13 *Exploring the aetiology of positive stakeholder behavior in global downsizing*

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Studies have tracked the performance of downsizing firms versus nondownsizing firms for as long as nine years after a downsizing event. The findings: as a group, the downsizers never outperformed the non-downsizers.

(Cascio, 1993)

Introduction

Downsizing is commonplace in present-day industrialized markets. Between 1995 and 2007, approximately 11.5 million people lost their jobs to downsizing in the United States alone (Lewine, Biemans, and Ulaga, 2010). Furthermore, according to data from the US Bureau of Labor Statistics (2005), sales and marketing personnel have been hit harder than many other groups of employees. Not only are reductions in workforce size becoming more frequent, organizations are changing their rationale for downsizing as well. In the past, layoffs were the last resort for employers. More recently, however, healthy firms around the world have been using downsizing as a pre-emptive way' to cut costs.

Downsizing has become an international phenomenon, and it is not limited to North America or Europe. In the United States, more than 6.5 million jobs have been lost from downsizing since the recession began in December 2007, with numbers expected to grow in the foreseeable future (Datta, Guthrie, Basuil, and Pandey, 2010). Other countries have engaged in their share of downsizing activities, including countries whose tradition does not include such events. For example, recent times have witnessed significant employee reductions in economies such as Japan, Hong Kong, South Korea, and Taiwan. Even China has been affected, with major layoffs in a number of sectors; between 1993 and 2001 about 43 million urban employees were laid off, with most dismissals happening in the service sector and such industries as mining, weaving, and military production. European countries have suffered as well. For example, in Ireland, the unemployment rate jumped from 5.6 percent to 10.6 percent between 2008 and 2009, while in Spain the figure went from 9.5 percent to 17.4 percent over the same period (Datta *et al*., 2010, p. 282).

Although downsizing can involve reductions in various combinations of physical, capital, and human resources, much research has focused on downsizing in employment, entailing personnel reductions in the organizational context (Cascio, 1993; Iverson and Zatzick , 2011). There is a wide variety of definitions of the term 'downsizing' (Cameron, 1994; Cameron, Freeman, and Mishra, 1993; Cascio, 1993; DeWitt, 1998; Freeman and Cameron, 1998). For example, 'an organization's conscious use of permanent personnel reductions in an attempt to improve its efficiency and/or effectiveness' (Cascio, 1993; Lanciano and Nitta, 2010). Others have defined employee downsizing as 'a planned set of organizational policies aimed at workforce reduction with the goal of improving firm performance' (Datta *et al*., 2010, p. 282). Over the years, this changed management strategy has generated a great deal of interest. As a result, companies suffering from low performance over a long period of time and ongoing financial problems often choose to implement a downsizing strategy (Hareli and Tzafrir, 2006).

The historical roots of downsizing lie in the capitalist world and globalization trends. The second half of the last century was characterized by transition and transformation (Raich and Dolan, 2008; Fasenfest, 2010). Modern capitalism and the Fordist accord between labour and capital changed into postmodern capitalism and 'post-Fordism' (Fasenfest, 2010, p. 629) in the context of economic growth. The economic growth experienced by the world economy in the past two decades can be attributed to trade liberalization or globalization (Anwar, 2009), and increased competition. Accelerated international trade between nations enabled corporate reach and resulted in multinational companies, some more successful than others. With globalization[1] came tough competition, creating the expectation that workers everywhere would have to rethink wage demands and renegotiate working conditions. Some of the consequences of globalization include the increasing alienation of workers as a result of downsizing and job losses (Fasenfest, 2010).

Globalization and the opportunity to increase markets for services and products, as well as to reduce taxes and other incentives, led many organizations to become multinational corporations (MNCs) in the manner of an 'octopus' (Koerber and Fort, 2008). According to UNCTAD's

2009 *World Investment Report*, an estimated 82,000 transnational firms now span the globe (UNCTAD, 2009, ch. 1). Thus, the power of these firms on economies at the global and national levels is unprecedented. With so much economic power, the managerial behaviour and activities of MNCs can have both harmful and beneficial effects within and between countries. In the face of global economic competition, rapid changes in markets, and a consistent desire for effectiveness and efficiency, downsizing in MNCs has become a mode of adjustment widely used by corporate management (Lanciano and Nitta, 2010; Van Buren and Greenwood, 2011).

