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## **FIRM PERFORMANCE AND EMPLOYEE DOWNSIZING: THE MODERATING ROLE OF NATIONAL CULTURE**

### **ABSTRACT**

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A limitation in the downsizing literature is its lack of attention on how firms' institutional context interacts with firm's internal drivers of employee downsizing. This study examines the firm performance - employee downsizing relationship in 1,747 firms across 35 countries over three years and demonstrates that while this relationship is similar among firms across countries, its magnitude varies across countries, and that the cultural dimensions of in-group collectivism, power distance, uncertainty avoidance help explain this variance. Implications from these findings and future directions for employee downsizing research and practice are discussed.

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*Key Words: employee downsizing, firm performance, cultural dimensions, Hofstede framework, national culture*

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## INTRODUCTION

Over the past decades, employee downsizing has become an international phenomenon and an integral part of organizational life in many countries around the world (Cooper, Pandey, and Quick, 2012). For example, in the US alone, between 2008 and 2013, one in five workers were laid off by their employers (Puzzanghera, 2014). Companies (e.g. Intel, General Electric, Microsoft) in a variety of industries have announced large scale employee downsizing programs in the past months. In addition, large-scale employee downsizing programs have also become commonplace in countries such as Germany, Japan, South Korea, and China that traditionally have viewed permanent employment practices as cornerstones of their economic systems. Given the worldwide prevalence and magnitude of employee downsizing, Datta et al. (2010: 282) argue that this phenomenon "[...] can legitimately be viewed as one of the most far-reaching and significant management issues of the current era." Indeed, employee downsizing has received extensive attention in academic research over the past decades.

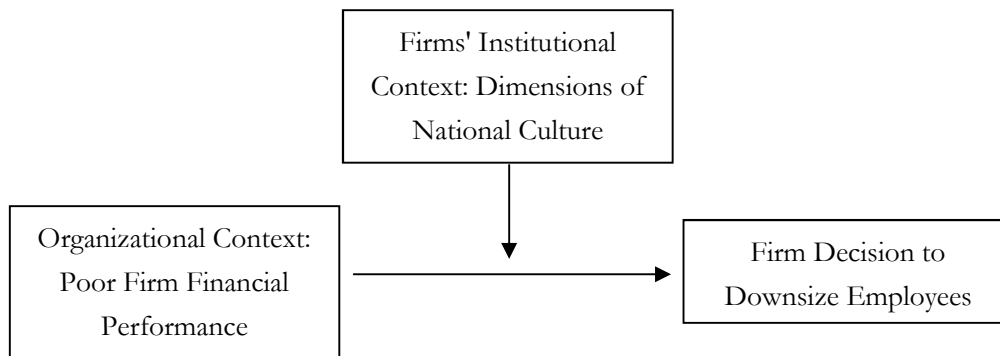
A review of the extant literature shows that the focus of most research on issues surrounding employee downsizing is concentrated on: (1) *organizational antecedents* including governance and top management team characteristics, firm attributes such as firm performance indicators, business and corporate level strategy, and human resources policies and employee attributes, among others (e.g., Ahmadjian and Robbins, 2005; Baumol, Binder, and Wolff, 2003; Budros, 1999; Coucke, Pennings, and Sleuwaegen, 2007; Freeman and Cameron, 1993; Hillier et al., 2007; Kawai, 2015; Tsai et al., 2006; Yu and Park, 2006); (2) *environmental antecedents* such as institutional forces, demand declines, industry structural changes and deregulation, and globalization and international competition among others (e.g., Ahmadjian and Robbins, 2005; Baumol et al., 2003; Budros, 1999; Freeman and Cameron, 1993); (3) *individual outcomes of downsizing* related to the effects of downsizing on employee attitudes and behaviors including measures of job involvement, trust and justice perceptions, turnover intent and absenteeism, and work performance, among others (e.g., Burke, Ng, and Wolpin, 2015; Spreitzer and Mishra, 2002; Travaglione and Cross, 2006; Trevor and Nyberg, 2008); and (4) *organizational outcomes of downsizing* including market based and accounting outcomes, sales growth, creativity, and changes in R&D, among others (e.g., Chalos and Chen, 2002; Day et al., 2012; Guthrie and Datta, 2008; Habel and Klarman, 2015; Love and Nohria, 2005).

While extant research has made significant progress in understanding the consequences of employee downsizing, less advancement has been made in deepening our understanding

of its antecedents (Cooper et al., 2012; Datta et al., 2010). Additionally, despite the global occurrence of downsizing, research has been largely conducted within single country settings and studies that include international samples in their research designs to compare downsizing antecedents across different institutional and cultural contexts are largely absent in the literature. This is a significant limitation in that a comprehensive understanding of the generalizability of theory about downsizing antecedents also requires an understanding of the contextual boundary assumptions of that theory (Bacharach, 1989). In particular, while the organization efficiency hypothesis that firm financial performance is one of the most important factors in determining employee downsizing decisions across countries, specific relationships within this theoretical perspective may vary across countries due to different cultural and institutional influences. In other words, a theoretical perspective on downsizing antecedents can be both generalized across countries and vary simultaneously.

It is here where this research seeks to make its contribution to the downsizing literature. The goal of this study is to test the firm performance - employee downsizing relationship by examining the generalizability of the organizational efficiency hypothesis across cultures and predicting the moderating role of national institutional/cultural differences. As such, the main focus of the study is on the examination of the interaction between organizational antecedents (i.e., firm performance) and firms' institutional context (i.e., national culture) in shaping firms' employee downsizing strategies. Figure 1 schematically depicts these relationships. The study thereby answers a call by Datta et al. (2010) for downsizing research using multi-level and multi-theoretical perspectives. Theoretically, the study integrates the organizational efficiency perspective on employee downsizing (Barney, 1995; Cascio, 1993) with the institution-based perspective of strategy (Peng, 2002). Empirically, the study utilizes Hierarchical Linear Modeling to test its theoretical framework (Raudenbush and Bryk, 2002).

**Figure 1. Conceptual framework: The moderating role of firms' institutional context in the firm financial performance - employee downsizing relationship**



The remainder of the article proceeds as follows: Section 2 reviews the theoretical arguments underlying the organizational efficiency perspective on employee downsizing, positions the argument in the context of an institution based view of strategy with an emphasis on the moderating effects of dimensions of national culture, and proposes a set of hypotheses. Section 3 describes the study's data, measures, and research design. Section 4 presents the results. The study concludes with a discussion of the findings, an outline of the limitations of the study, and suggestions future research.

