I

The Changing Work Environment

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Organizational Transitions[1]

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Hardly a day goes by without stories about organizational restructuring, downsizing, merging or closing appearing in the popular press. These events are taking place throughout the industrialized world. Consider the following newspaper headlines:

> "Laidlaw's U.S. ambulance unit hit with job cuts" (*Financial Post*, April 19, 1999)
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> "Mitsubishi to cut 14,500 jobs in massive restructuring" (*Financial Post*, April 11, 1999)
>
> "AOL to trim staff after Netscape deal" (*Financial Post*, March 25, 1999)
>
> "Siemens to buy Redstone, cut jobs" (*Financial Post*, March 19, 1999)
>
> "Olivetti proposes large job cuts in takeover bid" (*Financial Post*, March 18, 1999)
>
> "Telecom Italia plans 40,000 job cuts" (*Financial Post*, March 15, 1999)

The early 1990s were characterized by economic slowdown, plant closings and layoffs, and budget cutbacks (Gowing, Kraft, and Quick, 1998). This mood of austerity has affected private and public sector organizations alike, and is expected to continue through the early 2000s and beyond.

Organizations are becoming leaner and meaner (Burke and Nelson, 1998). More and more are focussing on their core competencies and outsourcing everything else. Continental Bank Corporation, for example, has contracted its legal, audit, cafeteria, and mailroom operations to outside companies. American Airlines is contracting out customer service jobs at thirty airports. There are no longer any guarantees to managers and workers. Flattened hierarchies also mean that there will be fewer managers in smaller remaining organizations.

Why Downsize or Restructure?

Downsizing refers to the voluntary actions of an organization to reduce expenses. This is usually, but not exclusively, accomplished by shrinking the size of the workforce. But the term covers a whole range of activities from personnel layoffs and hiring freezes to consolidation and mergers of units. Downsizing refers to an array of initiatives implemented by an organization in response to a decision to reduce headcount.

Wrenching changes have forced organizations to look for ways to compete. The globalization of the marketplace, sweeping technological advances, and changes to a service-based economy are but a few of these forces (Martin and Freeman, 1998). Global benchmarking, in particular, has led companies to compare their overhead costs with those of global competitors, and to cut their payrolls in response. It must also be acknowledged that downsizing is sometimes the price paid for mismanagement and strategic errors at the top of the organization (Kets de Vries and Balazs, 1997).

The outcomes that organizations seek from restructuring may include increased productivity, improved quality, enhanced competitive advantage, and potential regeneration of success (Hoskisson and Hitt, 1994). In addition, organizations hope to achieve lower overhead, less bureaucracy, more effective decision-making, improved communication, and greater innovativeness.

However, companies were not downsizing simply because they were losing money. Fully 81 percent of companies that downsized in a given year were profitable in that year. Major reasons reported in the American Management Association's 1994 survey on downsizing were strategic or structural (to improve productivity, plant obsolescence, mergers and acquisitions, transfer of location, new technology).

Although we might like to think that the reasons for downsizing are well thought out, many of the reasons are purely social ones (McKinley, Mone, and Barker, 1998; McKinley, Zhao, and Garrett Rust, 2000). McKinley, Sanches, and Schick (1995) proposed that three social forces that precipitate downsizing efforts are constraining forces, cloning forces, and learning forces. Constraining forces place pressures on executives to do the "right thing" in terms of legitimate managerial actions. Managers are expected to reduce their workforces, and those who make drastic cuts are often cast in the media as heroes. Cloning forces are the result of imitation or benchmarking. Reacting to uncertainty, managers want to display that they are doing something to address the decline. They look to other organizations within their industries to demonstrate some initiative, and then they follow suit. Learning, the third social force that brings about downsizing efforts, takes place through educational institutions and professional associations. Cost accounting methods encourage downsizing as a legitimate business activity. Organizations thus choose to downsize for a variety of reasons, some of them economic and some of them social. The rationale for downsizing is an integral part of the issue of whether downsizing efforts are effective, or whether they fail.

Various levels of government throughout the industrialized world have also focussed their attention in recent years on balancing their budgets and reducing the size of their financial deficits (Armstrong-Stassen, 1998). In the US, between 1979 and

1993, 454,000 public service jobs were lost (Uchitelle and Kleinfield, 1996). They have also cut costs by reducing levels of financial support provided to the health care system. These efforts have been associated with hospital restructuring, mergers, and closures as the health care system has had to provide the same levels of service with fewer resources. In the US, 828 hospitals closed between 1980 and 1992 (Godfrey, 1994).

Since 1992, health care institutions in Canada have had to manage with a reduction of government allocation. As a result of severe cutbacks in federal funding to the provinces, the equivalent of $2.5 billion was expected to be cut from health care in 1996–7 (Canadian College of Health Services Executives, 1995). The government of Ontario was planning to close ten hospitals in Toronto, downgrading two others to outpatient clinics, merging programs and downloading a whole host of services onto municipalities, a strategy expected to save $430 million annually in health care costs. As hospitals have closed, merged or restructured, hospital workers, and in particular nurses, are at risk of losing their jobs (Doyle-Driedger, 1997).

Three types of organizational transitions have received increasing attention during the past few years: mergers and acquisitions, restructurings and downsizings, and privatization (Burke and Nelson, 1998). These three newly emerging sources of organizational change share some common features. First, they are interrelated since all represent the effects of the economic recession and attempts by organizations to survive and to increase productivity (Marks, 1994). Second, being fairly recent areas of research, relatively little empirical work has been completed (Kozlowski, Chao, Smith, and Hedlund, 1993). Third, these changes have vast implications for both practice and intervention at both individual and organizational levels (Cascio, 1995; Cameron, Freeman, and Mishra, 1991; Gowing, Kraft, and Quick, 1998).