This chapter offers an integrated view between a universal model of downsizing and a country-specific perspective. It is organized in the following manner. We start by providing a review of the global perspective on downsizing, as well as of the main causes and origins; in the following sections we propose a multilevel (Klein and Kozlowski, 2000), multifactor approach as a framework for analysing the consequences of downsizing in cross-cultural terms; and finally, we point out some practical implication. In order to provide a wider perspective on the topic of downsizing among MNCs, we conducted semi-structured interviews with professionals who had participated and/or led downsizing initiatives in their professional careers in multinational corporations.[2] We believe that analysing these interviews and presenting their outcomes may shed new light on the topic and its practical implications in both the short and the longer term.

Downsizing: A global perspective

A globalized managerial strategy of downsizing has different consequences on employees in various countries, ranging from the western (Makela and Nasi, 2010) to the eastern hemisphere (Sturgeon and Van Biesebroeck, 2010). Industries such as information technology are relocated according to efficiency, effectiveness, and cost–benefit analysis. The positive side focuses on new jobs, relatively higher wages, and other income-earning opportunities for the local economy, which can be used to enhance prosperity. Nevertheless, the results are not always positive. As Kochan (2005) mentions, one of the roles of government is to ensure that opportunities to learn and gain access to good jobs are open to men and women of all races, family backgrounds, and cultures. And perhaps most of all, we need to renew our sense of solidarity by working together for the common good so that the gains and hardships of the economic booms and busts to come are shared in an equitable fashion. This may not turn out to be the case.[3] Negative sides of downsizing are losses of jobs in the country of origin, as well as a deterioration in employment conditions.

Datta *et al.* (2010) attempted to depict the causes and origins of the downsizing phenomenon by focusing on environmental and organizational factors. Studies generally support the idea that employee downsizing is likely to be more prevalent when there is a downturn and change in market demand (Wagar, 1997; Filatotchev, Buck, and Zuhkov, 2000). However, not all scholars share the same view. For example, Budros (1997, 2000, 2002) did not find any significant relationship between economic conditions and employee downsizing. On the contrary, he found that firms in the utility and industrial sectors often engaged in employee downsizing during economic peaks. Others report that industry deregulation and privatization often trigger employee downsizing. This is specifically true in the case of manufacturing firms. An interesting finding of a different strand of research indicates that firms are likely to be involved in employee reduction when the firms they relate to go through massive downsizing (Tsai, Wu, Wang, and Huang, 2006; Datta *et al.*, 2010).

Looking at firms with globalization opportunities, Coucke, Pennings, and Sleuwaegen (2007), who studied layoff trends in the Belgian market, found that manufacturing firms were more likely to downsize than those in the service sector. Different wage levels and employment conditions help to explain why some industries are more prone than others to downsize on one side of the globe and build up operations on the other side. For example, in many countries, manufacturing was found to be prone in this way, compared to non-manufacturing firms (Budros, 2004).

Two important factors in global–local interaction are government (Haiyong and Weiwei, 2010) and national culture (Hofstede, 2001). The global movement towards MNCs bringing foreign investment into a local country accentuated the role of government in this process, on the one hand, and the role of national culture, on the other hand. Government plays a role in the local economy and serves as an actor in the industrial relations system, as well as being a major influence in the legal system. For example, government may decide on levels of taxes, subsidies, and modes of collective bargaining, and act as a major employer, etc. The result is administrative, economic, and legal power in the economy and the employment market. The ascendancy of government in relation to these systems, however, is confronted by a growing tendency to consider

MNCs as a new form of government (Willke and Willke, 2008). Therefore, there is a need to reconfigure the 'balance between institutions that together make up both national and global governance constellations' (Jamali and Mirshak, 2010). People need jobs and MNCs want to demonstrate revenue, so that finding the equilibrium between these two may affect downsizing strategies.

