed for each of the two groups of observations, and then the t-test tests the hypothesis that the true means are the same. The underlying assumptions of the t-test procedure are that the variables are normally and independently distributed within each group. These two assumptions hold in our analysis, since the sample sizes are large enough to ensure convergence normality.
The usual t-statistic for testing the equality of means \( Y_1 \) and \( Y_2 \) from two independent samples with \( n_1 \) and \( n_2 \) observations is:

\[
t = \frac{(x_1 - x_2)}{\sqrt{\frac{s^2}{n_1} + \frac{s^2}{n_2}}}
\]

where \( s^2 \) is the pooled variance

\[
s^2 = \frac{(n_1 - 1)s_1^2 + (n_2 - 1)s_2^2}{n_1 + n_2 - 2}
\]

and where \( s_1^2 \) and \( s_2^2 \) are the sample variances of the two groups.

**Multivariate Analysis**

Special problems arise when the dependent variable is an indicator variable, as is the case in our analysis. Three problems are the most significant:

1. The error terms are nonnormal. For a binary 0, 1 dependent variable, each error term \( e = Y - (b_0 + b_1 X) \) can take only two values:

   - When \( Y = 1 \): \( e = 1 - b_0 - b_1 x_1 \)
   - When \( Y = 0 \): \( e = - b_0 - b_1 x_1 \)

   Clearly, the normal error regression model, which assumes that the error terms are normally distributed, is not appropriate.

2. Error variances are nonconstant. Another problem with the error terms is that they do not have equal variances when the dependent variable is an indicator variable.

Hence the error variances will differ at different levels of the independent variables, and the normality assumption is violated.

3. The response function is constrained. Since the response function represents probabilities when the dependent variable is a 0, 1 indicator variable, the mean responses should be constrained as follows:

\[
0 = < E \{Y\} = < 1
\]
Many response functions do not automatically possess this constraint. A linear response function, for instance, may fall outside of the constraint limits within the range of the independent variable in the scope of the model.

The difficulties created by this third problem are the most serious. One could use weighted least squares to handle the problem of unequal variances. In addition, with a large sample size, as is the case in our analysis, the method of least squares provides estimators that are asymptotically normal under quite general conditions, even if the distribution of the error terms is far from normal. However, the constraint on the mean response to be between 0 and 1 frequently might cloud the results of linear regression models.

Discriminant analysis is inappropriate to use in this study. When this type of research method is employed, the objective is to measure the characteristics of an individual or object and, on the basis of these measurements, to classify the individual or the object into one of two (or more) categories (Maddala, 1983). Press and Wilson (1978) admit that although discriminant function estimators have been used instead of logit’s maximum likelihood estimators, they have been found to be “generally inferior, although not always by a substantial amounts” (p. 699).

To ensure the validity of our results, then, logit analysis will be utilized. A study was conducted to determine how response group size and the number, distribution, and correlation of predictor variables affect empirical error rates and the minimum required sample size for using regression and logit analyses. Comparisons were made with error rates obtained from an ordinary least squares (OLS) linear probability model and the logit model. In addition, comparisons were made of the sensitivity of the logit and OLS parameter estimates to the range of data sampled for the predictor variables and the models’ classificatory ability. Results of Monte Carlo simulations show that logit test statistics are biased when the sample size is small.

So in the case of logit analysis, both theoretical and empirical considerations suggest that when the dependent variable is binary, the shape of the response function will frequently be curvilinear, that is, shaped either as a tilted S or as a reverse tilted S, and approximately linear, except at the end. These response functions are called logistic response functions. They have asymptotes at 0 and 1 and then automatically meet the constraints on $E[Y]$. In the case of one explanatory variable, the functional format of the logistic function is:
The logistic response functions are either monotonic increasing or monotonic decreasing, depending on the sign of \( b_1 \). Further, they are almost linear in the range where \( E(Y) \) is between 0.2 and 0.8, and gradually approach 0 and 1 at the two ends of the \( X \) range. Another interesting property of logistic response functions is that they can easily be linearized.

The logistic model is easily extended to more than one independent variable. As a matter of fact, “Several independent variables are usually required with logistic regression to obtain adequate description and useful predictions” (Neter, Wasserman, and Kutner, 1989, p. 595). The independent variables may represent curvature or interaction effects. Also, the independent variables may be quantitative, or they may be qualitative and represented by indicator variables (such as the variable DISCRIM). This flexibility makes the multiple logistic regression model quite attractive (Neter, Wasserman, and Kutner, 1989).

In the multivariate analysis, the logit regression analysis technique will be employed to test the effect of the determinant variables. Logit regression analysis is a special model of multiple regression analysis. In classical regression analysis, all of the dependent and independent variables are continuous. In logit analysis, the dependent variable is discrete, while the independent variables are either discrete or continuous. In this book, the proxy of corporate social responsibility (reputation index) is a binary variable having two possible values: 1, if the company in question is highly reputable, and 0, if the company is less reputable.

Logit regression analysis applies a logistic cumulative probability curve, which closely approximates a normal curve, except that the standard deviation of the standard logit function is 1.81 rather than 1, as in the normal distribution. The mean is 0, which is similar to the normal distribution. The logistic cumulative probability, \( P \), is:

\[
P(Y_i \mid X_i) = (1 + e^{-Y_i})^{-1} \quad i = 1, 2, \ldots, n
\]

where \( Y_i \) is a linear function of the observable independent variables, \( X_i \)s, and

\[
Y_i = A + \sum B_i X_i
\]

\[
P(Y_i = 1 \mid X_i) = e^{Y_i} / (1 + e^{Y_i})
\]

\[
P(Y_i = 0 \mid X_i) = 1 - p(Y = 1 \mid X) = 1 / (1 + e^{Y_i}).
\]
Applying the formula to our case,

\[
Y_i = 1 \text{ for companies with RI } 1 \\
Y_i = 0 \text{ for companies with RI } 0 \\
X_s = \text{ determinants of company’s social performance} \\
P(Y_i = 1 | X_i) = \text{ the probability of a company with RI } 1 \\
P(Y_i = 0 | X_i) = \text{ the probability of a company with RI } 0.
\]

To estimate logit parameters, A and B, a method called “Maximum Likelihood Estimation” (MLE) is used. The purpose of MLE is to choose parameter estimates that imply the highest probability or likelihood of having obtained the observed sample \(Y_i\) (Aldrich and Nelson, 1984, p. 51).

The maximum likelihood estimators of the parameters in the logistic regression model are those values that maximize the logarithm of the likelihood function. To maximize the likelihood function, we take partial derivatives with respect to the parameters, set these equal to zero, replace the parameters with the estimators, and solve the resulting equations—the *likelihood equations*—for the maximum likelihood estimators.

In logistic regression model building, independent variables and terms of interaction effects could be added or deleted in a direct manner. However, use of the all-possible-regressions approach often is restrictive because of the extensive numerical search calculations required to find the maximum likelihood estimates for a given logistic regression model. Consequently, stepwise selection procedures frequently are employed in logistic regression analysis.

The same types of inferences are of interest in logistic regression as in linear regression models. Two statistical inferences for logit analysis exist: first, individual coefficient estimates and, second, goodness-of-fit estimates. In individual coefficient estimates, the t-statistic is used to test whether an individual coefficient is significant. For the test of goodness-of-fit estimates, a Chi-square statistic is used. In other words, a Chi-square statistic is used to test the alternative hypothesis that all coefficients except the intercept are zeros.