## **THEORY AND HYPOTHESES**

Freeman and Cameron (1993) describe organizational downsizing as an activity that management undertakes in order to improve organizational productivity, efficiency, and competitiveness. Similarly, Cascio (1993: 95) defines downsizing as "[...] an organization's conscious use of permanent personnel reductions in an attempt to improve its efficiency and/or effectiveness." These perspectives reflect the rational technico-economic perspective or organizational efficiency perspective on organizations that draws from the resource based view of strategy and argues that downsizing represents an economic-rational choice that firms pursue to improve organizational productivity and efficiency in the utilization of human resources (Barney, 1995; Cascio and Young, 2003; Scott, 1995). In his seminal work on economic organization, Parsons (1960) notes that a firm performs an adaptation function by producing goods and/or services consumed by cost-conscious stakeholders and stresses that firms focus on "economic rationality" (efficiency) and that "profit" is a condition for survival and for them a core symbol of success. Fligstein's (1985)

and Tolbert and Zucker's (1983) classic work on structural change in organizations supports the idea that firms have lasting technico-economic orientations. In particular, a firm that is confronted with performance problems and declining profits is likely to experience a discrepancy between the amount of profits it generates and the size of its work force, leading it to eliminate the slack human resources through employee downsizing.

In addition to the rational organizational efficiency perspective on employee downsizing, the institutional theory literature (e.g., Oliver, 1992) argues that deteriorating firm performance can cause the deinstitutionalization of long-maintained and deeply institutionalized organizational practices, as in the case of the abandonment of permanent employment practices in corporate Japan over the course of the 1990s (Ahmadjian and Robinson, 2001). Furthermore, extant research suggests that employee downsizing as a means to turnaround firms during times of deteriorating performance has, over time, become an institutionalized practice and assumed myth-like status among corporate elites in a variety of countries (Datta et al., 2010; Robbins and Pearce, 1992). Business leaders and their stakeholders around the world have come to perceive employee downsizing as a proven means to redress performance problems, even though the subsequent economic and human consequences are generally negative (Budros, 1997, 2004). In sum, employee downsizing as a response to deteriorating firm performance may be determined by an interaction of technico-economic and institutional influences.

The authors identify a large number of single-country studies that provide evidence for the above rationale. A negative relationship between firm performance and employee downsizing has been documented in a variety of national settings, including, among others, Japan, South Korea, Taiwan, the US, the UK, Belgium, France, Russia, Ukraine, Belarus, and Poland (e.g., Ahmadjian and Robinson, 2001; Alakent and Lee, 2010; Baumol et al., 2003; Budros, 2004; Coucke et al., 2007; Filatotchev, Buck, and Zhukov, 2000; Hillier et al., 2007; Hoffer Gittell et al., 2006; Jung, Aguilera, and Goyer, 2015; Jung, 2015; Kang and Shivdasani, 1997; Kawai, 2015; Redman and Keithley, 1998; Tsai et al., 2006; Yu and Park, 2006).

Overall, evidence suggests that firms respond similarly to firm performance declines across countries. Thus, the authors predict that the firm performance-employee downsizing relationship should generalize across countries. Stated formally:

*Hypothesis 1: There exists a negative relationship between firm performance and employee downsizing that generalizes across countries.*

While the firm performance - employee downsizing relationship may generalize across countries, the institution based view of strategy suggests that it is important to consider that decision makers craft and implement employee downsizing strategies in the context of their institutional framework (Peng, 2002).

Whereas the organizational efficiency hypothesis suggests that managers are motivated by efficiency and profitability and make rational economic choices, the institution based view on strategy recognizes that these choices are bound by social norms and traditions, historical precedent, and legitimacy considerations (Oliver, 1997; Peng, 2002). The key argument in the institution based view is that employee downsizing strategies are not only driven by firm specific and/or industry specific conditions (Barney, 1991; Porter, 1980), but are also a reflection of a particular institutional framework that decision makers confront (Peng, 2002; Peng, Sun, Chen, 2009; Whitley, 1992). According to Davis and North (1970: 6) and North (1990), an institutional framework refers to "[...] the set of fundamental political, social, and legal ground rules that establish the basis for production, exchange, and distribution that interact with firms by signaling which strategic choices are legitimate and supportable." Additionally, Scott (1995: 33) suggests that "[...] institutions are cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior." Scott's (1995) distinction between formal and informal institutional constraints is helpful in understanding the makeup of institutional frameworks. Formal institutional constraints include laws, regulations, property rights protection, political rules, judicial decisions, economic contracts, and the conditions governing access to and availability of financial and labor resources. Formal institutions have to be explicitly established by an authority or an organization/individual. Informal constraints include traditions, religion, language, and socially sanctioned norms of behavior, which are deeply embedded in culture and ideology. They are transmitted over generations through teaching and imitation. Employee downsizing strategies are about economic choices, however, the institution based view on strategy (Oliver, 1997; Peng, 2002) recognizes that those choices are inherently affected by formal and informal institutional constraints that make up a firm's institutional framework.

Indeed, extant research suggests that there exist differences in firms' downsizing strategies across countries that are reflective of the different institutional frameworks that decision makers confront. For example, research in the context of the US and in the UK suggests that firms' approach to employee downsizing tends to be driven by economic and more paternalistic motives (Budros, 1997; Dolan and Garcia, 2002). Research in the context

of Japan and South Korea suggests that employee downsizing is more family-oriented and proactive (Ahmadjian and Robinson, 2001; Yu and Park, 2006). Codetermination, legal rights of employees, and collective bargaining tend to influence downsizing decisions in Germany (Aguilera and Jackson, 2003). Firms in the post-socialist countries of central and eastern Europe tend to follow less harsh employment restructuring than their counterparts in western Europe, reflecting differences in values and beliefs of top managers, the role of trade unions, and the nature of labor law in those nations (Redman and Keithley, 1998).

In sum, while the first hypothesis predicts that the organizational efficiency perspective generalizes across countries, the institution-based view of strategy suggests that the strength of relationship between firm performance and subsequent employee downsizing will likely not be uniform across countries. The authors therefore predict:

*Hypothesis 2: The strength of the negative relationship between firm performance and employee downsizing varies across countries.*

The previous hypotheses are analogous to a random coefficients regression model and consider (H1) if the negative relationship between firm performance and employee downsizing generalizes across countries (H1) and if there is significant cross-country variance in this relationship (H2). However, extending theory on the antecedents of downsizing requires developing an understanding of the boundary conditions that can explain the hypothesized variation across countries.