Extent of Restructuring and Downsizing

Worrall, Cooper, and Campbell (2000) present data on the extent of organizational change in organizations in the UK. They report that 59 percent of managerial respondents had experienced some form of organizational change in the past year (1998); the figure was 62 percent in 1998. The same respondents participated in both surveys, indicating the persistence and increasing pace of change. Mangers in large organizations reported more change. They also found that organizational restructuring was highest in the public sector and the former public sector (utilities, education, health care). Most common forms of restructuring were cost reduction (57 percent of managers indicating a restructuring in the past year), culture change (45 percent), layoffs (45 percent), delayering (32 percent), using a contract staff (28 percent), plant or site closures (27 percent), use of temporary staff (31 percent), and outsourcing (18 percent). Restructuring was seen to have mixed levels of benefits; benefits of increasing accountability, profitability, and productivity were noted. Top management were significantly more likely to see benefits than were the rank and file. Significant deterioration in levels of loyalty, morale, motivation, and perceived job security were evident. This data raised concerns about both the need for such large and rapid change and the way changes have been implemented and managed. The use of job loss in restructuring was found to have particularly negative effects. The loss of key skills and knowledge, heightened job insecurity, and employee motivation and morale were most strongly impacted by redundancies (Sennett, 1998).

Effects of Restructuring and Downsizing

Research has indicated some common patterns of change in the work environment of organizations during downsizing. Organizational communication seems to deteriorate (Cascio, 1993; Dougherty and Bowman, 1995; Noer, 1993) during downsizing, though it is likely to be particularly important at these times (Rosenblatt, Rogers, and Nord 1993). Organizational trust also has been observed to fall (Buch and Aldridge, 1991; Cascio, 1993) coupled with an increase in fear (Buch and Aldridge, 1991). Downsizing organizations have been found to exhibit heightened resistance to change and increased rigidity (Cameron, Sutton, and Whetton, 1987). The work environments of downsizing organizations are characterized by heightened uncertainty and turbulence (Tombaugh and White, 1990).

Staw, Sandelands, and Dutton (1992) propose that under conditions of threat, an external event or situation which individuals, groups or organizations perceive as having negative or harmful consequences (e.g., downsizing), organizations undergo a "mechanistic shift" (p. 516). Organizations centralize information, restrict communication, and rely on familiar habitual responses, responses that are likely to be dysfunctional.

Studies that examine survivors' attitudes in the aftermath of corporate layoffs consistently indicate that survivors' job attitudes such as job satisfaction, job involvement, organizational commitment, and intention to remain with the organization become more negative (Brockner, Grover, Reed, and Dewitt, 1992; Brockner, Konovsky, Cooper-Schneider, Folger, Martin, and Bies, 1994; Hallier and Lyon, 1996). These negative reactions, combined with the fact that survivors must do more with less, make the aftermath of layoffs difficult to deal with.

Common symptoms among survivors are particularly strong in organizations that have historically taken great care of their employees. Employees often deny survivor symptoms. Noer (1993) uses the term "psychic numbing" to describe the denial, which is stronger the higher the organizational level and among those who plan and implement downsizing (HR specialists). Survivor Sickness has elements of psychic numbing. Some symptoms include denial, job insecurity, feelings of unfairness, depression, stress and fatigue, reduced risk-taking and motivation, distrust and betrayal, lack of reciprocal commitment, wanting it to be over, dissatisfaction with planning and communication, anger at the layoff process, lack of strategic direction, lack of management credibility, short-term profit focus, and a sense of permanent change (O'Neill and Lenn, 1995). There were also some unexpected findings with regard to survivors, including little survivor guilt, some optimism, lots of blaming others, and a thirst for information.

Interestingly, both survivors and victims shared common symptoms. Noer, in fact, believes the terms (survivors and victims) become reversed; that those who leave become survivors, and those who stay become victims (Wright and Barling, 1998). The organization typically provides resources to those who leave; however, they do not compensate survivors for the end to job security provided by organizations. The only way to have job security is to have up-to-date work experiences and skills. Rational decisions about non-human resources can be contrasted with the random decisions about human resources. Unlike discarding machines, discarding people has an effect on those who remain (Gottlieb and Conkling, 1995).

Do Downsizing Efforts Work?

Evidence for the effectiveness of downsizing is not impressive. Many efforts produce results that are dismal, and unintended consequences that are devastating. Two-thirds of firms that downsized during the 1980s were behind industry averages for the 1990s. Despite lower unit labor costs, less than half the firms that downsized in the US in the 1990s improved profits or productivity. Seventy-four percent of managers in downsized companies said that morale, trust, and productivity dropped following downsizing, and half of the 1,468 firms in still another survey reported that productivity suffered after downsizing (Henkoff, 1994). A majority of organizations that downsized in another survey failed to realize desired results, only 9 percent indicating an improvement in quality. Evidence suggests that quality, productivity, and customer service often decline over time, and financial performance, while often improving in the short run following downsizing due to promised savings and lower costs, diminish over the long run (Cascio, Young, and Morris, 1997; Morris, Cascio, and Young, 1999).

A four-year study of downsizing that attempted to identify best practices demonstrated a significant negative relationship between organizational effectiveness and downsizing accomplished through layoffs (Freeman and Cameron, 1993). Another study of 1,005 firms showed that less than half of these firms had reduced expenses, on a third increased profits, and one-fifth increased productivity. Two-thirds of the firms reported that morale was seriously affected by the downsizing (Bennett, 1991).

Cascio (1998) provided recent evidence that underscores these findings in a study of 311 companies that downsized employees by more than 3 percent in any year between 1980 and 1990. He concluded that the level of employee downsizing did not lead to improved company financial or stock performance. A pure downsizing strategy, then, is unlikely to be effective.

In a study of 281 acute care hospitals, morbidity and mortality rates were 200 percent to 400 percent higher in hospitals that downsized in the traditional head-count reduction, across-the-board way (Murphy, 1994). That is, patient deaths were significantly higher when downsizing occurred in an imprecise fashion. Moreover, the cost savings associated with downsizing dissipated in twelve to eighteen months, and costs rose to pre-downsizing levels in a relatively short time.