According to Press and Wilson (1978), logistic regression is preferred in situations where multivariate normality cannot be assumed. Since several independent variables included in this study are qualitative, multivariate normality is ruled out. In addition, more robust estimators are obtained through logistic regression with maximum likelihood estimators.
The overall fit of the logistic model is assessed through the $-2 \log$ Likelihood statistic. This statistic has a Chi-squared distribution with $k-1$ degrees of freedom. The null hypothesis is that all explanatory variables in the model are zero. A large Chi-square value indicates that one or more of the independent variables are non-zero. Additionally, because the interpretation of the logistic regression coefficients is similar to multiple regression coefficients, it is possible to analyze causal relationships.

The inference procedure utilized for multiple logistic regression relies on a large sample size, which is the case in this book. For large samples, under generally applicable conditions, maximum likelihood estimators for logistic regression are approximately normally distributed, with little or no bias, and with approximate variances and covariances that are functions of the second-order partial derivatives of the logarithm of the likelihood function.

In addition, in logistic regression model building, independent variables and terms for curvature and interaction effects can be added or deleted in direct fashion. However, use of the all-possible-regressions approach often is prohibitive because of the extensive numerical search calculations required to find the maximum likelihood estimates for a given logistic model. Consequently, stepwise selection procedures frequently are employed in logistic regression analysis.

A univariate dichotomous qualitative response model is constructed here using the independent variables identified earlier. The purpose is to examine the roles of those variables as determinants of corporate social performance. Such models contain a qualitative dependent variable and an independent variable, and estimate to what extent each independent variable has an impact on the dependent variable and whether that impact is significant.

**ESTIMATION RESULTS AND ANALYSIS**

Publicly available data was collected on the operational variables described earlier for the 178 corporations. All data was collected from companies’ proxy statements and annual reports. Where possible, this data was cross-validated from the proxies against information provided by *Standard and Poor’s Industrial Guide* and *Moody’s Industrial Manual*.

Univariate statistics were developed for the sample of 178 corporations to determine whether there were differences between firms with a high level of social performance and those with a low level of social performance. T-tests were computed to determine whether the differences
were statistically significant and to measure the extent of the relationship between the dependent variable and each of the independent variables.

The degree of downsizing (DOWN%) appears to be a determining factor in differentiating between the two groups of firms: those that are highly reputable and those that are less reputable. As shown in Table 5.3, the t-statistic is a significant 1.9179. This is statistically significant at the 90 percent confidence level.

The variable return on equity (ROE) which, is used as a proxy for a company’s profitability, strongly discriminates between companies with different levels of reputation. In other words, profitability, as measured by the return on investment, is a determining factor in differentiating between highly reputable and less reputable companies. The t-test in Table 5.4 is statistically significant at the 99 percent level.

The results of the t-test in Table 5.5 indicate that the variable size is not a discriminating variable between those companies with a high level of reputation and those with a lower level. The value of the t-statistic is 0.3088, which falls outside of the boundaries of the 90 percent level interval of confidence.

The variable discrimination (DISCRM) does not appear to be a determining attribute that differentiates between the two classes of firms. Table 5.6 demonstrates that the t-statistic is statistically insignificant at the 90 percent confidence level.

Univariate tests are important first steps in analyzing the data, but the multivariate tests help promote an understanding of the interactive effect of the combined independent variables on the dependent variable. Multivariate tests also help as a check on multicollinearity and other measurement problems (Chow, 1982).

Logit analysis is used to determine the variables that have a significant impact on a firm’s reputation, which is used as a proxy for corporate social responsiveness. Using maximum likelihood techniques, the logit
model is estimated and, as a result, the test statistics of the model follow a Chi-square distribution. The logit transformation also constrains the probability estimates between 0 and 1. In addition, when used with a polychotomous dependent variable, no ordinal properties are assumed, only nominal.

The coefficient of determination ($R^2$) used in regression analysis to evaluate how well the independent variables explain the changes in the dependent variable is lacking in logit analysis. Instead, the validity of a particular model is based on the classification accuracy of the model. For a set baseline (cutoff point), predictive accuracy is based on the percentage of the total number of correct classifications out of the total sample. A standard cutoff has been 0.5, meaning that probabilities under 50 percent are classified as $Y = 0$, and probabilities of 50 percent or greater are categorized as $Y = 1$.

### Multivariate Results

The functional logistic regression equation was constructed as follows:

$$RI = F (\text{DOWN\%}, \text{DISCRM}, \text{SIZE}, \text{ROE}, \text{INDTYPE1}, \text{INDTYPE2}, \text{INDTYPE3}, \text{INDTYPE4}, \text{INDTYPE5}).$$
Table 5.6
Variable: DISCRM

<table>
<thead>
<tr>
<th>RI</th>
<th>N</th>
<th>Mean</th>
<th>Std. Error</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>99</td>
<td>0.3535</td>
<td>0.4804</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>1</td>
<td>79</td>
<td>0.2784</td>
<td>0.4511</td>
<td>0.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

For HO: Variances are equal, $F^* = 1.38$  \[ DF = (98, 78) \]  $T = 0.7912$

Table 5.7
Sample Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Sum</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>178</td>
<td>16.67</td>
<td>8.60</td>
<td>2966</td>
<td>2</td>
<td>59</td>
</tr>
<tr>
<td>DISCRM</td>
<td>178</td>
<td>0.32</td>
<td>0.47</td>
<td>57</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>DOWN%</td>
<td>178</td>
<td>0.16</td>
<td>0.16</td>
<td>28</td>
<td>0.03</td>
<td>0.83</td>
</tr>
<tr>
<td>SIZE</td>
<td>178</td>
<td>39969</td>
<td>93830</td>
<td>7114403</td>
<td>998</td>
<td>982451</td>
</tr>
<tr>
<td>RI</td>
<td>178</td>
<td>6.42</td>
<td>0.94</td>
<td>1143</td>
<td>3.08</td>
<td>8.90</td>
</tr>
</tbody>
</table>

Where RI, DOWN%, DISCRM, SIZE, ROE, INDTYPE1, INDTYPE2, INDTYPE3, INDTYPE4, and INDTYPE5 are the variables identified above.

Table 5.7 summarizes the descriptive statistics of the variables in this model.

When testing a number of hypotheses simultaneously, a deficiency of independence between the hypotheses being investigated will emerge. Because of this, the significance levels presented in the research symbolize relative significance. In other words, the p-values resulting from the logit analysis are actually “understated” and can only be used to represent the relative significance of the variables tested. For example, if $X1$ has a lower P-value than $X2$, that indicates only that $X1$ has a greater impact than $X2$. Therefore, it is important to not place too much confidence in the reported levels of significance.

In regression analysis, one assumption exists regarding the independent variables: they must be uncorrelated with each other. In other words, no multicollinearity is detected. Multicollinearity among several independent variables is said to exist when a nearly exact linear relationship
exists among these variables. Several ways exist to detect multicollinearity. In this book, the Pearson Correlation Coefficient is used to test the multicollinearity among independent variables.

Table 5.8 represents the matrix of correlation coefficients among the independent variables used in the logistic regression for the whole model. The correlations among the variables along with their significance levels, are presented in Table 5.8 as well. As can be seen, intercorrelations among the full set of independent variables are generally sufficiently low to preclude the problem of unstable coefficients that could occur because of multicollinearity in the regression model.