In this study, national culture, an informal background institution, is hypothesized as a moderating factor that affects the strength of the firm performance downsizing relationship. Hofstede (2001: 9) has defined culture as "[...] the collective programming of the mind which distinguishes the members of one group or category of people from another." Additionally, Whitley (1992: 19) argues that national culture "[...] underpin(s) the organization of all economic systems and forms the background of industrialization and the development of market economies by defining such issues as trust relations, collective loyalties, individualism, and authority relations." As such, culture provides the basis for many formal institutions that firms confront in making choices.

The authors choose five cultural constructs identified by Hofstede (2001) and later refined and extended by House et al. (2004) to test the constraining and enabling effects of dimensions of national culture on the firm performance - downsizing relationship: in-group collectivism, power distance, uncertainty avoidance, performance orientation, and future

orientation. The authors acknowledge that there exist alternative cultural constructs (McSweeney, 2002; Schwartz and Bilsky, 1990; Smith, 2002; Tsui, Nifadkar, and Ou, 2007) and that there is continuing debate with regards to theoretical and methodological foundations of culture models for cross-cultural studies (Ghemawat, 2001; Javidan et al., 2006). However, Hofstede's typology was developed specifically for the analysis of employee relations and is appropriate to model the enabling and constraining dimensions of the institutional context in which firms make strategic choices. Additionally, the Hofstede (2001) and House et al. (2004) based measures were specifically developed for country-level analyses and thus fit with this study's theoretical approach. Furthermore, prior cross-cultural research in management has used these cultural dimensions in empirical models (Atwater et al., 2009; Chiang and Birtch, 2007; Ng, Sorensen, and Yim, 2009), and so this study can draw upon this literature to hypothesize about the moderating effects of dimensions of national culture on the firm performance - employee downsizing relationship.

### **In-group collectivism**

In-group collectivism is a refinement of Hofstede's (2001) individualism - collectivism scale. This cultural dimension is defined as "[...] the degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families" (House et al., 2004: 30). Societies with high scores on this cultural dimension are typified with tightly integrated relationships that bind individuals into in-groups with unquestionable loyalty to and support for the group and its members. Hofstede (2001) argued that in collectivist cultures, the relationships between employees and employers are characterized by a stronger psychological (implicit) contract. Further, he added that collectivist societies stress duties and obligations both to and from organizations and make a strong distinction between employee in-groups and out-groups. Additionally, Maertz and Campion (2003) argue that firms in collectivist contexts may be less likely to pursue employee downsizing because of the subsequent negative effects on the lives of the employees' families and friends, a disruption that is less acceptable in a collectivist context. Therefore, the authors contend that in societies typified by strong relationships and where loyalty and obligations are viewed as a "two-way street" between employees and the organization, one expects that in response to poor performance, firms would be less likely to engage in employee downsizing. In such a society, top management will likely exhaust alternatives before severing the relationship between the firm and its workers. Thus, the authors propose the following hypothesis:



*Hypothesis 3: Firm performance has a weaker negative relationship with employee downsizing in countries scoring high on in-group collectivism.*

### **Power distance**

The cultural dimension of power distance refers to “[...] the extent to which a community accepts and endorses authority, power differences, and status privileges” (House et al., 2004: 513). High power distance societies are differentiated into distinct classes with power seen and accepted as providing social order. Resources are available to only a few and upward social mobility is restricted. Due to the limited social mobility, top management likely does not interact much with its workers or view them as peers given the differentiated strata of that society. Also, in such societies people rarely question authority or attempt to redistribute power. Since employees are reluctant to challenge the decisions of their superiors, management realizes that there will be little in the way of protestations as a result of downsizing decisions. For these reasons, the authors posit that management is not likely to show much empathy with workers in the consideration of making layoff decisions. Thus, when a firm’s performance decreases in a high power distance society, it is more likely that such a firm’s top management will engage in employee downsizing given both parties acceptance of their place in that society. Thus, the authors suggest:

*Hypothesis 4: Firm performance has a stronger negative relationship with employee downsizing in countries scoring high on power distance.*

### **Uncertainty avoidance**

The cultural dimension of uncertainty avoidance captures a society’s tolerance for ambiguity. If members of a society view ambiguous situations as threatening, they are more likely to make and enforce rules in order to reduce the ambiguity. Stated more formally, uncertainty avoidance is “[...] the extent to which a society, organization, or group relies on social norms, rules, and procedures to alleviate the unpredictability of future events” (House et al., 2004: 30). In order to address ambiguity, high uncertainty avoidance societies are characterized as relying upon and using formalized policies and procedures in their interactions with others. Thus, firms operating in those societies are likely to confront a variety of formal and informal constraints regarding security related issues, such as employment stability, when attempting to implement any employee downsizing initiative. High uncertainty avoidance cultures are also noted for taking only moderate and carefully calculated risks and for having

a strong resistance to change. Firms in such societies are thus typified as having a strong resistance to implementing or taking the risks of violating the rights of workers in implementing any employee downsizing exercise. Faced with the economic insecurity prompted by a decline in firm performance, the authors contend that firms operating in high uncertainty avoidance societies would most likely engage in less extensive employee downsizing strategies as a result of having to adhere to a myriad of personnel-related rules, procedures and laws designed to protect the jobs of workers. The authors therefore predict:

*Hypothesis 5: Firm performance has a weaker negative relationship with employee downsizing in countries scoring high on uncertainty avoidance.*

### **Performance Orientation**

Performance orientation is a refinement of Hofstede's (2001) masculinity-femininity dimension. The cultural dimension performance orientation “[...] reflects the extent to which a community encourages and rewards innovation, high standards, excellence, and performance improvement” (House et al., 2004: 239). Individuals in high performance orientation societies are typically results driven, characterized as placing considerable value on competitiveness and materialism, and tend to value what one does more than who one is. In contrast, individuals in low performance orientation cultures tend to be more focused on social outcomes, such as loyalty and relationships (Hofstede, 2001). Being highly competitive, concerned with materialistic accomplishment, and holding the individual accountable based on their performance are compelling reasons for firms in such societies to more likely engage in employee downsizing. Furthermore, these societies expect direct and explicit communication and view formal feedback as necessary for performance improvement. It would seem that employee layoffs would be the ultimate form of employee feedback that such societies value as necessary for performance to improve. Thus, it is the authors’ contention that high performance orientation societies, which tend to emphasize a “bottom line” and objective approach to management, would more likely engage in employee downsizing when their financial performance declines. Consequently, the authors suggest:

*Hypothesis 6: Firm performance has a stronger negative relationship with employee downsizing in countries scoring high on performance orientation.*