Some organizations, however, have seen benefits from downsizing. There can be a healthy side to restructuring and downsizing. In a Canadian study of 1,034 organizations by Axmith (1995), 85 percent cut costs, 63 percent improved earnings, 58 percent improved productivity, and 36 percent reported improved customer service. Cameron (1998) found, contrary to expectations, that downsizing of one military command was associated with favorable results. First, there was considerable cost savings ($90 million in three years). Second, on-time delivery and order-processing time decreased. Third, quality of products delivered also improved. Fourth, employee grievances dropped. Fifth, customer complaints dropped while their satisfaction improved. In sum, substantial improvement took place on a variety of objective performance indicators over this three-year period. When questionnaire measures of the process dimensions of downsizing, the general approach to downsizing, and the effects of downsizing were compared at the start and at the end of the three-year period, the responses were significantly more favorable at the end of this period. The command was seen as more effective and downsizing was seen as a contributor to this improvement. The majority of evidence suggests, however, that most downsizing efforts fall short of meeting objectives. Despite its dismal track record, downsizing remains a strategy of choice of organizations faced with excess capacity, bloated employee ranks, sky-high costs, and declining efficiency. In order to learn from the experience of downsizing, the many failures and few successes must be examined.

Why Do Restructuring and Downsizing Fail?

A recent survey of 1,142 firms conducted by the American Management Association (Greenberg, 1990) reported that more than half of them were unprepared for the downsizing, with no policies or programs in place to reduce the effects of the cutbacks (Rosenblatt and Mannheim, 1996). Surviving managers find themselves working in new and less friendly environments, stretched thin managing more people and jobs, working longer. In addition, these companies sometimes replace staff functions with expensive consultants. Some severed employees will be hired back permanently while others will return to work part-time as consultants.

What about productivity? More than half of 1,468 firms surveyed by the Society for Human Resources Management reported that productivity either stayed the same or deteriorated following downsizing. Similarly a study of 30 firms in the automobile industry indicated that in most productivity deteriorated relative to pre-downsizing levels.

Studies consistently show that after a downsizing, survivors become narrow-minded, self-absorbed, and risk-averse. Morale drops, productivity lessens. Survivors distrust management (Brockner, 1998). The long-term implications of survivor syndrome – lowered morale and commitment – are likely to be damaging for organizations. How likely are such employees to strive towards goals of high-quality services and products?

Cascio (1993) reviewed the literature on the economic and organizational consequences of downsizing. He concluded that in many firms, expected economic benefits were not realized (e.g., higher profits, lower expense ratios, higher stock prices, greater return on investment). Similarly, many expected organizational benefits were not achieved (e.g., better communication, greater productivity, lower overhead, greater entrepreneurship). Cascio attributed this failure to continued use of traditional structures and management practices. Instead, he advocated that downsizing be viewed as a process of continuous improvement that included restructuring, along with other initiatives to reduce waste, inefficiencies, and redundancy.

Cameron, Whetten, and Kim (1987) identified twelve dysfunctional organizational consequences of any organization decline. These include: centralization, the absence of long-range planning, the curtailment of innovation, scapegoating, resistance to change, turnover, decreased morale, loss of slack, the emergence of special interest groups (politics), loss of credibility of top management, conflict and in-fighting, and across-the-board rather than prioritized cuts.

Four of ten companies that downsized had unintended business consequences (Marks, 1994). These included need for retraining, more use of temporary workers, more overtime, increased retiree health costs, contracting out, loss of the wrong people, loss of too many people, and severance costs greater than anticipated (Bedeian and Armenakis, 1998).

Mergers and Acquisitions

Mergers appear to be taking place with ever-increasing regularity today. And these mergers are occurring in all industrial countries, often involve organizations in two or more countries, and are larger in scale, now topping $100 billion. But many of these combinations fail. Marks and Mirvis (1998) state that more than three-quarters of corporate combinations fail to achieve anticipated business results. Most produce higher than expected costs and lower than expected profits. These failures are the results of several factors: price, a lack of strategy for the combination, corporate politics and clashing cultures, and poor planning. There are potential benefits from combining, but the costs (e.g., heightened levels of stress, increased workloads, job losses, corporate culture clashes, systems and structures that do not mesh) reduce the benefits.

A productive combination results when the combining organizations are now better able to reach strategic and financial objectives. These productive combinations achieve capacity or asset not present before. There are many legitimate reasons for combining. These include: expanding product or service offerings, vertical integration, globalization, spreading risk, gaining access to new technology and resources, obtaining economies of scale, cost-cutting and efficiency, greater flexibility in the use of company assets, and the creation of new and innovative products and services.

Marks and Mirvis (1998) highlight important differences in the typical and successful combinations of firms at the three phases. In the pre-combination phase, the typical emphasis was financial; on the successful combination it was strategic. In the combination phase, the typical emphasis was political while in the successful combination it was combination planning. Finally, in the post-combination phase, the typical emphasis was damage control while in the successful combination it was combination management.

Common problems in the pre-combination phase (Marks and Mirvis, 1998) include: unclear business strategy, weak core business, poor combination strategy, pressure to do a deal, hurried diligence, and over-valued objectives and over-estimated benefits. Common problems in the combination phase include: integration seen as a distraction from the real work, not understanding synergies and critical business success factors, psychological effects denied or ignored, and culture clash denied or ignored. Common problems in the post-combination phase include: renewed merger syndrome, a rushed implementation, not enough resources used, unanticipated implementation obstacles, coordination snags, ignoring team-building, not paying enough attention to desired cultural norms, overlooking the human side of im-plementation, and not capitalizing on opportunities to reinforce the new combination's culture.

Marks and Mirvis (1998) identify symptoms of "merger syndrome" as a major cause of the failure of many mergers. Merger syndrome results from stress reactions and crisis management. Personal reactions to merger stress include personal preoccupation, the creation of worst-case scenarios, spreading rumours, reactions from job performance, and psychosomatic reactions.

Organizational reactions to merger stress include crisis management, centralization of decision-making, less communication, a war-room mentality at the top, interpersonal and inter-group tensions, and more conformity and group think. Cultural reactions to merger stress include clashes between the two cultures, a "we" versus "them" mentality, superior versus inferior thinking, criticize and defend, win-lose positions, and flawed decision-making characterized by force, horse trading or default (Mirvis and Marks, 1994).

Marks and Mirvis (1998) offer their insights on how to improve the odds that a merger, acquisition or alliance will be successful. They divide their model into three phases: precombination, combination, and post-combination. The pre-combination phase describes planning and cultural analyses of the combining organizations as well as the emotional and psychological issues that emerge as individuals anticipate the combination. The combination phase places emphasis on top management's leadership, the role of transition teams, building enthusiasm throughout the workforce, the reduction of stress and the importance of being sensitive to symptoms of culture clash. The post-combination phase involves the integration of structures, policies and practices, and the development and reinforcement of the desired culture. This phase also helps employees adapt to the new organizational realities and works on the development of effective work teams.