To detect for the severity of multicollinearity, the Variance Inflation Factors (VIF) method is used to measure to what degree the variances of the estimated regression coefficients are inflated compared to when the independent variables are not linearly related. The largest VIF value among all of the independent variables is often used as an indicator of the severity of multicollinearity. A maximum VIF value in excess of 10 often is taken as an indication that multicollinearity may be unduly influencing the least squares estimates (Neter, Wasserman, and Kutner, 1989). The results of the VIF appear in Table 5.9. An Analysis of the VIF found in Table 5.9 did not exceed 4, which is an indication of no evident problem of multicollinearity in the multiple regression model.

The SAS Stepwise PROC LOGISTIC procedure was used to conduct the multivariate analysis. Stepwise methods are used to evaluate the contribution of variables to the logistic regression equation. Results of the stepwise logistic regression model appear in Table 5.10. When we evaluate a logistic regression model, the evaluation typically has three parts. First, how well does the overall model work? Can we be confident that there is a relationship between all of the independent variables, taken together, and the dependent variable, above and beyond what we might expect as a coincidence, attributable to random variation in the sample we analyze? And if there is a relationship, how strong is it? Second, if the overall model works well, how important is each of the independent variables? Is the relationship between any of the variables attributable to random variation? If not, how much does each independent variable contribute to one’s ability to predict the dependent variable? Which variables are stronger and better predictors of the dependent variable? Third, does the form of the model appear to be correct? Do the assumptions of the model appear to be satisfied? In logistic regression, the Log Likelihood (LL) is the criterion for selecting parameters. In presenting information on the LL, statistical packages (like SAS) present the Log Like-
Table 5.8
Pearson Correlation Coefficients

<table>
<thead>
<tr>
<th></th>
<th>RI</th>
<th>ROE</th>
<th>DISCRM</th>
<th>DOWN%</th>
<th>SIZE</th>
<th>INDTYPE1</th>
<th>INDTYPE2</th>
<th>INDTYPE3</th>
<th>INDTYPE4</th>
<th>INDTYPE5</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI</td>
<td>1.0000</td>
<td>0.3107*</td>
<td>0.0764</td>
<td>-0.3995*</td>
<td>0.1494**</td>
<td>0.0149</td>
<td>-0.0073</td>
<td>0.1075</td>
<td>-0.0271</td>
<td>-0.0670</td>
</tr>
<tr>
<td>ROE</td>
<td>0.3107*</td>
<td>1.0000</td>
<td>0.0789</td>
<td>-0.0322</td>
<td>0.0967</td>
<td>0.0329</td>
<td>-0.0499</td>
<td>0.1255***</td>
<td>-0.0167</td>
<td>-0.0565</td>
</tr>
<tr>
<td>DISCRM</td>
<td>0.0764</td>
<td>0.0789</td>
<td>1.0000</td>
<td>0.1029</td>
<td>0.2876*</td>
<td>-0.0958</td>
<td>0.3672</td>
<td>0.0036</td>
<td>0.0352</td>
<td>0.0702</td>
</tr>
<tr>
<td>DOWN%</td>
<td>-0.3995*</td>
<td>-0.0322</td>
<td>0.1029</td>
<td>1.0000</td>
<td>-0.1524**</td>
<td>0.0905</td>
<td>0.0192</td>
<td>-0.0369</td>
<td>-0.1065</td>
<td>-0.05835</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.1494**</td>
<td>0.0967</td>
<td>0.2876*</td>
<td>-0.1524**</td>
<td>1.0000</td>
<td>-0.2067*</td>
<td>-0.1117</td>
<td>0.0909</td>
<td>-0.0679</td>
<td>0.4880*</td>
</tr>
<tr>
<td>IND1</td>
<td>0.0149</td>
<td>0.0329</td>
<td>-0.0958</td>
<td>0.0905</td>
<td>-0.2067*</td>
<td>1.0000</td>
<td>-0.6076*</td>
<td>-0.2307*</td>
<td>-0.2806*</td>
<td>-0.3456*</td>
</tr>
<tr>
<td>IND2</td>
<td>-0.0073</td>
<td>-0.0499</td>
<td>0.0367</td>
<td>0.0192</td>
<td>-0.1117</td>
<td>-0.6076*</td>
<td>1.0000</td>
<td>-0.1402**</td>
<td>-0.1705**</td>
<td>-0.2100*</td>
</tr>
<tr>
<td>IND3</td>
<td>0.1074</td>
<td>0.1255***</td>
<td>0.0036</td>
<td>-0.0369</td>
<td>0.0909</td>
<td>-0.2307*</td>
<td>-0.1402***</td>
<td>1.0000</td>
<td>-0.0647</td>
<td>-0.0797</td>
</tr>
<tr>
<td>IND4</td>
<td>-0.0271</td>
<td>-0.0167</td>
<td>0.0352</td>
<td>-0.1065</td>
<td>-0.0679</td>
<td>-0.2806*</td>
<td>-0.1705**</td>
<td>-0.0647</td>
<td>1.0000</td>
<td>-0.0970</td>
</tr>
<tr>
<td>IND5</td>
<td>-0.0670</td>
<td>-0.0565</td>
<td>0.0702</td>
<td>-0.0583</td>
<td>0.4880*</td>
<td>-0.3456*</td>
<td>-0.2100*</td>
<td>-0.0797</td>
<td>-0.0970</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

*p < 0.001; **p < 0.01; ***p < 0.05.
Empirical Analysis and Results

Table 5.9
Variance Inflation Factors

<table>
<thead>
<tr>
<th>Variable</th>
<th>Variance Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTERCEP</td>
<td>0.00000000</td>
</tr>
<tr>
<td>DISCRM</td>
<td>1.14153817</td>
</tr>
<tr>
<td>DOWN%</td>
<td>1.07001718</td>
</tr>
<tr>
<td>ROE</td>
<td>1.04123573</td>
</tr>
<tr>
<td>SIZE</td>
<td>1.53618609</td>
</tr>
<tr>
<td>INDTYPE1</td>
<td>3.78466217</td>
</tr>
<tr>
<td>INDTYPE2</td>
<td>3.30352143</td>
</tr>
<tr>
<td>INDTYPE3</td>
<td>1.50448955</td>
</tr>
<tr>
<td>INDTYPE4</td>
<td>1.85633760</td>
</tr>
</tbody>
</table>

The likelihood multiplied by $-2$. The reason is that the Log Likelihood, when multiplied by $-2$, has approximately a Chi-square distribution (presented in Table 5.10 as $-2L Log$). Because the Log Likelihood is negative, the $-2L Log$ statistic is positive, and larger values indicate a worse prediction of the dependent variable.

To test the adequacy of the goodness of fit and statistical significance, SAS provides values of the Score Statistic, the Akaike Information Criterion (AIC), and the Schwartz Criterion (a modification of the AIC). The Wald statistic is used to test the statistical significance of the individual coefficients. In Table 5.10, the Wald statistic appears following the parameter estimates and their standard errors. In addition, the Wald statistic is asymptotically distributed as a Chi-square distribution. The only disadvantage for the Wald statistic is that for large estimates the estimated standard error is inflated, resulting in a failure to reject the null hypothesis when the null hypothesis is false, consequently leading to misleading results.