The second factor in the context of MNCs is the issue of national culture, and this cannot be ignored; human behaviour and attitudes will almost certainly arise out of an interaction between the local national culture and the imported culture of the MNCs. Culture is what distinguishes between different groups of people. Culture is not an attribute of an individual; it is an attribute of a group, manifested through the behaviour of its members. There are four ways in which a culture manifests itself: it filters observation; it sets expectations about the context for interpersonal communications; it sets norms for what constitutes an appropriate partner; and it determines the kind of action that is most appropriate in the light of the three former modes (Hofstede, Jonker, Meijer, and Verwaart, 2006). Culture is a moderating variable, which establishes the meaning of constructs, and the strength and direction of relationships among constructs (Aycan, Kanungo, Mendoca, Yu, Deller, Stahl, and Kurshid, 2000). Thus, the upper echelons of MNCs need to pay attention to culture when they make global managerial decisions such as downsizing.

Ample research has explored the organizational factors that influence and drive downsizing. Common to many of these studies is the underlying assumption that the key role of downsizing is to achieve a more effective and efficient performance within a predetermined and restricted level of resources, therefore using human resources more efficiently. In the context of underperforming firms, employee downsizing is seen as an important signal communicating organizational intentions and efforts to bridge the gap between stakeholders' expectations and achieved performance (Datta *et al.*, 2010). For example, a vice president for human resources (HR) in a global and fast-moving consumer goods company states:

> The corporation decided to cut back on human resources functions. The global trend was towards 'shared services', therefore eliminating almost 50% of local HR functions, while keeping this function centralized in our European headquarters.

The organizational efficiency perspective has also been used to justify downsizing following mergers and acquisitions (M&As). Using longitudinal employer–employee data for 1985–98 on Swedish workers and plants and the firms that employ them, Siegel and Simons found that 'M&As are associated with downsizing of the workforce. Employment declined faster than output, which resulted in a productivity increase' (2010, p. 909). Previously, Horn and Persson (2001) had explained how globalization increases cross-border M&As, and when similar firms merge, consolidation of operations usually generates personnel redundancies. Conyon, Girma, Thompson, and Wright (2004) found that downsizing is more likely to appear following a hostile merger, rather than a friendly one. It has also been found that when acquisition premiums have been high for the shareholders of the acquired firm, this has led to greater reductions in the workforce (Krishnan, Hitt, and Park, 2007). In this context, employee downsizing represents a vehicle by which the merged entity can eliminate slack and realize organizational effectiveness in the long term.

In referring to governance, we refer to board characteristics, ownership structure, and compensation systems. Research outcomes vary in their conclusions on this topic (Datta *et al.*, 2010). For example, in a study of layoffs among firms in Russia, Ukraine, and Belarus, the authors found a link between institutional ownership and downsizing (Filatotchev *et al.*, 2000). In a study of foreign ownership among Japanese firms, no significant relationship was found. Additionally, family-owned businesses were found to engage less in severe downsizing activities (Datta *et al.*, 2010). Firms with independent boards are more likely to engage in downsizing. Moreover, the size of boards does not seem to have a significant effect. Interestingly enough, some studies focus on CEO characteristics and their effect on downsizing initiatives and decisions. In examining the role of the functional background of CEOs, Budros (2000, 2002, 2004) found that CEOs with a stronger finance or operations background were more likely to decide on downsizing initiatives. These data are sensitive to industry type. Additionally, a negative relationship was found between the age of CEOs and downsizing. A country manager in a large international consulting firm gave her perspective on a possible dilemma during a global downsizing initiative of the firm. She pointed out:

> There was a dilemma in regards to who would be appointed for the top role in the local company. The issue of whether to appoint the local guy, who knows the market better, or the international guy, who is more experienced, remained a big question mark.

Concerning human resources policy, Wagar (1997) found that when firms are more committed to employee job security, the likelihood of employee layoffs is diminished.

Thus, it is argued that in order to address downsizing and MNCs as a global phenomenon that affects the private and public sectors, with major impacts on people, corporations, and economies, a multifactor approach is needed. The overall spread of globalization has opened up new markets and has increased competition in various markets for most of the MNCs within different industry sectors (Makela and Nasi, 2010). A number of organizational models of MNCs have addressed the issue of how they should organize in order to utilize their dispersed resources (Bresman, Birkinshaw, and Nobel, 1999). Growing globalization is a challenge for MNCs, especially from a managerial perspective (Kristensen and Zeitlin, 2005). In the longer term, however, it enables global businesses to close facilities in one country and open up new facilities in another as part of the corporation's global strategy (Lehman, 1999). From a global perspective, the term 'organizational downsizing' is used to describe the adjustment of firms to global competition and technological innovation by eliminating jobs and closing down facilities.