Privatization

A large number of formerly government-managed organizations have been privatized throughout the industrialized world. The impetus for this is the belief that the private sector can manage these organizations in more efficient and effective ways. The widespread use of privatization by governments began under Margaret Thatcher in the UK and spread to other countries. New Zealand, for example, introduced privatization to many formerly government-managed programs. Although privatization is a major social and organizational experiment, it has not received much research attention. Most attention has been paid to possible economic benefits; less attention has been paid to potential human and organizational gains.

Cunha (2000) evaluated the impact of privatization on the organizational culture, human resource management practices, and employee well-being (perceived occupational stress, job satisfaction, mental and physical ill-health). She studied four industrial companies, three of which had been privatized and one about to be privatized. The study was longitudinal with two and three waves of data being collected in various companies. She found that efforts to privatizate increased both people and performance orientations. Staff reductions also took place in all cases. Perceptions of occupational stress increased. Self-reports of physical and emotional health symptoms also increased during the privatization process. Job satisfaction was found to increase over time during the privatization process.

Nelson, Cooper, and Jackson (1995) conducted a workforce study during the process of two major organizational transitions. The organization was a regional water authority about to move from public to private ownership as part of government policy to privatize the UK water industry. Two significant events took place during the period covered by the research (October 1989 – July 1991): (1) privatization, at the end of November 1989, and (2) structural reorganization in March 1991. These changes occurred in the context of previous changes, including staff reductions. Between 1983 and 1989 the workforce had been reduced 25 percent from 6,000 to 4,500, a reduction in levels of management and employees, with some changing jobs. The privatization plans called for a major restructuring and rationalization of the existing system of autonomous geographic regions, each with its own service functions. These service functions (e.g., personnel, finance) were to be centralized at the head office. These changes would have significant effects on large numbers of employees (new reporting relationships, changes in jobs and responsibilities, relocation to other sites). The research examined the effects of these changes on employee morale and well-being. From a total workforce of 6,500, every third employee from each of the nine divisions of the organization was selected (N = 1,500). Data were collected from 332 employees (84 percent male) at three time periods: pre-privatization, November 1989; post-privatization, June 1990; post-reorganization, July 1991. Three dependent variables were included: job satisfaction, mental health symptoms, and physical health symptoms. Job satisfaction dropped following privatization and increased following reorganization. Mental health symptoms increased following privatization. There was also a significant increase in physical health symptoms following privatization.

Ferrie and her colleagues (1995, 1998) have considered this question in an important longitudinal study of a group of middle-aged men and women white-collar civil servants working in a department facing privatization. Self-reported health status of individuals anticipating privatization deteriorated when compared to the health status of individuals not experiencing privatization. Health behaviors of individuals facing privatization were found to be more positive both before and during privatization when compared to control civil servants. The before and during privatization measures were obtained using questionnaires four years apart.

This department was ultimately sold to the private sector. Ferrie et al. (1998) compared self-reported and clinical measures of health as the department was transferring in ownership with control civil servants. They report that self-reported morbidity and physiological risk factors tended to increase among respondents in the privatized department compared with those in other departments.

Job Insecurity

Each of these organization transitions has resulted in actual job loss and increased potential of job loss. Studies have shown that anticipation or concern about job loss may be as damaging as job loss itself (Latack and Dozier, 1986). Job insecurity has been found to be associated with increased medical consultations for psychological distress (Catalano, Rook, and Dooley, 1986) and with increased disability claims for back pain (Volinn, Lai, McKinney, and Loeser, 1988). Job insecurity of parents can also affect their children's work beliefs and attitudes (Barling, Dupre, and Hepburn, 1998).

Dekker and Schaufeli (1995) conducted a repeated measures study of the effects of job insecurity in a large Australian public transport organization undergoing significant change and downsizing. At the time of the study (1990–1), the organization employed about 20,000 people and provided train, streetcar, and bus service to passengers in urban and rural areas. Four departments were identified as having an objective threat of having surplus workers or closure. Data were collected via questionnaires distributed twice – two months apart. Job insecurity was associated with a deterioration of psychological health (psychological health and burnout) as well as job and organizational withdrawal. Interestingly Dekker and Schaufeli (1995) found that being certain about the worst (those transport workers who knew they would lose their jobs) seemed to reduce symptoms of psychological stress and burnout, while prolonged job insecurity was associated with continued high levels of psychological stress and burnout.

Roskies and Louis-Guerin (1990) examined reactions to job insecurity as a chronic ambiguous threat in a sample of 1,291 Canadian managers. Two high-risk and one low-risk company participated in the study. Significantly more managers in the high-risk companies saw themselves as insecure than in the low-risk company. Various facets of insecurity showed different effects. Thus, less than 5 percent of all respondents reported high likelihood of termination or demotion in the short term; 15 percent reported high likelihood of deteriorating work conditions, and over 40 percent reported a high likelihood of job loss in the long term. They also found significant relationships between the measures of insecurity and health problems: the higher the levels of perceived insecurity, the greater the number of health symptoms. A similar pattern was found on relationships between levels of job insecurity and work-related outcomes: the higher the level of perceived insecurity, the lower the job commitment and more negative the appraisal of one's career. Interestingly, subjective perceptions of job insecurity had significantly stronger relationships with the physical health measures than did the objective index.

Coping with Change and Transition

Callan and Terry (1994) deliberately set out to study how individuals cope with organizational change. Data were obtained from 100 Australian lawyers. Respondents indicated both the magnitude and stressfulness of organizational change experienced by their firms. Lawyers perceiving higher levels of organizational change also reported greater anxiety and depression; lawyers indicating higher levels of appraised stress also reported greater depression. Both personal (self-esteem and internal loss of control) and social resources (professional support) were also related to levels of anxiety and depression.