As Table 5.10 shows, only two variables were found to be statistically significant and to have carried the expected signs. The two variables are the return on equity variable (ROE) and the level of organization downsizing (DOWN%). The coefficient of the variable return on equity (ROE) is 0.0750, which is significant at the 99 percent level ($P > 0.0005$). The second variable, DOWN%, has a coefficient of $-4.6711$ and is also significant at the 99 percent level. In addition, estimated coefficients of both variables carry the expected signs. If we evaluate the strength of the
Table 5.10  
Results of the Logit Regression Analysis

Response Variable: CSR  
Number of Observations: 178

<table>
<thead>
<tr>
<th>Ordered Value</th>
<th>CSR</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>90</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>88</td>
</tr>
</tbody>
</table>

Criteria for Assessing Model Fit

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Intercept Only</th>
<th>Intercept and Covariates</th>
<th>Chi-Square for Covariates</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIC</td>
<td>248.738</td>
<td>223.801</td>
<td></td>
</tr>
<tr>
<td>SC</td>
<td>251.920</td>
<td>233.346</td>
<td></td>
</tr>
<tr>
<td>-2 LOG L</td>
<td>246.738</td>
<td>217.801</td>
<td>28.937 with 2 DF (p = 0.0001)</td>
</tr>
</tbody>
</table>

Analysis of Maximum Likelihood Estimates

<table>
<thead>
<tr>
<th>Variable</th>
<th>Parameter Estimate</th>
<th>Standard Error</th>
<th>Wald Chi-Square</th>
<th>Pr &gt; Chi-Square</th>
<th>Standard Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTERCPT</td>
<td>0.5526</td>
<td>0.4066</td>
<td>1.8474</td>
<td>0.1741</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>0.0750</td>
<td>0.0215</td>
<td>2.1284</td>
<td>0.0005</td>
<td>0.355574</td>
</tr>
<tr>
<td>DOWN%</td>
<td>-4.6711</td>
<td>1.3579</td>
<td>11.8328</td>
<td>0.0006</td>
<td>-0.404805</td>
</tr>
</tbody>
</table>

Association of Predicted Probabilities and Observed Responses

Concordant = 72.3%  Somers’ D = 0.449  
Discordant = 27.4%  Gamma = 0.450  
Tied = 0.3%  Tau-a = 0.226  
(7,920 pairs)  c = 0.724

Classification Table

<table>
<thead>
<tr>
<th>Observed</th>
<th>Predicted Event</th>
<th>No Event</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Event</td>
<td>68</td>
<td>22</td>
<td>90</td>
</tr>
<tr>
<td>No Event</td>
<td>24</td>
<td>64</td>
<td>88</td>
</tr>
<tr>
<td>Total</td>
<td>92</td>
<td>86</td>
<td>178</td>
</tr>
</tbody>
</table>

Sensitivity = 75.5%; Specificity = 67.0%; Correct = 74.0%; False Positive Rate = 26.1%; False Negative Rate = 31.4%. 
relationships of the independent variables to the dependent variable (RI) based on the unstandardized logistic regression coefficients, the degree of downsizing appears to have the strongest effect, followed by the return on equity.

Like the linear regression coefficients, the logistic regression coefficients can be interpreted as the change in the dependent variable (RI), associated with a one-unit change in the independent variable. The change in $P(Y = 1)$, however, is not a linear function of the independent variables. Table 5.10 also displays a column labeled “Standardized Coefficients.” A standardized coefficient is a coefficient that has been calculated for variables measured in standard deviation units. The predictive power of the model also is displayed in Table 5.10. Given all of the limitations involved in statistical analysis, the model shows a powerful predictive tendency as 75 percent of all observations are classified correctly by the model.

The variable DISCRM, which indicated the discriminatory behavior of an organization, was found to be statistically insignificant. This result lends support to the belief that executives evaluating companies’ reputations do not value the human element of the corporation as much as they do the financial elements or other results. Put differently, the legal component of the social responsibility assortment does not carry much weight.

The results also show that the size of a corporation as measured by its total assets is not statistically significant (i.e., size is not a determining factor of a company’s social responsibility performance as measured by its reputation index). This unexpected result may have been biased by the selection of the sample of companies analyzed. The sample companies were all large ones with sales volumes of at least $500 million in their particular industry group. This fact may have masked any impact that size might have had on a company’s reputation index.

CONCLUSION

The disclosure of social information is essential if investors are to consider properly the negative effects of social awareness expenditures. A number of scholars believe that “ethical investors” form a clientele that responds to demonstrations of corporate social concerns (Belkaouei, 1984). Investors of this type would avoid particular investments entirely for ethical reasons and would tend to favor socially responsible corporations in their portfolios. Based on the analysis in this book, there is partial
support for the belief that socially responsive corporations are achieving a better return on equity over those companies which are less socially responsive, evidenced by the positive relationship between a company’s reputation index and its return on equity.

Although more empirical work is called for, as a result of this study, there is a promising empirical conclusion that provides evidence that corporate social performance is negatively related to downsizing activities. In other words, companies that lay off employees are viewed as being less socially responsible, which might affect the financial indicators of the firm in the long run.

The nature of the study and the methods by which data was gathered require a discussion of the potential limitations of the research. The firms in the sample studied were large, publicly held corporations. The findings of this research then are limited to this population. Another limitation is the use of the Fortune Reputation Index in measuring social performance or, as J. Wood calls it, the measure of a company’s reputation. To correct for the negative effects of these limitations, other proxies of CSR should be used in the future, along with companies of various sizes.

Future research is to be geared in the direction of using other measures or proxies of social responsibility performance and comparing the results with current ones. Another intriguing area is in the evaluation of to what degree social performance is affected when companies downsize their workforces in foreign countries versus laying off employees in the United States.

Future research in the area of corporate social responsibility could be extended in a number of directions. First, a natural extension of this book is to conduct a comparative analysis between CSP in the United States and in other foreign countries (the United Kingdom and Canada are natural cases).

Second is an examination of the impact of downsizing strategy utilized by firms and disengagement incentives and how these impact on a company’s social responsibility performance. A downsizing implementation strategy such as the use of disengagement incentives to motivate employees to voluntarily leave the firm would probably have less negative impact on corporate social performance. Disengagement incentives include early retirement, severance pay, continued benefits, job placement, and reskilling employees. On the contrary, maybe the impact would be positive! Too much downsizing might result in achieving less than the
desired optimal positive effects on a firm’s performance, both financially and socially.

Third is the use of another measure of corporate social performance like the KLD measure to solidify our findings. This third point will be discussed at length in the following chapter.