Downsizing globally: Different countries, different approaches

Globalization and its impact on international downsizing usually affect western industrial countries. For example, similar downsizing processes in the steel industry in Japan and France have reflected differences in pace and focus, as well as in restructuring of the internal labour market (Lanciano and Nitta, 2010). Cascio mentions a good example of global downsizing that worked well in Taiwan. There, a semiconductor manufacturing company (TSMC), which commands half of the global market in contract chip-making and employs 23,000 people, faced a record drop in revenue in the first quarter of 2009. To contain costs, TSMS implemented obligatory unpaid leave, as well as employment downsizing of about 3 percent of the workforce. The result was that in the second quarter, revenue was 80 percent higher than in the first quarter, and the factory utilization rate rose from below 40 percent to 70 percent. TSMC rehired 700 workers who had been previously dismissed, and offered additional compensation to those who did not wish to return (Cascio, 2010, p. 3).

Global downsizing has important legislative implications. In many cases, the determination of which employee goes, and in what order, is determined by statute. In the Netherlands, for example, the rule is 'last in, first out'. In other countries, social criteria determine layoffs (Cascio, 1993). Some countries have taken a different approach to preserving jobs which contrasts with the downsizing technique. For example, Singapore has assembled a 'resilience package' that includes cuts in corporate tax, subsidies to companies that do not lay off workers, and payments that cover 90 percent of the costs of employee training. This has kept unemployment low, at least in the short run. At Kato Spring, for example, a company which bends wires into springs for consumer electronics, the programme kept workers busy learning new skills even as the company cut managers' pay and laid off 15 percent of its 200 workers. Six months later, orders bounced back and the company no longer needed the programme (Cascio, 2010). Lanciano and Nitta (2010, p. 17) found that management in the Anglo-Saxon countries has tended to respond by shifting certain employees into the external labour market through mass redundancies, contrary to the French approach that tries to organize transitions from one market to the other. The authors summarize: 'these labor flows, organized on the basis of age, perhaps reveal the existence of transitional labor markets organized in turn by the public authorities or by firms'.

Denmark's approach allows liberal hiring and firing, and the country has imposed limits on the duration of its high unemployment benefits. Denmark also invests more than any other country, as a percentage of its GDP (4.4 percent), in retraining those who have lost their jobs. The Danes call this approach 'flexicurity'. The cost is covered by tax revenue, which accounts for 50 percent of GDP, second only to Sweden. About two-thirds of Danes who are laid off have a new job within one year. This helped Denmark to cut its unemployment rate in half, from about 10 percent in the early 1990s to less than 5 percent in 2006 (Cascio, 2010, p. 15). In Japan, a different system was created in order to cope with the problem of the large supply of employees, the 'shukko' system, shifting older employees into subcontracting companies and subsidiaries (Lanciano and Nitta, 2010). In general, therefore, MNCs need to pay attention to Harzing's (2004) assertion that differing institutions, laws, and regulations may limit the coordination of human resources management (HRM) practices, leading to the implementation of different downsizing strategies among the various subsidiaries. (For more detailed comparisons concerning the antecedents and outcomes of employee downsizing, see Datta *et al.*, 2010.)

Looking at globalization, Cascio (1993) suggested that it is important to consider the country in which expatriate employees are working, as well as any employment agreements they have apart from what they are entitled to under local laws. It is especially important to have expatriates sign releases of legal claims for all of the jurisdictions in which they have worked during their tenure with the company. The author pointed out that institutional infrastructures vary considerably across countries. This also applies to some of the costs associated with downsizing, such as severance pay, accrued vacation, sick pay, supplemental unemployment, outplacement pension, and other benefits, and administrative processing of rehiring (direct costs). Recruitment, decreased productivity, start-up costs, voluntary termination of the remaining employees, potential lawsuits, etc. (indirect costs) may also vary. Dolan and his colleague (Dolan and Garcia, 2002) noted that downsizing costs more in Europe than in the United States. Most countries in the European Union have laws that require firms to provide severance pay for laid-off employees that can range from six to 24 months of salary for employees who have worked for more than ten years in an organization.