Terry, Callan, and Sartori (1996) empirically tested a stress-coping model of employee adjustment to an organizational merger. Event characteristics, how the event was appraised, coping strategies used in response to the change, and individuals' coping resources (neuroticism and social support) were examined. They found that appraisal of the merger and coping responses mediated the effects of merger characteristics on psychological well-being. They found considerable support for their model. Thus the processes by which the merger was introduced (consultation, communication, visible leadership) were associated with lower stress appraisals, and lower appraisals of the stress of the merger were associated with greater job satisfaction and psychological well-being. Use of escapist coping was associated with levels of psychological well-being and job satisfaction. Supervisor support, but not co-worker support, was also important. Supervisor support was associated with more favorable merger processes, less appraised merger stress, and greater job satisfaction and psychological well-being.

Terry and Callan (2000) tested a model of adjustment to organizational change, a merger between two airlines using a large sample of pilots and flight engineers. Participants who had perceived the merger's implementation in a positive manner reported higher levels of job satisfaction and less psychological distress. They also perceived the merger as less threatening. In addition, participants having more positive views on the implementation of the merger were more likely to use problem-focussed coping responses. Level of threat seemed to be a key variable. Adjustment to the change was better if employees were kept informed of the change process, if they were consulted about the change and its implementation, and if effective leadership was present.

A second study examined predictors of employees' adjustment to the integration of two public sector organizations and the large internal reorganization that resulted. Participants were middle managers and supervisors. Perceptions of uncertainty and stress predicted psychological distress. Amount of change also emerged as a significant predictor of distress.

Is There a Healthy Side to Transition and Change?

Marks (1994) contends that people are saturated with change and transition, and efforts must be made to help them deal with the pain of the past before they can move on to accept future changes. Most organizations in the 1980s and 1990s went through mergers, acquisitions, downsizing, restructuring, re-engineering, culture change, and leadership succession. Many had several of these and often overlapping. These events have not only changed organizational systems; they have had a major effect on workers in them – mostly negative (Ferrie, Shipley, Marmot, Stansfeld, and Smith, 1998; Kivimaki, Vahtera, Thomson, Griffiths, Cox, and Penti, 1997). Victims, survivors, destroyed career paths; cynicism is up, trust in organizational leadership is down. Survivors work harder with fewer rewards. Multiple downsizings are seen over a few years (Armstrong-Stassen, 1997). Those who lost their jobs may in fact be better off – they can now get on with new things. And employees see no end to the changes – and feel powerless to influence them.

Yet organizations must continue to change to remain competitive (Nolan and Croson, 1995). New technology and increased competition will hasten the rate of change (Marks, 1994). Senior managers are excited about opportunities; middle managers are angry, depressed, and tired. The negative psychological, behavioral, and business consequences of these changes weigh heavily upon them.

There is a healthy side to transition and change. Some organizations were bloated: they needed to rightsize by eliminating unnecessary work (and people) and responding to the forces mentioned above. The point of Marks' book is the theme of using transitions such as mergers and acquisitions, restructuring, and downsizing to spur organizational renewal. This is easier said than done. Most organizations simply do not do this very well (Baumohl, 1993). If organizations did not change they would stagnate and decline. Some restructurings, mergers, and downsizings are wise business decisions. The merger of Molson's Breweries and Carling O'Keefe is one Canadian example of such a decision. Many companies in the red may be wise to reduce their workforces. Companies can be revitalized and individuals can be renewed . . . if the emphasis is rightsizing rather than downsizing (Bruton, Keels, and Shook, 1996).

Individual Responses to Transition

Mishra and Spreitzer (1998) identified four types of survivor responses to downsizing: cynical, fearful, obliging, and hopeful. Two dimensions underlay these responses: constructive/destructive and active/passive. Constructive survivors do not view a significant threat or harm from the downsizing and willingly cooperate with management in its implementation. Destructive survivors feel threatened or perceive potential harm from the downsizing and are less willing to cooperate in its implementation. Active survivors believe they can cope with the downsizing and they behave assertively. Passive survivors believe they are unable (less able) to cope with the downsizing and they make no efforts in this regard. Hopeful responders are active advocates and excited about the future. Obliging responders are faithful followers who cooperate in the downsizing by following orders. Cynical responders are vocal critics of the change. Fearful responders are the walking wounded, frightened, worried, and helpless in the face of the change.

Mishra and Spreitzer propose that high levels of both trust in management and perception of justice in the way the downsizing is implemented and managed will increase the constructiveness of survivor responses. In addition, feelings of empowerment and downsizing efforts that enrich the content of some jobs serve to increase active responses by survivors.

Speitzer and Mishra (2000) empirically examined this framework of survivor responses to downsizing in a sample of 350 aerospace workers at a plant that had recently announced a downsizing. They found support for many of their predicitions. Thus perceptions of procedural and distributive justice were related to more constructive survivor responses. There was modest evidence that perceptions of empowerment would be related to active survivor responses. Neither task variety nor trust were related to more active survivor responses as hypothesized. Interestingly, the independent variables were better predictors of the hopeful survivor responses and the cynical survivor responses. Both justice perceptions and empowerment were important predictors of the hopeful response. Hopeful survivors were also more likely to be the primary breadwinner in their family and were younger. Cynical responders perceived less justice and less task variety.

On the practical side, efforts to develop perceptions of fairness in survivors would appear to be useful. Empowering survivors, while difficult, had desirable consequences. In addition, keeping workload levels within manageable limits had further value in influencing survivor responses.

Noer (1993) identifies four individual responses to change and transitions. Individuals vary in their capacity for changing (the ability to learn from their experience) and their comfort with change (the readiness to learn):

- *The Entrenched* (30–60 percent of employees) possess low comfort with change and a high capacity for change. Their primary behavior in response to transition involves tenaciously clinging to narrow learnings that worked in the past but have limited value in the new reality.
- *The Overwhelmed* (30–40 percent) exhibit low comfort with change and low capacity for change. Their common response to transition is to withdraw, thus avoiding the change where possible and forgoing the necessary learning.
- *The BSers* (10–15 percent) display high comfort with change but low capacity for change. BSers delude themselves and others. They “talk a good game” but fail to deliver.
- *The Learners* (15–20 percent) possess high comfort with change and a high capacity for change. Learners actively and positively engage the change and acquire the new and relevant skills for succeeding in the new reality.