**APPENDIX: FIRMS INCLUDED IN THE STUDY**

Abbott Labs
Adolph Coors
Aetna Life
Alberto-Culver
Alcoa
Allied-Signal
Amex
American Brands
American Express
American Homes
American International
American Standard
American Stores
Amoco
Anheuser Busch
Apple Computers
ARCO
ARMCo
AT&T
Avon Products
Avondale Industries
Baker Hughes
Ball
BankAmerica
Bankers Trust, N.Y.
BASF

Baxter Int’l.
Becton Dickinson
Bell Atlantic
BellSouth
Bethlehem Steel
Black & Decker
Boeing
Boise Cascade
Bordon
Bristol-Myers
Brunswick
Burlington
Campbell Soup
Caterpillar
Champion Int’l.
Chase Manhattan
Chemical Bank
Chevron
Chrysler Corp.
Cigna
Citicorp
Clorox
Coca-Cola
Colgate-Palmolive
ConAgra
Connecticut Life
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Company Name</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Data</td>
<td>Int’l. Paper</td>
<td>IBM</td>
</tr>
<tr>
<td>Cooper</td>
<td></td>
<td>Inland Steel</td>
</tr>
<tr>
<td>Corning Glass Works</td>
<td></td>
<td>Interco</td>
</tr>
<tr>
<td>Crown Cork &amp; Seal</td>
<td></td>
<td>ITT</td>
</tr>
<tr>
<td>Cummings Engines</td>
<td></td>
<td>James River Corp.</td>
</tr>
<tr>
<td>Dayton Hudson</td>
<td></td>
<td>J. E. Seagram</td>
</tr>
<tr>
<td>Digital Equipment</td>
<td></td>
<td>John Deere</td>
</tr>
<tr>
<td>Dow Jones</td>
<td></td>
<td>John Hancock</td>
</tr>
<tr>
<td>Dresser Industries</td>
<td></td>
<td>Johnson &amp; Johnson</td>
</tr>
<tr>
<td>DWG</td>
<td></td>
<td>J. P. Morgan</td>
</tr>
<tr>
<td>Eastman Kodak</td>
<td></td>
<td>K-Mart</td>
</tr>
<tr>
<td>Eaton</td>
<td></td>
<td>Kimberly Clark</td>
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2. See Graves and Waddock (1994) for a discussion of those limitations.
REFERENCES


CONCLUDING REMARKS AND DISCUSSION

INTRODUCTION

Big businesses have always been criticized. Beginning around the turn of the century, crusading journalists—the “muckrakers”—shocked the nation with revelations of corrupt business practices, touching off a wave of government regulations. Other waves of government regulations were created in the wake of the Great Depression of the 1930s and then again in the 1960s and 1970s, when the civil rights and consumer movements held corporations responsible for a long list of social problems.

One of a corporation’s primary objectives is to operate in a socially responsible manner. Our society gives considerable freedom to organizations, both public and private. In return, organizations are expected to function in a manner consistent with society’s interests. Social responsibility refers to the expectation that business firms should act in the public’s interest. As a matter of fact, businesses have always been presumed to provide employment for individuals and to offer goods and services for clients. But social responsibility suggests more than that. Today, society requires business firms to help reduce pollution to protect the environment, to sell safe products, to be honest with its customers, and to be just and fair with its employees. Some observers, from Adam Smith
to Milton Friedman, have argued that social responsibility should not be a function of the management process. Friedman, for instance, has always maintained that business operates best when it sticks to its primary mission—ensuring profitability by producing goods and services within society’s legal restrictions. He further argues that the business’s exclusive responsibility is to attempt to maximize returns to shareholders. When it goes further than that by undertaking social issues, the business is giving away resources that should more properly be returned to its stockholders, and they in turn can allocate the resources in the way they see fit.

On the other side of the coin, other observers argue that business is a part of society and that its conduct has both economic and social implications. As a matter of fact, it would be impossible to isolate the economic from the social ramifications of business decisions. American companies’ involvement in South Africa, for instance, has helped in the advancement of social aims of both the South African and American governments. Two examples stand out here: Federal Express’ insistence that its South African partner, XPS Services, must employ a 50/50 ratio of minority and white managers, and Microsoft’s development of an internship program for South Africans, mainly minority, at its headquarters.

It is worth mentioning that many government regulations over business operations came into being because some firms refused to be socially responsible. If organizations had not damaged the environment, sold unsafe products, discriminated against some employees, and engaged in untruthful advertising, laws in these areas would not have been necessary. The threat of even more government regulation exists unless companies operate in a manner consistent with society’s well-being. Ideally, firms that are socially responsible are those that are able to operate profitably while simultaneously benefiting society. But realistically, it is not always exactly clear what is good for society. General Motors (GM), for instance, has published an annual Public Interest Report for approximately 25 years. A recent issue described GM’s efforts in areas such as clean air, ozone depletion, global warming, waste management, automotive safety, minority programs, philanthropic activities, higher quality products, and greater operating efficiency. In evaluating these various activities, it becomes clear to observers that GM is adopting a stakeholders’ approach to its social responsibility mission.

The question of downsizing has been approached differently by vari-
ous theorists of corporate social responsibility (CSR). How they differ and where they overlap will be discussed in the following section.

**DOWNSIZING AND THE VARIOUS THEORIES OF CSR**

The various theories of corporate social responsibility approach the problem of downsizing and layoffs differently. This is not surprising, since the basic premises and hypothetical foundations of the various theories differ sharply.

The classical theory of corporate social responsibility is based on the premise that management’s first and foremost responsibility is to the stockholders of the company. This principle is of fundamental consideration when the question of downsizing or layoffs is raised. Classical theorists also believe that top management has the final say in making such decisions. Consequently, management should not be under any set of legal requirements to confer or negotiate with the affected workers, give them any advance notice, or provide them with severance pay. However, the degree of enforcing the shareholders’ principle varies among classical theorists. Some, for example, Lunnie, believe that management may have a legal obligation to take steps such as employee notification and severance payments, though he argues of course that this should not be enforced legally (Lunnie, 1983, p. 7). Other classical theorists strongly argue that corporations do not have any legal, moral, or economic responsibility to retain employees and to stop the downsizing of their corporations. According to those theorists, the main factor determining the downsizing decision is the economic benefits to shareholders.

In summary, the frequently raised argument of the classical theorists regarding downsizing and employee layoff is the efficiency one. They insist that carrying out responsibilities such as giving employees advance notice of the downsizing decision, making severance payments, or choosing to operate unprofitable entities is expensive and places a burden on the firm and its shareholders. McKenzie (1982), for instance, states that the competitive market system continuously undergoes a process that Schumpeter calls “creative destruction” (p. 15). As a resource becomes too expensive to utilize (including the human resources element), managers are responsible to somehow restructure the firm in such a way that it can survive and flourish. Classical theorists, however, do not ignore the costs associated with the restructuring of their corporations through
downsizing, downscoping, retrenchment, and so on, but they do believe that there will be more winners than losers as a result of downsizing, due to efficiency. The winners include most of those who participate in a more efficient market system with stable or lower prices and more profits and benefits to shareholders, which in turn might mean more jobs in the not-so-distant future through capital accumulation.

Stakeholder theorists usually suggest that certain moral and legal conditions be placed in the hands of top management in order to prevent massive layoffs. Proponents of this theory maintain that some massive layoffs and relocations have been unwarranted, and they postulate that such miscalculations should not happen in the future. In addition, they argue that even if top-level executives and management are justified in electing to downsize or relocate a plant, they have a moral responsibility to provide suitable notice and to offer outplacement programs and/or compensation. Also, advocates argue that if managers ignore their social and moral responsibilities in restructuring and downsizing decisions, society will see to it that they are legally required to take appropriate remedies.

