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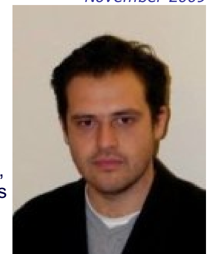

The Effects of Corporate Ownership on Downsizing Decision Making

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Introduction

During the last decades, downsizing has been utilized widely by firms as a strategic choice (Stavrou et al., 2007; Chadwick et al., 2004; De Meuse et al., 2004) in order to improve operating efficiency (Chadwick et al., 2004; Nixon et al., 2004). Even though, there are many different ways to downsize a firm, in the majority of cases downsizing involves extensive layoffs (Greenberg, 1991; Greenhalgh and McKersie, 1980; McCune et al., 1988). As Stavrou et al., (2007) highlight, in the case of downsizing, the layoff of some people is an essential prelude to "rightsizing" the company so that it can invest in innovations that will make the remaining labour force more competitive (Lazonick, 2003). In any case though it's a difficult process that has to be designed and executed very carefully and its effect will be very much dependent on the strategy that will be followed.

While various aspects of the downsizing process have been widely studied, their connection to firm ownership status and the reasons behind it are missing from the literature. This article aims contribute in closing this gap by exploring the differences in downsizing behaviour depending upon the different ownership status of firms: stock versus privately held firms, foreign versus domestic firms, state-owned versus private companies and family owned versus non-family owned firms. The findings suggest that the extent of family ownership decreases the likelihood of deep job cuts while corporate firms downsize less than non-family firms, irrespective of performance. We conclude that family owners provide patient capital and have a strong long-term perspective.

The Definition of Downsizing

Downsizing can be empirically defined as deep job cuts (above 5%), Block, (2008, p.18). When sales and profits fall, downsizing and cost-cutting are usually among the first management reactions. As examples, we can consider a wide number of firms, including Xerox, Boeing, Merck & Co, Toshiba and Sony Ericsson which announced job cuts of 5%, 6%, 12%, 20% and 30% of their workforce, respectively, in the wake of the recent financial crisis (Uchitelle, 2008, Vasileiou & Katsikis, 2009). All firms refer to a slowdown in profits and sales as the main reason for the job cuts.

Theoretically, a downsizing occurs when the corporation permanently reduces its employment level without necessarily abandoning a product market, process, activity or geographic location (Lazonick, 2003). Cameron (1994), gives a more comprehensive definition of downsizing: it involves reduction in personnel through different personnel-reduction strategies, it is focused on improving the effectiveness of the organization as it represents a set of activities targeted at organizational improvement and finally downsizing affects work processes because when workforce contracts, fewer employees have to deal with the same amount of work and this has an impact on what work gets done and how it gets done.

Empirical Research on the Relationship between Ownership and Downsizing

The role of ownership seems to be critical importance in the in the corporate downsizing decision making process as this factor lead to a different behaviour. Although of great importance, only little empirical work has been done on the relationship between the ownership of the firm and its decision for downsizing. As Vicente-Lorente and Suárez-González, (2009, p.1614), argue that ownership has received scarce attention even though it exerts a meaningful influence on the firm strategy as a whole, and consequently on downsizing behavior employees. In their empirical work, Vicente-Lorente and Suárez-González, (2009), use a sample of large Spanish firms (1990 - 1998) in order to confirm that stock firms and state-owned firms engaged in a privatization process are more likely to downsize than privately held domestic companies. They found less conclusive results about the downsizing behavior of foreign firms.

As Vicente-Lorente and Suárez-González (2007) highlight, the extant empirical studies on downsizing determinants differ widely in methods and theory, which complicates any attempt to develop comprehensive models. However, these heterogeneous pieces of research suggest that downsizing is the outcome of a process that involves techno-economic, institutional and socio-cognitive factors (McKinley et al. 2000). These theoretical explanations summarize most of the arguments in the empirical literature that have been forwarded to justify the role of downsizing predictors.

The empirical design of relevant studies (eg. Vicente-Lorente and Suárez-González, 2007) has been unable to disentangle the ultimate underlying drivers of downsizing. This becomes clear in the case of foreign-controlled companies, in which legitimacy and short-term thinking are both reasons for these firms to be more active in downsizing decisions. The evidence supporting that foreign firms depict an enhanced proclivity to downsize appears to be weak and seemingly temporary. Nonetheless, their findings can be seen as a source of compelling research questions and future empirical work in this issue.

In the following table we exhibit the results of our review on the role and the effect of ownership on the corporate downsizing behavior. As it is obvious findings from a variety of recent empirical studies proves that ownership does matter when firms undertake downsizing strategies and whether they may have strong or weak tendency to downsize.

Table 1: The Role of Ownership on Downsizing Behavior

Ownership status	Downsizing behavior
State owned	Strong
Private firms	Weak
Stock listed firms	Strong
Non-stock listed	Weak
Foreign owned	-
Domestic owned	-
Family owned	Weak
Non-family owned	Strong

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