Understanding and accepting that downsizing as a labour phenomenon originated in the United States, it would be very interesting to explore some points of comparison from a global perspective. Comparing downsizing initiatives as a global phenomenon, Redman and Keithley (1998) focus on the 'western approach to downsizing' in relation to what we take as the 'eastern approach to downsizing'. For example, culture plays an important role in people's interpretation of information and their perception of security-related issues, such as feeling safe, protecting privacy and having trust (Karvonen, Cardholm, and Karlsson, 2000). As a result, the downsizing phenomenon, like other intercultural issues (Rodriguez and Wilson, 2002), can be very unique to a country and involve very specific challenges, such as the number of downsizing events per country, legal restraints on the downsizing initiatives faced by each country, and personnel management following downsizing events, as well as different individual interpretations (Dirks and Ferrin, 2001). Cultural differences between East and West exist (Buchan, Johnson, and Croson, 2006; Hofstede, 1980) and are synchronized with some universalistic practices.

In navigating our comparison in relation to Hofstede's model for cross-cultural comparison (Hofstede, 1980), we propose that the cultural dimensions offered in that model (power distance, uncertainty avoidance, masculinity versus femininity, individualism versus collectivism, and time dimensions) may help us draw some differences between the western approach to downsizing and the eastern approach to downsizing. Some studies of downsizing in the United States and the United Kingdom (Lewine *et al.*, 2010; Mellahi and Wilkinson, 2010) offer a picture which represents a strong individualistic approach by organizations, with time management throughout the process being very well kept. The motives of American or 'western' downsizing are strictly economic, business oriented, etc. (For the intensification of managerial work in the USA, UK, and Japan, see Hassard, McCann, and Morris, 2009.) In this respect, the 'eastern approach' tends to be more paternalistic. For example, Japanese and Korean downsizing tends to be much more 'family oriented and proactive' (Hassard *et al.*, 2009; Yu and Park, 2006; Alakent and Lee, 2010). Looking at some European countries such as Poland (Redman and Keithley, 1998), Germany (Badunenko, 2007), and others (Falk and Wolfmayr, 2010), it seems there is a certain schizophrenia which has not yet been settled by downsizing practices and each country behaves differently. For example, in Poland (Redman and Keithley, 1998) there is a strong feeling that 'Polish managers appear to be tackling the problem of employment re-structuring in a less draconian way than their western counterparts'. 'As Koubek and Brewster note in their survey of HRM in the Czech Republic, central and eastern European managers prefer "less painful" methods of downsizing' (Redman and Keithley, 1998, p. 291). Summarizing all of the above, one may suggest that some cultural differences come into play between that western world, with the United States at the top, and the eastern world, simultaneously with some universalistic patterns.

Consequences of downsizing: A multilevel, multifactor approach

HR matters enormously in good times. It defines you in the bad. (Jack and Suzy Welch, *Business Week*, 11 March 2009)

The consequences of downsizing are enormous. In the ensuing discussion, we will trace these, focusing on some cross-cultural consequences of downsizing by presenting a multilevel, multifactor approach for analysing them in order to achieve positive stakeholder behaviour (PSB) among

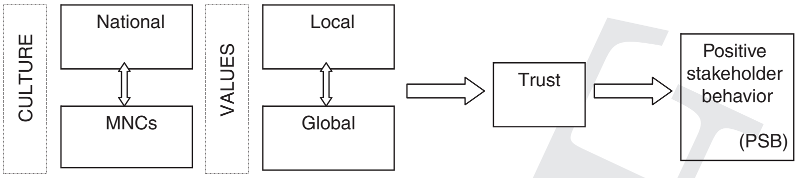

Figure 13.1 Downsizing: A multinational, multi-level, multi-factor and cross-cultural perspectives of the effects of downsizing on PSB

customers, employees, unions, managers, etc. (see Figure 1). The model presents the importance of fit (Tushman and Nadler, 1978) between different stakeholder groups and different levels (Klein and Kozlowski, 2000). Stakeholders are persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future (Clarkson, 1995). In trying to determine the parameters that influence the possibility of cooperation between organizations, we must remember the importance of defining the characteristics of each interest group and stakeholder, in order to try to predict the results of efforts to achieve cooperation between the different groups (Malvey, Fottler, and Slovensky, 2002). Thus it is extremely important to anticipate their behaviour, as well as increase the probability for positive behaviour. A global compensation and benefits manager, in a global and very active consumer goods company, mentioned the importance of stakeholder satisfaction:

The stakeholders involved in the downsizing activities were numerous throughout the process. Throughout the change process, we had to double check that each and every stakeholder remained satisfied.