Stakeholder theorists, however, warn that the full extent of downsizing and restructuring is not yet fully understood. They argue that we as a society do not yet realize the full scope of the problem in terms of the areas in the country or world that have been affected by massive layoffs, nor do we know enough about the communities affected and the nature of the layoff phenomenon, whether it is permanent or cyclical in nature. However, stakeholder theorists contend that there are financial and psychological costs associated with massive layoffs and downsizing. They believe that in some instances downsizing undercuts productivity, thus involved corporations end up wasting resources. From another, yet related, perspective, proponents of this theory believe that eliminating jobs and closing plants treat workers as gadgets, or as one downsized worker put it, “like throwaway containers” (Brummer, 1991, p. 223). Such a technique is said to disregard human dignity. Carroll (1981) states that work is an activity that provides a person with dignity, fulfillment, and self-actualization. It is a way for workers to make a social contribution and to fulfill unmet social needs, in addition to meeting their basic needs. Corporations that eliminate jobs deprive those employees of the chance for self-development.

From the social demandingness theorists’ point of view, two arguments are advanced with respect to downsizing. The first is that
management should take into consideration the primary and secondary effects of the decision to downsize. The second is that management must act according to what society demands in this regard. Proponents of the social demandingness theory maintain that the decision to downsize is like any other decision; it is one in which management is expected by society to minimize, or eliminate, its negative impact. According to Drucker (1974), it is management’s responsibility to lessen the impact of actions outside of its own specific mission (p. 327). The question raised here is, what is considered outside management’s specific purpose or mission? In a downsizing decision, undoubtedly the employees who lose their jobs are directly affected by management’s decision. However, proponents of this theory argue that management has to take into consideration the effect of its downsizing decision on the wider community. Management should seek to temper the negative repercussions of the decision on its employees, both downsized and survivors, and on the entire community. This includes conducting a community impact statement analyzing the main impact of the downsizing decision, that is, giving advance notice to employees affected by the decision and the public; offering outplacement services; and offering transfer and relocation to other facilities.¹ Many of those recommendations are supported by stakeholder theorists as well.

Lustig (1985) states that in cases where the company employs a large number of the local workforce, the firm becomes the owner of community capital. Any layoff decision destroys a larger proportion of this capital. He refers to a U.S. Bureau of Economic Analysis report which estimates that for every percentage point of added unemployment, the larger community loses more than $68 million in foregone gross national product (GNP), $20 billion in federal taxes, and $3.3 billion in various forms of public aid (p. 132).

The social activist theory of downsizing is not a well-articulated view. One could safely state though that this theory differs from the other theories of CSR. As discussed in Chapter 2 of this book, social activist theorists maintain that there is a normative standard for defining accountable corporate conduct.

It appears that the requirement for corporations to act responsibly from a social standpoint represents an assertion of rights by the non-economic sectors. The standards placed on grassroots groups, citizens’ associations, and governmental regulatory agencies that corporations be socially responsible are an illustration of an unquestionable assumption.
of civil society. Consequently, diverse power centers must work together toward the collective good, which itself is an outcome of arbitration among the various constituents.

Managers and executives maintain a public reputation that they are being compensated for making profits, being risk takers, and at the same time being socially responsible. Mission statements of most corporations attest to this. However, the fact remains that in a free market society, the market focuses on short-term gains. Consequently, this forces managers to instead avert risk and to limit social contributions to short-term activities.

According to the myopic institutions theory (Hansen and Hill, 1991), institutional investors tend to be more nearsighted than individual investors. This shortsightedness results, *ex hypothesi*, because institutional money managers must strive for accounts and are evaluated and compensated on the basis of their annual or even biannual performance. The myopic theory’s authors argue that institutional fund managers are under considerable pressure from their superiors to perform. When they make decisions, they respond to organizational pressures and their own desires for job security and advancement, which translates into risk aversion and a short-term focus. Specifically, if a stock in an institution’s portfolio shows signs of poor performance, it is argued that the safe thing for a fund manager to do is to sell out and purchase a more favorable stock, thus the phenomenon often noted in the popular press of institutions shuttling in and out of stocks in response to short-term corporate earnings reports. Institutions’ short-term stock shuttling implies that the degree of volatility in a company’s share price will be a function of the level of institutional holdings. When institutions hold a significant proportion of a firm’s stock, the tendency to sell in response to a short-term decline in earnings can lead to a dramatic drop in the firm’s share price. To reduce this probability, advocates of the myopic institutions theory have suggested that top managers in large corporations have been cutting back on long-term investments, specifically investments in R&D, in order to inflate their short-term earnings.

This discussion is definitely relevant here. Corporate investments in social projects tend to be medium to long term, and there may be a “lack of fit” between an institutional owner’s time horizon and the time needed to realize the benefits from a commitment to a social project. In other words, some managers of large corporations may have been cutting back on the long-term investments in social programs and sacrificing their moral social stands when downsizing employees in order to inflate
their short-term earnings. For example, regarding the issue of earnings expectations, Keith Mason, former head of Quaker Oats, observes:

There is no economic model that explains why smoothed-out earnings increases are superior to irregular earnings increases. There are theories that the stock market might prefer them, but there is no economic model to support the position that it would be better to have earnings increase on a regular basis than on an irregular basis... Yet, ... the premier executives of many of America's premier corporations, the captains of industry, spend hundreds of hours a year, year after year, making sure not only that this year's earnings increase is consistent with last year's earnings increase, but this year's third quarter doesn't fall behind last year's third quarter. From the point of view of sound economic theory for huge corporations and huge assets, this behavior is irrational. (Mason, 1986, pp. 82–83)

On this specific question, Donna Wood (1994), argues that reform of corporate governance and responsiveness to stockholders hold the key to improving corporate social responsibility. She states, "Corporate governance lies at the heart of every issue of business and public policy, every facet of corporate social performance" (p. 556).

MANAGERIAL CONCERNS

Large corporations in the United States have been going through the shrinking process called downsizing since the 1970s, and they are still going through it. Furthermore, downsizing appears to have expanded in the 1990s. For many firms, the major reason cited is the penetration by foreign competition into U.S. markets. However, economic downturns and recessions, technological discovery and change, mergers and acquisitions, and even retrenchment strategies also are responsible. One approach to downsizing is to persuade employees to retire at a relatively early age and to not replace them. Combined with other types of attrition, this may be adequate. The retirement packages may prove costly, however, and it may be necessary to extensively fine-tune people, positions, and skills to achieve productivity objectives with the "surviving" workforce. It became clear in the 1980s that companies more frequently relied on permanent layoffs as their major approach in downsizing.

It is apparent that downsizing can produce a sizable need for people with skills that were either lost with the exodus of a large number of employees or that are now being deliberately stockpiled.
With respect to the effects downsizing has, there is little argument that downsizing affects employees, their families, and other social constituents in a variety of ways. Hardest hit are minority and low-income groups. For low-income Americans, corporations provide them with, in addition to income, benefits such as medical and life insurance and some type of retirement program. During the 1980s and early 1990s, corporate restructuring—plant closings, downsizing, mergers, and hostile takeovers—threw American corporations and their stockholders into turmoil. As a result, huge institutional investors began to take a more active role in questioning management decisions and rationale. In 1991, the California pension fund, CalPERS, exerted enough pressure on General Motors to lead to that company’s decision to require the majority of its board members to be outsiders. Boards of directors were questioned by external shareholders regarding, among other things, their charitable contributions, community relations, environmental impacts, worker safety conditions, and other facets of social performance.

Business organizations in the United States are in transition, moving from an information-based society to a knowledge age. As the transition is made, complexity and turbulence are increasing each step of the way. To respond to such changes, corporations are no longer viewed merely as economic machines designed for technological progress and for the personal benefit of those who control them. Instead, they must be seen as sociotechnical systems responsive to human and societal needs, both in their inner and outer environments. As human systems, organizations must develop the moral obligation to respond to the needs of their constituents. In other words, organizational philosophies need to shift toward more collaborative relations and to a sense of purpose that includes the organization’s effectiveness as well as the improvement of the quality of life of its members. The individual personal value also needs to shift from self-centered achievement and independence to altruism, self-actualization, and interdependence.