Successful Organizational Transformation

What characterizes an organization that can successfully adapt and change itself? Day (1999) suggests that the most common feature of failed or flawed change programs is a lack of commitment to the deep-seated changes needed. Why do we need to change? What is the path to the desired end-state? What does the end-state look like? Day examined four different change programs (Fidelity Investments, Sears Roebuck, Eurotunnel, Owens Corning) and others that failed, distilling six conditions that ensure change program success. Focussing specifically on changes that make an organization more market-driven, Day believes that organizations must tailor the design of a change program to the particular challenges of understanding, attracting, and keeping valuable customers.

Day writes that successful change programs have six overlapping stages:

1. Demonstrating leadership commitment. A leader owns and champions the change, invests time and resources, and creates a sense of urgency.
2. Understanding the need for change. Key implementers understand the challenges facing the organization, know the changes needed, and see the benefits of the change initiative.
3. Shaping the vision. All employees know what they are trying to accomplish, understand how to create superior value, and see what to do differently.
4. Mobilizing commitment at all levels. Those responsible have experience and credibility and know how to form a coalition of supporters to overcome resistance.
5. Aligning structures, systems, and incentives. Key implementers have the resources they need to create a credible plan for alignment.
6. Reinforcing the change. Those responsible know how to start the program, keep attention focussed on the change and benchmark measures, and ensure an early win.

Waterman (1997) also studied organizations that seemed to be effectively managing change. He identified eight themes in organizations capable of renewing themselves:

1. Informed opportunism. Renewing organizations set direction for their companies, using information and flexibility to capitalize on opportunities.
2. Direction and empowerment. Renewing companies treat everyone as a source of creative input in the pursuit of results.
3. Friendly facts, congenial controls. Renewing companies use information and financial controls as benchmarks of progress and challenge.
4. A different mirror. Renewing companies have the motivation and discipline to break old habits.
5. Teamwork, trust, politics, and power. Renewing companies fostered trust, collaboration, the skillful use of politics and power.
6. Stability in motion. Renewing companies operated in fluid, flexible ways.
7. Attitudes and attention. Management in renewing organizations spoke and behaved in ways that focussed attention on key issues.
8. Causes and commitment. Renewing organizations were able to generate commitment to their cultural purpose and mission.

Pascale, Millemann, and Gioja (1997) similarly observe that many efforts at transformational change fail to achieve expected results. The problem is not the improvement programs but the fact that the responsibilities for and the burden of changes are borne by so few individuals. Companies can only be successful here if all employees eagerly respond to the challenges of transformation and revitalization. Pascale and his colleagues distilled three sources of revitalization by tracking the change efforts at three of the world's largest organizations (Sears Roebuck, Royal Dutch Shell, the US army). These were: all employees are involved in grappling with the key business challenges facing the company; leadership that maintains employee involvement; and changes in the job behaviors of all employees.

Managing Organizational Transitions

Marks (1994) makes a distinction between change and transition. A change refers to a path to a known state; a transition is a path to an unknown state. Transitions can be of two types: event-driven and large-scale organizational transformations. Event-driven transitions include mergers or acquisitions, restructuring or delayering, downsizing, the adoption of new technology, the addition of a large number of new employees or the appearance of a new CEO. The second type of transition involves a planed large-scale culture change or the adoption of TQM philosophy. It is necessary to help organizations and their employees recover from transition. This is due to the human pain involved and the resulting organizational inefficiencies that accompany transitions.

Bridges (1991) also makes a distinction between change and transition. Change is situational: the new job, the new manager, the new policies. Transition is the psychological process people go through to come to terms with the new situation. Change is external; transition is internal.

Transition starts with an ending (Bridges, 1980, 1991). One must let go of the old. The failure to identify and prepare for the losses and endings that change produces is the largest problem that organizations in transition face. The next stage is the neutral zone, a confusing place between the old and the new. The neutral zone is characterized by confusion, fear, and flight. Bridges believes that the neutral zone is the individual's and the organization's best opportunity for renewal and development. The neutral zone then is the most important stage of the transition process.

Bridges (1991) offers practical suggestions for navigating each stage in the transition process. Some suggestions for the first stage include: identify who's losing what, accept the reality and importance of loss, expect over-reaction, acknowledge losses openly, encourage grieving, compensate for the losses, provide information fully and frequently, define what is over and what isn't, mark endings, treat the past with respect, take some of the past into the future, and highlight ways in which endings will guarantee the continuing of the organization.

Some suggestions for managing the neutral zone include: normalize people's feelings and reactions, reframe the neutral zone in more positive terms, provide structure and support, build teamwork, gather data on how the transition is unfolding, and strive to develop new and better ways of working.

What Organizations Can Do

Considerable guidance is now available to senior organizational managers on how best to implement organizational restructuring and downsizing (Burke and Nelson, 1997; Nelson and Burke, 1998). Handled properly, we propose that revitalization can re-energize tired workers and heighten their aspirations, shift the organization's focus to future opportunities, strengthen the pay-for-performance link, increase investment in training and development, encourage innovation, improve communication, and produce a clearer mission. Downsizing may, in fact, be part of the revitalization process, but only a part.

Successfully managing transitions such as mergers and acquisitions, downsizing, and other restructurings requires considerable commitment from organizations. The research literature provides guidance for managers who are leading such transitions (Moser Illes, 1996).

Schweiger and DeNisi (1991) considered the impact of a realistic merger preview, a program of realistic information on employees of an organization that had just announced a merger. Employers from one plant received the merger preview while those in another plant received only limited information. Data were collected at four points in time: before the merger was announced, following the announcement but before the realistic merger preview program was introduced, and twice following the realistic merger program. The study extended for a five-month period overall. Both objective and self-report data were obtained.

The following conclusions were drawn. First, the announcement of the merger was associated with significant increases in global stress, perceived uncertainty and absenteeism, and decreases in job satisfaction, commitment, and perceptions of the company's trustworthiness, honesty, and caring, and no change in self-reported performance. There were no differences between the two plants following the announcement of the merger. The experimental plant was significantly lower on perceived uncertainty and significantly higher on job satisfaction, commitment, and perceptions of the company's trustworthiness, honesty, and caring following the realistic merger preview program. These same differences were also present three months later.