### **Future orientation**

Future orientation is a refinement of Hofstede's (2001) long-term orientation scale. The scale captures “[...] the degree to which a collectivity encourages and rewards future-oriented behaviors such as planning and delaying gratification” (House et al., 2004: 282). High future orientation societies are characterized by emphasizing work for long-term success and having a propensity to save now for the future. As a result of operating in a high future orientation society, the authors contend that a firm with declining financial performance is less likely to engage in employee downsizing. For management at a firm in such a society is expected to take a long-term view regarding the benefits of less employee turnover (e.g., less training costs and selection costs) and the resultant positive organizational culture (e.g., increased employee morale, job satisfaction, and increased organizational commitment) than in short-term cost savings resulting from employee layoffs. Taken together, these arguments suggest:

*Hypothesis 7: Firm performance has a weaker negative relationship with employee downsizing in countries scoring high on future orientation.*

## **SAMPLE, MEASURES AND METHODOLOGY**

### **Sample**

This study utilized the Bureau Van Dijk's Osiris database for the years 2001, 2002, and 2003. Recessions are a result of declines in economic activity and typically result in widespread layoffs across industries. The study's use of early 21<sup>st</sup> century data was selected to be both current and to see the impact of the early 2000s recession which mainly occurred in developed nations (as are the majority of nations used in the study's sample). This database also serves as the primary source for all firm-level data. Country-level data for economic activity are also available in Osiris. Data on the dimensions of national culture are obtained from House et al. (2004). Investor and employee protection measures are drawn from Djankov et al. (2005); Djankov, McLiesh, and Shleifer (2006), and Botero et al. (2004). The researchers identified 1,747 firms from 35 countries with sufficient data spanning the period from 2001 to 2003 to test the study's hypotheses (see Table 1). Financial firms are excluded from the sample because the nature of their financial performance measurement may not be comparable to those of non-financial firms.

**Table 1. Countries in sample**

Country	Firm Years	Collectivism	Future orientation	Performance orientation	Power distance	Uncertainty avoidance
Argentina	3	5.51	3.10	3.63	5.56	3.63
Australia	165	4.14	4.09	4.37	4.81	4.40
Austria	105	4.89	4.47	4.47	5.00	5.10
Brazil	78	5.16	3.90	4.11	5.24	3.74
Canada	12	4.22	4.40	4.46	4.85	4.54
Colombia	30	5.59	3.35	3.93	5.37	3.62
Denmark	252	3.63	4.59	4.40	4.14	5.32
Egypt	6	5.49	3.80	4.15	4.76	3.97
Finland	228	4.23	4.39	4.02	5.08	5.11
France	426	4.66	3.74	4.43	5.68	4.66
Germany	435	4.59	4.04	4.16	5.70	5.19
Greece	39	5.28	3.53	3.34	5.35	3.52
Hong Kong	6	5.33	3.88	4.69	4.94	4.17
India	18	5.81	4.04	4.11	5.29	4.02
Indonesia	45	5.50	3.61	4.14	4.93	3.92
Ireland	42	5.12	3.93	4.30	5.13	4.25
Israel	6	4.63	3.82	4.03	4.71	3.97
Italy	126	4.99	3.34	3.66	5.45	3.85
Japan	408	4.72	4.29	4.22	5.23	4.07
Korea	303	5.71	3.90	4.53	5.69	3.52
Malaysia	273	5.47	4.39	4.16	5.09	4.59
Mexico	9	5.62	3.75	3.97	5.07	4.06
Netherlands	117	3.79	4.72	4.46	4.32	4.81
New Zealand	3	3.58	3.46	4.86	5.12	4.86
Portugal	78	5.64	3.77	3.65	5.50	3.96
Singapore	228	5.66	4.88	4.81	4.92	5.16
South Africa	57	5.18	4.66	4.72	4.31	4.64
Spain	129	5.53	3.52	4.00	5.53	3.95
Sweden	141	3.46	4.37	3.67	4.94	5.36
Switzerland	99	4.04	4.80	5.04	5.05	5.42
Taiwan	21	5.45	3.65	4.27	5.00	4.04
Thailand	177	5.72	3.27	3.84	5.62	3.79
Turkey	18	5.79	3.74	3.82	5.43	3.67
UK	483	4.08	4.31	4.08	5.15	4.65
US	675	4.22	4.13	4.45	4.92	4.15

## Measurement

This section describes all variables and how they are measured. All independent and control variables were measured at time  $t-1$ . The dependent variable was measured at time  $t$ .

## Dependent variable

Following previous research, the authors define downsizing as a decrease in the number of permanent employees of 10 percent or more between year  $t-1$  and year  $t$  (Ahmadjian and Robbins, 2005; Ahmadjian and Robinson, 2001; Jung et al., 2015; Wagar, 1997). This definition of downsizing is chosen for several reasons. First, employee reductions of this

magnitude are likely the consequence of an intentional effort by managers rather than a consequence of employee attrition. Additionally, changes this large are highly visible and likely to attract public attention. Consequently, firms are more likely to be singled out for criticism by their stakeholders and less likely to find safety in numbers to legitimate their behavior. Likewise, reductions of this magnitude are likely to impact work processes in the downsizing organization (Freeman and Cameron, 1993). Furthermore, although some studies examine downsizing announcements (e.g. Hillier et al., 2007; Jung, 2015), the authors contend that downsizing is best reflected in actual reductions in employment rather than in expressed intentions of firms to reduce their workforce. Finally, the interpretation of a binary variable is easier than the interpretation of a continuous variable that captures both the increase and decrease in firms' employment numbers.

### **Independent variables**

Firm performance is measured by the natural logarithm of a firm's earnings before interest, taxes, depreciation, and amortization (EBITDA) divided by the book value of the firm's total assets (TA). Although downsizing research uses a variety of accounting, market-based, and efficiency measures to operationalize firm performance (Datta et al., 2010), for two reasons, firm performance in this study is defined as EBITDA/TA: First, compared to efficiency measures, an accounting based measure better captures how much profit/losses a firm generates by deploying all of its organizational resources; Second, in contrast to an accounting-based measure of firm performance, stock-price based measures tend to be forward looking and the valuations of firms may reflect market participants' assessment of the likelihood that a firm will undergo downsizing measures in the future. While a comparison of an accounting-based firm performance measure across the sample of 35 countries is problematic because of different legal environments and accounting standards, the country-level control variables of investor and employee protection laws described below control, to some extent, for such differences. Additionally, to control for different accounting practices across industries within countries, this study includes within-country industry indicator variables in the estimation model.

Cultural dimensions are measured by coding each firm in terms of its national score regarding power distance, uncertainty avoidance, in-group collectivism, performance orientation, and future orientation as reported in House et al. (2004).

**Control variables**

To strengthen the internal validity of the study, several variables were included as controls to account for alternative explanations for the proposed hypotheses. Drawing on existing research, three broad categories of variables may contribute to firm's decisions to downsize (1) characteristics of the firm itself, (2) events or changes in the internal or external context of a firm, and (3) formal and informal institutional constraints.