An important issue that must be addressed here is the impact of downsizing on survivors. When companies downsize, they often focus their energies on the people who are to be dismissed. These organizations tend to ignore the problems experienced by employees who remain with the company. Unfortunately, the emotional fallout and alienation of those who remain can have a negative influence on individual and corporate productivity. The solution is a carefully constructed corporate policy aimed at alleviating fears and bringing the new, leaner workforce back. The first step is to ensure that employees understand the case for change.
Information technology executives must clearly define how layoffs are determined.

Psychologists agree that the 1980s’ and 1990s’ wave of corporate layoffs took its psychological toll on the U.S. workforce. About 28 percent of those who were unemployed in 1992 were white-collar workers, and many more professionals worried that their jobs were in jeopardy. As companies downsize, responsibilities shift to those who remain, which can result in frustration, irritability, fatigue, and burnout. Since future waves of layoffs are expected in the next few years, psychologist LaVere Burdette recommends that employees change the way they think about work. It is best to look to one’s skills for security rather than to put faith in an organization. Accepting the lack of job security prepares one to take control of one’s career.

In addition, corporations have failed to satisfy their social responsibility obligations to their laid-off employees; namely, a large number of those companies fail to offer their employees some kind of training. A survey by the Institute of Management and the Economic and Social Research Council stated that out of the 2,000 managers surveyed, half admitted that they received too little training in this area. As companies delayer and downsize, the trend is for a different kind of manager who is supportive and more able to devolve decisions down to the lowest level necessary. Not surprisingly, the changes have been reflected not just in the type of courses being offered by training organizations but also in the way in which training is delivered. Several key trends are evident. There is a move away from open programs, where delegates from a number of different organizations attend the same course. Of growing interest are in-company programs tailored to an individual company’s needs. Greater emphasis is being placed on identifying individual managers’ personal needs and adapting the training accordingly. There also is a move toward more interactive, workshop-style training rather than the traditional lecture and supine delegate approach.

Many industries currently rely on control and equipment suppliers for training. As businesses downsize in the 1990s and head counts dwindle, the abilities for each remaining employee become more critical, and reduced internal resources make outside training imperative. Consequently, businesses will continue to look to suppliers for training resources.

For some downsizing companies, experts believe that they may be going too far in their retrenchments, damaging their quality efforts and putting themselves at a competitive disadvantage. Companies continue
to cut research and development funds and to slash service, all of which threaten customer satisfaction. A well-known expert in the field calls the trend “dumbsizing” and says that companies are firing people that they probably should have retained. In addition, it is acknowledged that companies need to cut costs but that they are going about it in the wrong way. They are doing it in an applied, across-the-board manner that results in cutting more muscle than fat. Many times when companies downsize, they often reduce areas that might have had better profit margins if they had applied more or different resources.

Today, many examples exist of how people can manage with corporate social responsibility in mind. Eliot Hoffman, owner of Just Desserts, a San Francisco bakery, instituted a practice of hiring ex-convicts. He states,

I really believe that business has to play a large role in changing our society.... Businesspeople, especially those in smaller companies, know how to get things done. We tend to think “outside the box.” We need to bring that creativity to our community. Disfranchised people need on-ramps in society. Those aren’t going to come from the federal government. (Eisman, 1992)

Ben & Jerry’s answer to the homeless situation was to open a store in Harlem and to employ homeless people to serve ice cream. Scott Paper donated five cents to the Ronald McDonald House for every UPC code mailed in by its customers. According to spokesperson Laura Boyce, “We get a chance to spotlight a worthy organization, and it created awareness among customers, too” (Eisman, 1992).

Another example of a socially conscious entrepreneur is Paul Newman, who earmarked all of the profits from Newman’s Own food products for various charities, such as the Hole in the Wall Gang, a camp for children with terminal cancer. Among food companies, Campbell Soup has been a leader in socially responsive behavior. It has sponsored a long-running program, “Labels for Education,” which involves supplying equipment to schools based on the number of Campbell and Swanson labels sent in by customers during the school year. Other fast food companies such as Burger King and IBM operate a similar program. Through “Burgers and Bytes,” computers are donated to schools according to the number of cash register receipts generated. Burger King also operates Burger King Academy to provide education and social services to dropouts and truants.

In Louisiana, in 1991, Colgate-Palmolive kicked off its “Partners in
Concluding Remarks and Discussion

Education” program, which doubled as a marketing endeavor and philanthropic measure. In return for retailers putting up their displays, the company gave them Map Playground Kits, which included materials for students to paint their own maps. The stores then dispersed the kits to local grade schools.

Reebok launched a new product in 1991—the BlackTop line outdoor basketball shoe. Part of the profits from the shoes are used to renovate basketball courts. According to spokesperson Dave Fogelson, “Our involvement in court renewal gives us more credibility for the BlackTop line, so I’d say it’s a major factor in the product’s success. But it started because we wanted to do something for inner-city kids” (Eisman, 1992).

In 1899, Andrew Carnegie (1835–1919), founder of the conglomerate U.S. Steel Corporation, published the book *The Gospel of Wealth*, which set forth the classic statement of corporate social responsibility. Carnegie’s view was based on two principles: the charity principle and the stewardship principle. The two principles saw business owners in a parentlike role to childlike employees and customers who lacked the capacity to act in their own best interests.

In summary, from the rise of the railroads to the beginning of World War II, a pattern of corporate contribution to societal causes had become part of the American way of living.

Company contributions to hospitals, orphanages, museums, libraries, and so on and the Community Chest movement all signaled the presence of a doctrine that those big social, economic, business entities had a responsibility to the have-nots.

The final major device for the allocation of company resources for social welfare came with the company foundation. The proliferation of corporate foundations during the late 1950s and 1960s affirmed the presence of some responsibility to meet social needs. Government incentives in the form of tax breaks were the main motivator for the establishment of foundations. Heald (1970) and later Drucker (1993) argued that corporate giving was a necessary requirement for the maintenance of a civil society. Foundations are critical autonomous sources of wealth that support charity, public welfare, and research. In addition, they provide employment and act as platforms for expressing the social concerns of the corporate owners, top executives, and managers.

The company foundation was the last major institutional response to social responsibility. Society’s right to demand that business assume some responsibility of healing social malaise is a constant, underlying
assumption of the evolution and history of the corporation in America. When the courts permitted corporations to deduct contributions made to charity, the "debate" on social responsibility began. The Five Percent Amendment and the Social Security Act had, many thought, exacted too high a cost from corporations. In defense of the corporate economic role, several economists argued against further infringement of corporate boundaries by framing this issue in terms of the business's role in society.

During the 1950s, scholars of the social responsibility issue articulated two opposing views of the discussion. H. R. Bowen (1953) started the contemporary debate with the proposition that businessmen have an obligation to society, an obligation "to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6). Richard Eells (1956) argued that business cannot be considered in isolation from the broader social context in which it operates. He argued that the well-tempered corporation is the one which pursues its economic goals while responding to the values and needs of society at any given time.