Parker, Chmiel, and Wall (1997) report findings from a four-year longitudinal study of strategic downsizing showing that the use of deliberate work organization and change-management strategies minimized the negative effects of staff reductions. The company intended to downsize, and the downsizing was accompanied by an empowerment philosophy. This longitudinal study involved repeated measures over a four-year period. Four work characteristics were assessed: demands, control, clarity, and participation in change. During the four years, the workforce was reduced to about 60 percent of its original size. Most of the downsizing was voluntary through early retirement. Employees losing their jobs received counseling and outplacement help and generous severance. The empowerment initiative involved multiskilling, delayering, and restructuring into business and support teams. Managers were given training to support the empowerment strategy. During the study there was a significant increase in performance. Demand, control, and participation increased over time.

There was no change in strain over time. Both clarity and participation were important predictors of well-being. In summary, this study showed that there was no decrease of employee well-being during the downsizing despite an increase in demands. Potential negative effects of high demands seemed to be counterbalanced by improvements in other work characteristics (particularly clarity and participation). The negative consequences of downsizing can be partially addressed by establishing clear roles and responsibilities, developing a vision for the future and thoughts on how this will be achieved, along with more staff involvement. In addition, the existence of a positive work environment before downsizing had significant relationships with well-being four years later. Paying attention to the design of work and the broader work environment is more likely to result in effective and successful downsizing.

Noer (1993) offers a four-level process for handling layoffs and their effects. The first level of intervention addresses the layoff process itself. Organizations that more effectively manage the layoff process will reduce (but not eliminate) layoff survivor sickness. The second level of intervention addresses the grieving process by providing an opportunity for catharsis in releasing repressed feelings and emotions. The third level of intervention helps survivors regain their sense of control, confidence, self-esteem, and efficacy. The fourth level of intervention develops organizational policies, procedures, and structures that will prevent future layoff survivor sickness. This includes the use of job enrichment and employee participation, employee autonomy, non-traditional career paths, short-term job planning, and the encouragement of employee independence and empowerment (Mishra and Spreitzer, 1998).

Government policies have been helpful, particularly advance notification provisions, extended unemployment benefits, and worker retraining programs. Advance notification gives workers more time to find new employment, decreasing the length of unemployment and emotional distress. Extended unemployment benefits lessen the economic distress. Retraining programs help the unemployed find new jobs. Company programs such as outplacement initiatives have also been of some help.

Cascio (1993) also offers some guidelines for managing downsizing effectively. First, to downsize effectively, be prepared to manage apparent contradictions – for example, between the use of top-down authority and bottom-up empowerment, between short-term strategies (headcount reduction) and long-term strategies (organization redesign and systemic changes in culture). To bring about sustained improvements in productivity, quality, and effectiveness, integrate reductions in headcount with planned changes in the way that work is designed. Downsizing was not a one-time, quick-fix solution to enhance competitiveness. Rather, it should be viewed as part of a process of continuous improvement.

There is No Quick Fix

One of the reasons for the failure of many downsizing efforts was an overly simplistic approach. Senior management equated downsizing with cutting costs through staff reduction. This approach has often been short-sighted, focussing on perceived internal efficiencies rather than examining the way the organization conducts its business. Simply cost-cutting is unlikely to improve the competitive position of most organizations over the long haul in the global marketplace. Kets de Vries and Balazs (1997) suggest that companies that implemented downsizing seem to be more concerned with their past than their future; long-term investments are postponed to realize short-term gains. They propose instead that downsizing be reframed "as a continuous process of corporate transformation and change, a way to plan for the continuity of the organization" (p. 11). In its broadest sense, downsizing can mean changing the firm's fundamental business practices, and even its corporate culture. Responsible restructuring focusses on how to use the current people more effectively and as part of continuous improvement efforts, and constitutes a more effective approach. A wider definition serves to place downsizing under the umbrella of continuous corporate renewal.

A Three-Stage Approach to Revitalization

We propose that organizations approach revitalization efforts within the framework of comprehensive organizational change (Burke and Nelson, 1997; Nelson and Burke, 1998). Large-scale changes can be recast within the three-stage framework of initiation, implementation, and institutionalization. A careful examination of the literature on downsizing and restructuring yields guidance for managers in each of the three stages.

Initiation: Planning Revitalization Efforts

Planning is an essential element in any change process. Graddick and Cairo (1998) note the importance of up-front planning. This includes the establishment of timeframes, goals, and objectives for the restructuring, the establishment of deadlines to monitor progress, and the establishment of principles to ensure consistency and integrity of the process. Reframing the restructuring in a broader way offers a more constructive way of viewing the process. This new mindset opens up possibilities for learning and novel solutions to performance, productivity, and cost concerns (Caplan and Teese, 1997).

Attempts to revitalize organizations should begin with a goal, and should be a part of a long-term strategy rather than a quick fix. It is possible to downsize without layoffs. If the reasons for reducing the workforce are cost-related, managers should consider cutting costs elsewhere. Process improvements may be more effective than reducing headcount. In addition, a thorough organizational diagnosis should be conducted, and specific areas of inefficiency should be targeted. Employees should be given information about the financial state of the business, and when they are informed they can draw their own conclusions about actions that need to be taken. The individuals affected can provide input on cutting costs if they are made aware of the need to do so. When employees understand that the organization's performance affects them personally, they respond by helping to improve that performance (Burke and Nelson, 1997).

If downsizing is deemed a necessity, there are several short-term alternatives to be considered, each with advantages and disadvantages. Such options include attrition, hiring freezes, wage containment, limits in work hours, and alternative forms of termination (Knowdell, Branstead, and Moravec, 1994). Interestingly, Cameron (1998) found that type of downsizing tactics used (e.g., use of layoffs, early retirement, severance packages, transfers, demotions) was unrelated to command effectiveness or performance improvements following downsizing. In addition, other factors such as salary or hiring freezes, number of management levels reduced or amount of outsourcing undertaken had no effect on these closures.

Whatever option is taken, managers must clearly explain the criteria for workforce reductions. The decision of what method to use requires in-depth analysis and careful forethought. This explanation must be characterized by open communication, candor, and repetition. Multiple methods of communication should be used, but face-to-face communication may be most effective. In addition, managers should be trained on how to effectively communicate the downsizing (Mishra, Spreitzer, and Mishra, 1998). Managers must be prepared to give bad news with empathy and be prepared to deal with the emotional reactions of employees.