*Dominant shareholder identity*

Extant research indicates that the identity of large shareholders affects a firm's decision to downsize (Ahmadjian and Robbins, 2005; Block, 2010; Filatotchev et al., 2000; Jung et al., 2015; Jung, 2015). In order to capture the identity of a firm's largest shareholder, the following dummy variables were created: Institutional owner, family owner, management owner, government owner, private equity owner, foreign owner, and, following Yoshikawa and Gedajlovic (2002), relational owner, a category that includes shareholders such as corporations, business partners, client firms, banks, and insurance firms.

*Firm size*

While large firms may be more inert and resistant to downsizing (Ahmadjian and Robinson, 2001), research also suggests that small firms may resist downsizing to protect their investments made in hiring and training workers (Cascio and Young, 2003). Firm size is often measured as the natural logarithm of total assets. To more directly account for these human resource investments by small firms, the authors instead used the natural logarithm of employees as a measure for firm size and found that the results remained qualitatively consistent.

*Firm age*

Research suggests that older firms may be more inert and more rooted in their established practices and therefore less likely to downsize (Hannan and Freeman, 1984). Young firms may be more likely to downsize because of the larger competitive pressure in mature markets that may lead the company to focus on cost reduction (Coucke et al., 2007). Firm age is measured as the natural logarithm of the observation year minus the founding year of the listed firm.

#### *Asset divestitures*

The study controls for asset divestitures because firms may decide to sell assets and downsize employees as they undergo retrenchment efforts (Atanassov and Kim, 2009; DeWitt, 1998). Additionally, asset divestitures may create an experience effect which may lead firms to divestitures in other areas (Alakent and Lee, 2010). The study measures asset divestitures with a dummy variable, which takes 1 when there is a negative change in total assets between year t-1 and year t and 0 otherwise.

#### *Leverage*

Extant research finds support for the disciplining role of debt and its effects on downsizing (Atanassov and Kim, 2009; Jung et al., 2015; Muñoz-Bullón and Sánchez-Bueno, 2014). Therefore, in this study a firm's debt burden is measured as natural logarithm of the total liabilities to total assets ratio.

#### *Free float*

Dispersed shareholdings may be associated with the threat of a hostile takeover and generate an orientation towards shareholder value at the expense of the stakeholder group employees (Jensen, 1993). Therefore, this study controls for free float by capturing a firm's exposure to the market for corporate control through a measure of how many shares are reasonably liquid. Free float is then measured as the proportion of shares that are held by investors who are likely to be willing to trade their investments.

#### *Downsizing experience*

Research suggests that a good predictor of a future downsizing is that a firm downsized in the past (Alakent and Lee, 2010; Cascio and Young, 2003). Downsizing experience is thus coded as a dummy variable, which takes 1 when the firm downsized before year t and 0 otherwise.

#### *Foreign market competition*

Competition for foreign markets and a firm's exposure to international product market competition may induce firms to focus on efficiency, which can increase the likelihood of employee downsizing (Baumol et al., 2003; Jensen, 1993). Data limitations do not permit the calculation of a foreign sales over total sales ratio. However, the available data allows

the creation of a dummy variable, where 1 is when a firm's sales are solely focused on the domestic market and 0 otherwise.

#### *Economic activity*

Although Budros (1997) finds that downsizing was higher during periods of economic expansion, extant research generally suggests a negative relationship between a country's level of economic activity and the prevalence of employee downsizing (Baumol et al., 2003; Datta et al., 2010; Filatotchev et al., 2000). To measure a country's level of economic activity, this study employs the natural logarithm of the country's annual (real) gross domestic product per capita.

#### *Employee protection laws*

The firm's stakeholder group, labor, receives different degrees of legal protection across countries (Botero et al., 2004). In rigid labor markets characterized by stronger legal protection of employees, large-scale employee downsizing will likely be resisted by workers (Atanassov and Kim, 2009; Tirole, 2001). The data for employee protection laws come from Botero et al. (2004). Their labor protection and employment laws index is a variable that is normalized on a scale of zero to one, with a higher number indicating stronger employee protection laws.

#### *Investor protection laws*

The legal protection of investors varies substantially across countries (LaPorta et al., 1998). In countries characterized by stronger legal protection of shareholders and creditors, firm strategies that enhance capital value will likely receive higher institutional support than strategies that emphasize employee welfare (Atanassov and Kim, 2009). The data for shareholder protection laws is derived from Djankov et al. (2005). This study employs Atanassov and Kim's (2009) method to measure shareholder protection laws as the sum of normalized values of the Anti-self-dealing index and the revised Anti-director index. The data for the creditor protection laws are from Djankov et al. (2006). For both indices, a higher number indicates a stronger protection.

#### *Population downsizing*

Research indicates that employee downsizing may be the outcome of an institutionalization process and that a given firm may be more likely to downsize the more referent firms in the



population downsize (Ahmadjian and Robinson, 2001; Budros, 2004; Day et al., 2012; Tsai et al., 2006). The authors thus measure downsizing activities at the country level as the number of firms within the same country as a focal firm that had previously downsized.

*Industry and time effects*

Finally, to control for possible industry and year differences the study includes industry and year dummy variables.

**Methodology**

Given that the structure of the dataset is multilevel (i.e., employee downsizing being a firm-level variable and national culture being a country-level variable), the authors follow best-practice examples in the existing literature and use Hierarchical Linear Modeling (HLM) to examine the hypotheses (Peterson, Arregle, and Martin, 2012; Raudenbush and Bryk, 2002). Since the dependent variable is a binary outcome, the authors employed the Bernoulli nonlinear feature in HLM. Consequentially, the analyses are analogous to logistic regression (Raudenbush and Bryk, 2002). Random effects are associated with the main effect on employee downsizing (i.e., the intercept), as well as the coefficient for firm performance. Cultural variables as moderators of these effects are modeled as fixed effects. Kreft (1996) suggests that in HLM models, there needs to be at least 30 observations per group. In the study’s dataset, the number of firm-year observations for several countries is less than 30. Thus, the authors re-examined the hypotheses without including these countries and find that the results remain qualitatively consistent. Additionally, they re-run the models without the country with the largest number of firms (i.e., US) and find that the results remain qualitatively consistent. The following models were used to test the hypotheses:

The level 1 model is specified as follows:

$$\text{Prob}(\text{Employee downsizing}_{ij}) = \beta_0 + \beta_1(\text{Institutional owner}_{ij}) + \beta_2(\text{Family owner}_{ij}) + \beta_3(\text{Management owner}_{ij}) + \beta_4(\text{Foreign owner}_{ij}) + \beta_5(\text{Private equity owner}_{ij}) + \beta_6(\text{Relational owner}_{ij}) + \beta_7(\text{Firm age}_{ij}) + \beta_8(\text{Firmsize}_{ij}) + \beta_9(\text{Asset divestitures}_{ij}) + \beta_{10}(\text{Leverage}_{ij}) + \beta_{11}(\text{International product market exposure}) + \beta_{12}(\text{Freefloat}_{ij}) + \beta_{13}(\text{Downsizing experience}_{ij}) + \beta_{14}(\text{Industry dummies}) + \beta_{15}(\text{Year dummies}) + \beta_{16}(\text{Firm performance}_{ij}) + \epsilon \quad (1)$$

Note that the continuous variables in equation (1) are group mean centered. The level 2 equations are specified as follows:

$$\beta_{0j} = y_{00} + u_{0j} \quad (2)$$

$$\beta_{16j} = y_{160} + u_{16j} \quad (3)$$

The country-level control variables including the cultural dimensions are specified as level 2 predictors of the intercept and replace equation 2 with:

$$\beta_{0j} = y_{00} + y_{01}(\text{Country economic conditions}_i) + y_{02}(\text{Labor protection laws}_i) + y_{03}(\text{Shareholder protection laws}_i) + y_{04}(\text{Creditor protection laws}_i) + y_{05}(\text{Country level downsizing}_i) + y_{06}(\text{Power distance}_i) + y_{07}(\text{Collectivism}_i) + y_{08}(\text{Uncertainty avoidance}_i) + y_{09}(\text{Performance orientation}_i) + y_{010}(\text{Future orientation}_i) + u_{0j} \quad (4)$$

The five cultural dimensions are included as level 2 moderators of the level 1 firm performance coefficient ( $\beta_{16j}$ ), thus replacing equation 3 with:

$$\beta_{16j} = y_{160} + y_{161}(\text{Power distance}_i) + y_{162}(\text{Collectivism}_i) + y_{163}(\text{Uncertainty avoidance}_i) + y_{164}(\text{Performance orientation}_i) + y_{165}(\text{Future orientation}_i) + u_{16j} \quad (5)$$

Note that in equations (4) and (5), all variables are group mean centered because they are continuous variables.

## RESULTS

Table 2 reports the VIFs, means, standard deviations, and correlations for all the variables of the study. The examination of the correlations between explanatory variables and the VIFs suggest that problems associated with multicollinearity will not unduly affect the estimation of the study's coefficients.

**Table 2. Summary statistics**

Variable	<i>VIF</i>	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8	9	10	11
1. Employee downsizing	--	0.20	0.40											
2. Institutional owner	13.34	0.17	0.37	-0.05										
3. Family owner	13.54	0.17	0.38	-0.01	-0.21									
4. Management owner	1.49	0.01	0.07	0.06	-0.03	-0.03								
5. Foreign owner	1.13	0.15	0.35	0.06	-0.02	-0.16	-0.03							
6. Private equity owner	3.94	0.03	0.18	0.01	-0.08	-0.09	-0.01	-0.01						
7. Relational owner	11.41	0.47	0.39	0.03	-0.56	-0.57	-0.09	0.15	-0.24					
8. Firm age (ln)	1.14	0.10	0.98	-0.06	-0.05	-0.12	-0.04	-0.01	-0.05	0.14				
9. Firm performance (ln)	1.08	0.12	0.92	-0.06	0.01	-0.03	0.02	0.02	-0.02	0.01	-0.02			
10. Firm size (ln)	1.44	0.07	0.88	-0.11	0.12	-0.28	-0.04	0.01	-0.06	0.16	0.25	-0.09		
11. Asset divestitures	1.10	0.26	0.44	0.18	-0.04	-0.02	0.01	0.05	0.01	0.05	0.06	-0.16	-0.02	
12. Leverage (ln)	1.47	0.06	0.92	-0.15	0.17	-0.10	-0.02	-0.06	0.04	-0.06	0.06	-0.01	0.34	-0.04
13. Downsizing experience	1.04	0.12	0.32	0.08	-0.02	0.06	0.01	-0.01	-0.02	-0.03	-0.01	-0.06	-0.08	0.09
14. Economic conditions (ln)	3.67	9.90	0.85	-0.14	0.12	0.02	0.00	-0.23	0.10	-0.16	0.04	-0.09	0.17	0.08
15. Labor protection laws	3.91	0.46	0.22	0.04	-0.19	0.09	0.05	0.05	0.05	0.02	0.02	-0.01	-0.20	0.15
16. Shareholder protection laws	1.71	1.35	0.23	0.02	0.01	0.03	-0.01	0.05	-0.06	0.02	-0.03	0.00	-0.08	-0.01
17. Country level downsizing	2.10	24.41	13.96	-0.04	0.13	0.11	-0.01	-0.15	0.02	-0.18	-0.05	0.00	0.06	-0.02
18. Int'l. prod. market exposure	1.08	0.65	0.48	0.02	-0.03	0.05	0.00	-0.02	-0.02	-0.03	-0.05	0.00	-0.06	0.02
19. Free float	1.23	59.82	26.17	-0.08	0.26	0.03	-0.02	-0.04	0.04	-0.22	-0.10	-0.05	0.10	-0.07
20. Power distance	2.25	5.07	0.40	0.07	-0.12	0.04	0.04	0.03	-0.05	0.09	-0.05	0.00	-0.12	-0.08
21. Collectivism	5.09	4.72	0.75	-0.09	0.23	-0.14	0.00	-0.11	0.09	-0.10	0.01	0.03	0.19	0.05
22. Performance orientation	3.63	4.17	0.45	0.01	0.07	-0.07	-0.01	-0.04	-0.02	0.02	0.10	-0.02	0.27	-0.06
23. Uncertainty avoidance	2.18	4.41	0.66	-0.08	-0.25	0.06	0.05	-0.01	0.02	0.12	0.18	-0.08	0.05	0.03
24. Future orientation	3.21	4.12	0.39	0.01	-0.23	0.23	0.01	-0.07	-0.02	0.00	0.08	-0.15	-0.09	0.12
25. Creditor protection laws	1.52	2.18	1.06	-0.04	0.13	-0.09	-0.01	0.00	0.01	-0.04	0.02	-0.01	0.15	-0.08