Positive stakeholder behaviour is defined as the sum of actions on behalf of the various stakeholders that contribute to the success of the downsizing process. In this chapter we focus on the global versus the local level of analysis; thus, we will particularly single out the organizational and the individual at these two levels. At the organizational level, we consider the relationship between the culture of MNCs versus national culture. At the individual level, we are trying to bridge between universal values (etic) and different values with meaning to different people (emic). Underlying these four variables are two comparisons measuring how they affect the level of trust (Smith and Schwegler, 2010). For example, a smaller gap between universal values and country values (for a closer fit, see Tushman and Nadler, 1978, and for a cultural perspective see Leung, Bhagat, Buchan, Erez, and Gibson, 2005) results in a higher level of trust between parties (Dietz, Gillespie, and Chao, 2010). This increased trust in the organization corresponds to the fact that under these circumstances the MNC is likely to be seen as fair and just. Such a connection is expected from the relation between justice and trust (Brockner, Siegel, Daly, Tyler, and Martin, 1997). The higher the level of trust between parties (managers from different countries and employees), the more likely will be the appearance of positive stakeholder behaviour concerning strategic decisions (Tzafrir, Harel, Baruch, and Dolan, 2004).

MNCs need to have an economic rationale for their activities, so that economic measurements focusing on efficiency and effectiveness are a necessity. Surprisingly, this topic remains unresolved among scholars, and they have not found a consistent relationship between downsizing and financial performance. The economic impact of downsizing on firms is controversial and the long-term effect of downsizing on firm effectiveness is questionable (Dolan, Belout, and Balkin, 2000). For example, some studies suggest that firms choose to downsize in order to cut costs and/or to improve financial performance (Espahbodi, John, and Vasudevan, 2000) on the assumption that a firm's profitability will be increased with fewer employees. Another strand of research finds that the effect of personnel reductions on organizational profitability is non-existent or even negative (Cascio, 1993; Datta *et al.*, 2010), because of such aspects as feelings of guilt and negative attitudes (for example, job insecurity and low morale and motivation) towards the organization among the surviving employees. More recent studies claim that positive effects on firm performance from excessive downsizing may be low. Limits on reductions in employee levels may result from a top manager's recognition that protecting the organization's core competencies is important for its long-term success (Munoz-Bullon and Sanchez-Bueno, 2010). A call suggests that downsizing as an organizational phenomenon has a large impact on innovation initially, but the magnitude of the impact declines over time, so that 'the results show that the level of downsizing does not have a significant impact on innovation' (Mellahi and Wilkinson, 2010, p. 501).

It needs to be acknowledged that within the context of downsizing, different kinds of stakeholder behaviour have an impact on success in terms of revenue (Espahbodi *et al.*, 2000), for example, and customer satisfaction is very important (Lewine *et al.*, 2010). For example, when positivity is missing on the part of the service provider (Brockner, Grover, Reed, De Witt, and O'Malley, 1987), the customer may complain and even leave. More specifically, 'in global business environments where cultural values and norms vary among customer groups, the issue of understanding how cultural differences affect perceptions of performance and quality becomes crucial, and especially with regard to how global suppliers allocate resources within diverse cultural regions' (Lewine *et al.*, 2010 p. 697).