Implementation: The Change is Underway

The way in which the transition plan is executed has a dramatic effect on the long-term success of the effort, and particularly affects the victims' and survivors' reactions to the process. Adkins (1998) advocated the use of broadly based change management teams in describing the military base closure. Graddick and Cairo (1998) concur with this point, and propose that transition teams formed in the planning stage be heavily involved in implementing the change process. Participation in the implementation of change gives employees a sense of control over their destinies and a means of influencing events that threaten their livelihoods and well-being.

Communication during the implementation stage is essential. Managers must tell the truth, and overcommunicate (Mishra, Spreitzer, and Mishra, 1998). Managers should carefully and thoroughly explain the criteria for layoffs, and clarify the role of performance valuations in the layoff process (Leana and Feldman, 1992). Using a procedure that is perceived as fair can build employee trust, especially when the outcome is negative, as in a layoff (Brockner, Wiesenfeld, and Martin, 1995). The communication process must be two-way; employees must be engaged in communication to determine their reactions to the process and their level of understanding.

Providing support to all affected employees is critical. All employees must be treated with respect and dignity. Providing laid-off employees with honest information and social support can help them face the future with more confidence. Also, employees should be given the bad news in person by someone they know rather than via mail or by someone they do not know. Laid-off workers and survivors should be allowed to grieve, and to say goodbye to each other. Generosity to those departing will benefit both victims and survivors. Providing clear explanations and treating people with respect while implementing a layoff are actions that are not costly in economic terms, but add to the perceptions of procedural fairness. Managers should provide laid-off workers with fair recommendations to future employers. Providing outplacement assistance for employees is a critical part of managing the transition process. These services can be provided by company career centers, or can be outsourced. One outplacement intervention that has been demonstrated to be helpful to displaced employees is stress management training. Participants in a stress management training program were able to maintain effective coping resources and minimize increases in distress and strain, while members of the control group either increased their distress levels or decreased their use of coping skills (Maysent and Spera, 1995). The program was also evaluated by participants, who indicated that one of the informal benefits of the training was the forum it provided for sharing their own frustrations and concerns about the job search process.

Continuous monitoring of progress during the implementation stage will help the organization assess its efforts and spot trouble early. Monitoring processes can help the transition teams adjust the plan along the way. The emotions and well-being of employees should be monitored as well, and managers should be especially vigilant for signals of distress and burnout (Graddick and Cairo, 1988). In conjunction with the monitoring process, managers should not expect immediate payoffs. Cameron (1998), in describing the downsizing of the military command, indicated that one factor that differentiated this case from typical downsizing efforts was an expectation of temporary downturns during the process, and subsequent moderate-term recovery.

Institutionalization: Revitalization and Renewal

If downsizing is required, then revitalization of the organization is a key third step in the transformation process. In their study of the trivestiture of AT&T, Graddick and Cairo (1998) distilled seven lessons learned about revitalization:

1. Avoid ignoring past accomplishments and qualities, but emphasize why changes are required for future success.
2. Ensure that employees understand the new business direction, opportunities for growth, and how they can contribute to these. Clarify requirements for change, including new skills and competencies, culture changes, and leadership behaviors.
3. Celebrate and recognize important accomplishments.
4. Drive process improvements so that the smaller, downsized workforce does not end up doing the same amount of work as the pre-downsizing workforce had done.
5. Communicate the new employment contract between employees and the company (i.e., clarify mutual expectations).
6. Align goals throughout the organization and clarify roles and responsibilities.
7. Realign human resources processes and programs (e.g., compensation, workforce planning, education and training, performance management, leadership development) with the new business direction.

These suggestions are in accordance with the view of downsizing as part of organizational redesign and systemic changes in organizational cultures.

Helping survivors cope with the trauma of the transition should be a major part of revitalization efforts. Layoff survivors' symptoms do not go away, and some even intensify over time. These symptoms include an increase in resignation, fear, and depression, deepening sense of loss of control, and heightened, more focused anger (Noer, 1993). Survivors' social support systems have been disrupted or destroyed, they are confused about role expectations, and fear the overload of work that will be passed along to them. They may suffer feelings of guilt from wondering "Why not me?" Managers must allow for a period of grieving and disruptions in productivity, and treat survivors gently following the transition (Leana and Feldman, 1992). Support groups can help employees feel safe in expressing their feelings.

Investment in the retraining and development of survivors is important because some organizations want to demonstrate some immediate improvements in bottom line from the downsizing efforts (Gutknecht and Keys, 1993). The new organizational reality, however, dictates that new strategies and even new organizational cultures be passed along through training and development efforts. It cannot be assumed that survivors will understand how to carry out their new jobs after downsizing. They will need new skills to tackle the work left behind by former colleagues. Adkins (1998) suggested that education and training efforts should include job training, transition skills, personal change, and stress management. Training can help the survivors to feel more competent and empowered in the throes of uncertainty (Mishra, Spreitzer, and Mishra, 1998).

Downsizing may necessitate a movement from the old employment contract, focussed on long-term tenure and co-dependency, to the new employment contract, which views employees as self-employed entrepreneurs (Noer, 1993). Rather than emphasizing lifetime employment, the new psychological contract emphasizes employability. Workers are trained in transferable skills. Whereas long-term career planning was a part of the old psychological contract, the new environment requires career management programs for survivors that focus on opportunities for growth and development rather than advancement (Feldman, 1996). Providing survivors with growth opportunities that allow them to develop portfolios of transferable skills is an important support mechanism. It signals that the company believes in investing in human resources.

Conclusion: Leadership is Vital

A major theme that can be gleaned from the studies of successful revitalization efforts is that effective leadership is a critical element in the transformation process. The competence, knowledge, dynamism, and accessibility of senior managers and their ability to articulate a vision that provides motivation for the future increases the likelihood of positive outcomes. Consistent, strong, effective leaders must develop and communicate a new vision and motivate employees to embrace this vision. Changes in leadership are likely to affect the process adversely, particularly if trust – a key ingredient – is jeopardized.

The behavior of senior management, particularly their treatment of survivors, is an important determinant of the success or failure of the downsizing process. The way senior managers handle layoffs has a major impact on survivors' attitudes and work behaviors. Many senior managers underestimate the importance of little details in the downsizing and restructuring process implementation on the productivity of those remaining. It is also a mistake to tell those that remain they should consider themselves fortunate and work hard since they still have jobs.

NOTE

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