**Table 2. Summary statistics continued**

Variable	12	13	14	15	16	17	18	19	20	21	22	23	24
12. Leverage (ln)													
13. Downsizing experience	0.00												
14. Economic conditions (ln)	0.31	0.07											
15. Labor protection laws	-0.11	0.05	0.06										
16. Shareholder protection laws	-0.24	-0.04	-0.32	-0.34									
17. Country level downsizing	0.21	0.05	0.37	-0.24	0.02								
18. Int'l. prod. market exposure	-0.01	0.00	0.10	0.08	-0.15	-0.08							
19. Free float	0.09	0.01	0.11	-0.24	0.09	0.06	-0.07						
20. Power distance	-0.33	-0.10	-0.62	-0.19	0.34	-0.25	-0.02	-0.08					
21. Collectivism	0.45	0.08	0.68	0.03	-0.38	0.45	0.02	0.08	0.54				
22. Performance orientation	0.08	-0.02	0.18	-0.64	0.13	0.39	-0.12	0.08	0.32	0.07			
23. Uncertainty avoidance	-0.12	-0.03	-0.02	0.23	-0.24	-0.16	0.02	-0.08	-0.58	-0.30	0.56		
24. Future orientation	-0.21	0.02	0.17	0.11	0.17	0.11	0.00	-0.06	0.11	-0.36	0.24	0.43	
25. Creditor protection laws	0.14	-0.01	0.06	-0.31	0.02	-0.26	0.01	0.17	0.02	0.04	0.05	-0.08	-0.26

Table 3 reports the results of the study which largely support the authors' hypotheses. The first hypothesis suggested a negative relationship between firm performance and employee downsizing across countries. The results indicated a significant coefficient associated with the firm performance variable ( $\beta_{16j} = -0.262$ ,  $p < 0.05$ ), thus supporting hypothesis 1. The amount of error associated with the firm performance term at the second level of analysis was statistically significant. The firm performance coefficient (i.e., the random effect of  $\beta_{16i}$ ) had a significant level two variance component ( $p < 0.05$ ), which indicates that there exist significant across-country differences in the nature of the firm performance - employee downsizing relationship. This finding supports hypothesis 2, which suggested the importance of considering context. Additionally, the authors calculate the Intra-class Correlation Coefficient (ICC) and find that the proportion of variance in employee downsizing between countries is equal to 15%. This result provides additional credibility for our argument to consider context in the firm performance - downsizing relationship. The remaining hypotheses involve cultural dimensions as moderators of the firm performance - employee downsizing relationship. The results denote statistically significant effects for three of the five cultural dimensions (for power distance  $\delta_{160} = -0.0013$ ,  $p < 0.05$ , supporting hypothesis 4; for collectivism  $\delta_{161} = 0.0009$ ,  $p < 0.05$ , supporting hypothesis 3, and for uncertainty avoidance  $\delta_{163} = 0.0018$ ,  $p < 0.05$ , supporting hypothesis 5).

Several control variables that have previously been shown to affect a firm's decision to pursue employee downsizing are statistically significant. The results show that older firms may be more inert and thus less likely to downsize ( $\beta_7 = -0.1919$ ,  $p < 0.10$ ). Larger firms may also be more resistant to downsize ( $\beta_8 = -0.3893$ ,  $p < 0.01$ ). These results are consistent with previous findings in the literature (e.g. Ahmadjian and Robinson, 2001; Hannan and Freeman, 1984). Asset divestitures are also significant predictors of downsizing ( $\beta_9 = 1.0616$ ,  $p < 0.001$ ), a finding consistent with Alakent and Lee's (2010) study. High leverage ratios are negatively related to employee downsizing ( $\beta_{10} = -0.2717$ ,  $p < 0.05$ ). This finding is consistent with results published by Muñoz-Bullón and Sánchez-Bueno (2014). The control variable downsizing experience is significant ( $\beta_{13} = 0.6366$ ,  $p < 0.05$ ) and suggests that a good predictor of future downsizing is a firm's past downsizing activities, a finding consistent with (Alakent and Lee, 2010). Finally, as shown by Datta et al., (2010), a country's level of economic activity, as measured by the natural logarithm of the country's annual real gross domestic product per capita, has a negative effect on employee downsizing decisions in firms ( $\delta_{01} = -0.4334$ ,  $p < 0.10$ ).

**Table 3. Two-level HLM analysis - results**

Variable	Coefficients
For intercept	
Intercept	- 3.5752 (1.60) **
Institutional owner	- 0.2660 (0.94)
Family owner	- 0.4352 (0.93)
Management owner	1.2941 (1.30)
Foreign owner	0.0419 (0.26)
Private equity owner	0.0315 (1.00)
Relational owner	- 0.3213 (0.91)
Firm age	- 0.1919 (0.09) +
Firm size	- 0.3893(0.13) **
Asset divestitures	1.0616 (0.19) ***
Leverage	- 0.2717(0.13) *
International product market exposure	0.1341 (0.19)
Free float	- 0.0011 (0.00)
Downsizing experience	0.6366 (0.25) *
Country economic conditions	- 0.4334 (0.25) +
Labor protection laws	- 0.0705 (0.68)
Creditor protection laws	0.0630 (0.12)
Shareholder protection laws	0.5394 (0.97)
Country level downsizing	0.0067 (0.02)
Power distance	0.0103 (0.01)
Collectivism	0.0081 (0.01)
Performance orientation	0.0014 (0.02)
Uncertainty avoidance	0.0056 (0.01)
Future orientation	- 0.0105 (0.01)
Industry and time effects	included
For firm performance	
Intercept	- 0.2620 (0.12) *
Power distance	- 0.0013 (0.00) *
Collectivism	0.0009 (0.00) *
Performance orientation	0.0011 (0.00)
Uncertainty avoidance	0.0018 (0.00) **
Future orientation	- 0.0006 (0.00)

Note. Dependent variable = Downsizing event > 10 % of permanent employees; N = 5241 at Level 1; N = 35 at Level 2. Standard errors for the coefficients in parentheses. +p < 0.10, \*p < 0.05, \*\*p < 0.01, \*\*\*p < 0.001

## DISCUSSION

This study is an important step in deepening our understanding of the question: Why do employee downsizing strategies of firms in different countries differ? The authors examined this question from a multi-theoretical and multilevel perspective and found that firms' cultural context interacts with decision-making processes within firms by enabling or constraining their choice of employee downsizing as a strategic response to performance declines. The results supported previous research which found that declines in firm's financial performance result in employee downsizing (hypothesis 1) and that the strength of that relationship varies across countries (hypothesis 2). However, the principal

contribution of this study is that certain dimensions of national cultural differences play a role as moderators in the negative firm performance - downsizing relationship. Specifically, the results show that power distance strengthens this relationship (hypothesis 3) and that collectivism and uncertainty avoidance (hypotheses 4 & 5) weakens this relationship.