At the heart of this position is (1) the existence of a social contract, and (2) the presence of moral character inherent in corporations. The debate on corporate social responsibility has centered on the moral nature of the corporation, which extends the notion of the responsibility of the business enterprise beyond what are said to the sole concerns of business.

Milton Friedman has been considered the most outspoken advocate of a narrow interpretation of the extension of responsibility. The primary responsibility of business is to do business, to produce and to be a productive enterprise. Society benefits from productivity. Friedman (1962) argued strongly that,

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance of corporate officials of a social responsibility other than to make as much money for their stockholders as possible. (p. 133)

Morality is the obligation to make the corporation profitable, thus profit making becomes the engine of corporate ethics. In seeking profitability, market forces will see to it that society benefits. Therefore, the market defines welfare and public good, and it will enforce morality as it affects transaction decisions.

During the 1950s, three other voices were raised to defend Friedman's type of thinking. Theodore Levitt (1958) was concerned about the "responsibility syndrome" as it was used as a weapon against capitalism.
He argued that businessmen had two responsibilities: to be civil and to seek material gain. Levitt viewed the responsibility syndrome as a weapon which would limit the freedom of everyone as the corporation assumes “all embracing duties, obligations, and powers” (p. 44).

With respect to the relationship between corporate social performance and financial performance, numerous studies have attempted to understand the relationship between the two. All of these studies sought to statistically establish some kind of relationship between corporate social performance and some indicators of corporate financial health. One common element characterizes the studies, regardless of the industry being investigated or the financial performance indicator being utilized: nearly all studies have concluded that firms that are perceived as having met social responsibility criteria have either outperformed or performed as well as other firms that are not socially responsible. Pava and Krausz (1995) labeled this common theme the “paradox of social cost.” In their opinion, to the extent that social activities are costly to a firm, one would expect a negative relationship between social performance and financial performance at the individual firm level.

The studies that were reviewed in Pava and Krauz (1995) were published over a 30-year period, using different proxies to measure corporate social performance and different variables to measure corporate financial performance. In addition, the authors employed a variety of methods and methodologies in their analyses.

With respect to the connection between CSR and ethics, this is best described early on by Max Weber, who in his 1918 essay Politics As a Vocation distinguished between “an ethic of responsibility” and “an ethic of conviction.” Weber used this distinction to argue for a consequentialist solution to the problem of “dirty hands” in politics, contending that good can often be achieved only through the otherwise immoral use of violence. The popular use of the term social responsibility connects in interesting ways with an ethic of responsibility. An ethic of responsibility sets limits on what is acceptable human conduct, but these limits are guides rather than harsh rules. In addition, an ethic of responsibility has a strong human dimension.

Responsibility is well situated to deal with ethical quandaries that arise out of a company’s affiliation with multiple constituents.

DISCUSSION

Social responsibility as a social reaction is based on the premise that a corporation is reacting to prevailing social norms, values, and perform-
This view emphasizes that society's expectations of corporations go beyond the provision of goods and services. At a minimum, corporations must be accountable for the ecological, environmental, and social costs incurred by their actions; at a maximum, corporations must react and contribute to solving society's problems. This view is interpreted, in a narrow sense, as involving cooperative voluntary actions only. This interpretation seeks to separate corporate actions that are required by economic or legal imperatives and those that are initiated voluntarily. Whether corporate actions are voluntary or involuntary, a broader interpretation of the social action view identifies as socially responsible those actions that go beyond the law. Typically, these actions are reactions to the expectations of specific corporate constituents—shareholders, social activists, unions, and so on. Because the expectations of these constituents go beyond legal minimums, businesses can decide to not react to such circumstances. A favorable reaction, however, is considered socially responsible.

According to the view of social responsibility as social responsiveness, socially responsible behavior is preventive rather than restorative. The term social responsiveness has become widely used in recent years to refer to actions that go beyond social obligation and social reaction. The attributes of socially responsive behavior include taking stands on public issues, anticipating future needs of society and moving toward satisfying them, and communicating with the government regarding existing and anticipated socially desirable legislation. Corporate managers, according to this view, use their skills and resources to solve an existing or anticipated problem. This view places managers and their corporations in a position of social responsibility, far removed from the traditional one that was concerned only with economic means and ends.

Events during the 1980s reinforced the attitude that corporations must react to problems created by their own actions. More important, the 1970 crisis initiated the idea that corporations have to be proactive and should be responsive to a wide range of social problems because they have the expertise and power to do so. The current debate on the social responsibility of business is not concerned with obligatory behavior but with socially responsive behavior.

RECOMMENDATIONS FOR FUTURE RESEARCH

It should be noted that despite the overall attention to corporate social responsibility and corporate social performance in the business and so-
ciety literature, research on the social impact of business has been relatively overlooked. This book constitutes a step in this direction. By examining the social impact of downsizing activities of businesses, the author demonstrated that this activity has been viewed negatively by the society exemplified by the various social actors. As the last 30 years comprised a profound era of academic activity, touching on topics such as corporate social accounting, corporate social auditing, corporate social reporting, corporate social responsiveness, and corporate social performance, it is instrumental that the twenty-first century, as Wood speculates, should be the time to revive research into social impacts and outcomes. Some theoretical work has moved in this direction. Etzioni (1988), for instance, established a research program to develop a theory of socioeconomics which extends the neoclassical economic model of the firm to include consideration of social impacts.

As Carroll (1991) has suggested the development of new measures of corporate social performance, this author adds her voice to that of Carroll’s and other researchers’ opinions in the field. A number of well-known researchers in the social issues management field (Wolfe and Aupperle, 1991, for instance) maintain that there is no single best way to measure corporate social performance (CSP) and that multiple measures help better develop the field. While this book used the Fortune Reputation Index as a proxy of corporate social performance, future research could utilize the recently developed Kinder, Lydenberg, and Domini (KLD) database, which was made available by the social choice investment firm that developed it. While undeniably far from complete, this database of more than 800 firms represents the largest, multidimensional CSP database compiled to date. However, since the evaluations in the KLD database are basically the judgments of the principals of that firm, researchers should be concerned about the validity of these ratings and should examine them critically. The KLD ratings cover nine areas of social performance, including Community Relations, Employee Relations, Environment, Military Contracting, Nuclear Power, Product Liability, South African Involvement, Women and Minority Issues, and “Others.” While no definite theory was used to develop this assortment of measures, it has become standard corporate social performance criteria. The KLD measures carry a lot of potential for measuring corporate social performance, especially because of the number of companies it covers (800 as opposed to 300 for Fortune). One of the main concerns regarding the KLD constructs, however, is validity. As mentioned above, the ratings represent the basic beliefs of the KLD principals, whereas
hundreds of top corporate executives and management researchers participate in the development of the *Fortune* ratings.

Sharfman, in a 1996 article, developed a construct validity study comparing the KLD data to other measures of corporate social performance, especially *Fortune’s*. One recommendation for future research is the use of the KLD ratings as a measure of corporate social performance and the examination of the relationship of KLD ratings to corporate downsizing and discrimination activities.

**NOTE**

1. Carroll (1984), a proponent of this theory, discussed in detail the issue of plant closing.

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About the Author

ZEINAB A. KARAKE-SHALHOUB is Professor of Management at the Catholic University of America. She is the North American Editor of the Logistics Information Management Journal and the Management Decision Journal and the author of Technology and Developing Economies (1990) and Information Technology and Management Control (1992), both published by Praeger.