While previous studies have largely tested the firm performance - downsizing relationship within single cultural environments, the international dataset and research design used in this study allowed for an examination of the generalizability of this relationship across different institutional contexts. The results indicate that although the organizational efficiency perspective on downsizing may generalize across countries, specific relationships within this perspective change due to cultural influences. As such, this study's findings suggest that understanding the generalizability of organizational theory requires an understanding of the effects associated with national culture.

Several control variables were statistically significant predictors of employee downsizing. The authors find that firms having to service a large amount of debt are less likely to pursue large scale employee downsizing. This suggests that highly leveraged firms may likely find it more difficult to pay creditors and are therefore less likely to downsize because of the associated additional financial costs and expenses. The results also show that a negative change in total firm assets is related to subsequent employee downsizing. Asset divestitures are often pursued by firms to reduce diversification and to refocus on the core business, which may shrink firms' overall output and subsequently lead to human resource reductions. The control variable firm size is a significant predictor of large scale downsizing. Large firms tend to be more visible and under greater scrutiny by important stakeholders like the general public, the state or the media than smaller firms. Therefore, large scale employee downsizing of large firms may attract the attention of these influential stakeholders and likely result in loss in legitimacy for the firm. Additionally, large firms may have more slack resources to withstand declining financial performance before responding with employee downsizing. The control variable firm age is negatively related to employee downsizing. This may suggest that older firms are more settled in their routines with established bureaucratic processes and have higher levels of inertia, which may make employee downsizing difficult to negotiate and to accomplish. The results also show that past downsizing decisions predict future downsizing decisions. Firms that previously downsized may have gained experience in coping with the legitimacy and economic burden of the practice and therefore softened the way for pursuing additional employee downsizing. Finally, the study finds that large scale

downsizing is negatively associated with a country's level of economic activity and more prevalent under conditions of declining demand.

This study's findings suggest a number of practical implications for management as it relates to firm performance declines and employee downsizing. Firms that compete in industries where competitive advantage is derived from the ability to respond to performance declines with extensive employee downsizing initiatives may wish to consider locating/operating in nations such as Malaysia or Mexico that score high on power distance. For firms in such nations were found to be less inhibited in employee downsizing decisions when firm performance declined (hypothesis 4). This may be due to the fact that management in these nations is generally not expected to concern themselves with the plight of their downsized employees nor fear any significant pushback or resistance from them. Top managers in these high power distance countries are characterized by an autocratic leadership style and their stakeholders generally do not question either their place in it nor oppose decisions by those of higher hierarchical status. All of which makes the task of implementing large scale downsizing strategies as a response to performance declines a legitimate strategic choice.

Conversely, this study suggests that firms with operations in nations that score higher on in-group collectivism (e.g., Colombia, Indonesia) and uncertainty avoidance (e.g., Greece, Portugal) would be less likely to employ downsizing as a result of decreasing performance (hypotheses 3 and 5). For nations with higher in-group collectivism scores stress loyalty to the organization and thus may expect their employer to reciprocate that loyalty by utilizing a variety of other means to cut costs before terminating their employment and membership in the organization. Because these societies' organizations are also typified as being cohesive with tightly integrated relationships, it is likely less legitimate for managers to implement any activity whose effect would be detrimental to their employees or their families. Similarly, underperforming firms operating in nations with higher uncertainty avoidance scores would also find it more difficult to engage in extensive employee downsizing. As the population of these nations view ambiguous situations as threatening and attempt to reduce the amount of risk and change in their lives, these societies rely on extensive formalized policies and laws to govern the workplace and expect organizations to adhere to these rules and traditions. It stands to reason that such nations would likely support a variety of laws that would restrict the ability of firms to quickly or easily reduce the size of its workforce during a decline in performance. Further, nations with high scores for in-group collectivism (e.g., South Korea) or uncertainty avoidance (e.g., Belgium) may not engage as often in



downsizing for they may think differently about the skills of their employees. Unlike societies in which they are assigned narrow job descriptions, in these nations employees may be viewed more as strategic assets and consequently have been trained more extensively with generalist or multifunctional orientations towards their work. Should firm performance decline and the pressures rise for management to take action, rather than downsize, firms in these societies may instead choose to diversify into related businesses where excess/idle human resources (employees with transferable skills) may be employed effectively.

### **LIMITATIONS AND FUTURE RESEARCH**

Like any other study, this study has a number of limitations. First, while the dataset used in this study is notable in many ways - it is longitudinal, contains data from 35 countries, has a relatively large sample size at the first level of analysis, and is multilevel - it is far from perfect. The study only had three years of data which fell into a time period of global recession, thus calling for caution when interpreting the generalizability of the findings. Also, although the dataset included 35 countries, it still limits the statistical power of the second level of analysis. Additionally, the within-country sample sizes are in some instances small, which could decrease the accuracy through which the Level 1 coefficients are estimated. Second, the study examined firms nested within countries and cultural dimensions were represented at the second level of analysis. Although this approach is methodologically sound, it is important to note that firms (just as the individual who work in firms) may vary in their cultural attitudes. The development of firm specific attitudes of the cultural dimensions used in this study would provide a stronger test of the moderating influence of culture.

The study's findings suggest additional avenues for research regarding the moderating role of cross-cultural differences. One extension of the current study's findings could examine the interaction effects between formal and informal institutions in moderating the performance-downsizing relationship. Similarly, future studies may wish to build upon the work of previous research to identify what precipitates employee downsizing by examining the interaction effects between specific national culture attributes with the multitude of environmental (macro-environmental and industry factors) and organizational (firm attributes, strategy, governance/CEO attributes, HR policies) factors that have been advanced to see how together they may moderate the firm performance-downsizing relationship across nations. Furthermore, the current study treats all firms nested within countries as equal (i.e., equally prone to the same cultural effects). However, firms are likely to differ with respect to their embeddedness in a focal institutional context and thus likely

differ with respect to their sensitivity to national institutional and cultural effects. Future studies could attempt to examine if firms managed by foreign executives with divergent cultural attributes reflect employee downsizing behaviors consistent with their home or host country's culture.

## CONCLUSION

This study makes both theoretical and practical contributions to the employee downsizing literature. From the theoretical perspective, this research confirms the organization efficiency hypothesis of a negative relationship between firm performance and employee downsizing across countries. At the same time, the authors show that this theoretical perspective must consider the broader institutional context within which firms make downsizing decisions, that this theoretical perspective on downsizing can both generalize across countries and vary simultaneously, and that parts of this variance can be predicted by determinants of national culture. From a practical viewpoint, the findings suggest that managements' decisions need to consider culture as a constraining or enabling factor in pursuing employee downsizing decisions in response to firm performance declines.

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