Cross-cultural consequences

The world is being flattened. I didn't start it, and you can't stop it, except at a great cost to human development and your own future. (Thomas Friedman, *The World is Flat*)

Coleman (1988) has argued that human capital has to do with people's ability to associate with each other. The ability to associate depends on the degree to which communities share norms and values. According to Fukuyama (1995, p. 12), in low-trust 'familistic' societies, like China, France, Italy, and South Korea, the family constitutes the basic unit of economic organization, and therefore each of these societies has experienced difficulties in creating large organizations that go beyond the family; consequently, the state has had to step in to promote durable, globally competitive firms. High-trust societies, like Germany and Japan, in contrast to the familistic societies, have found it much easier to generate large-scale firms not based on kinship. Not only did these societies move to modern professional management early on, but they have been able to create more efficient and satisfying workplace relationships on the factory floor. Holtbrugge and Mohr (2010) studied the values of 939 students in eight countries for cultural determinants of preferences in learning style. The authors found mixed results; while individualism and masculinity (Hofstede, 2001) related to learning style preferences, the data did not provide support for a relationship concerning uncertainty avoidance and long-term orientation.

The fact that MNCs have expanded their reach and now extend into every corner of the globe obliges them to understand the way people perceive, judge, interpret, and behave, in order to be effective. For example, culture plays an important role in people's interpretation of information and their perception of security-related issues, such as feelings of security, privacy and trust (Karvonen *et al*., 2000). Misunderstanding these differences, with the resulting conflict and tension, is one of the main reasons for the failure of acquisitions to achieve their predicted performance levels (Buono and Bowditch, 1989).

MNCs choose to downsize their operations for diverse reasons, but one of them is the notion of synergy when they buy firms across the globe. Downsizing-related activities in a multinational context may have an immense impact on the relationship between the global company and the local company. Our approach, depicted in Figure 1 above, stems from the idea that *positive stakeholder behaviour* (PCB) is a crucial element in the success of any international downsizing activities in which a global company and its local subsidiary are involved. PCB exists in cases where *trust*, or a trusting relationship (More and Tzafrir, 2009), exists between the two sides, the global downsizing firm and the local company being cut. The achievement of positive results may be analysed by comparing the *fit*s between local and global values (Schwartz, 1992) as well as between national culture (Hofstede, 2001) and the MNC's culture. The need for alignment between parties is the focus of one human resources vice president who summarized the factors for a successful global process:

> One of the key success factors to this whole initiative was very strong communication between sides throughout the process. This phase took us three years to complete, and without strong and healthy communication, it would have been a complete failure.

Values: Local and global

Values are the building blocks of culture and are therefore key in the cultural design of both global and local companies (Dolan, Garcia, and Richley, 2006). A common denominator among people rests on a convention that 'a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state existence' (Rokeach, 1973, p. 5). The values in Schwartz's (1992) theory represent three universal requirements of human existence to which all individuals and societies must be responsive: biological needs; requirements of social interaction; and the survival and welfare needs of groups. The role of values and their organizational contribution has long been studied in the academic world. Values have been defined as the principles or standards that people use, individually or collectively, to make judgements about what is important or valuable in their lives (McEwan, 2001). Moreover, they are described as constructs representing generalized behaviours or states of affairs that are considered by the individual to be important (Yukl, 2002). They are broad feelings, often unconscious and taken for granted, about what is good and what is evil, beautiful or ugly, rational or irrational, normal or abnormal, natural or paradoxical, decent or indecent. These feelings are present in most members of a culture, or at least in those who occupy pivotal positions (Pucik, Ticy, and Barnett, 1993, p. 141).

Rokeach (1973) defines an individual value system as an 'enduring organization of beliefs concerning preferable modes of conduct or end-states of existence along a continuum of relative importance'. Ashkanasy (2000) writes that one issue that has received major attention in the values literature has to do with the distinction between values (in a general sense) and work values – a concept that implies the existence of particular sets of values governing an employee's work-related behaviour, in all of its forms. Most definitions of work values, although consistent with definitions of values in the broader sense, focus strongly on work, work behaviour, and work-related outcomes. Connor and Becker (1994) have emphasized the important role of values in people's behaviour and attitudes expressed when they are acting in groups. Actors enter the downsizing process with stable values and conceived notions of what 'ought' and what 'ought not' to be. Thus, the interactions between actors in this process lay the foundation for an understanding of other actors' behaviour and attitudes, as well as influencing them. Therefore, such values help us to predict, interpret, and act accordingly in order to achieve better performance.

Research has given much attention to values and their utmost importance within the organizational arena. Additionally, links have been examined between human values and organizational values; and it has also been noted that an organization's values have a relative influence on its overall culture, and even performance (Schwartz and Bilsky, 1987; 1990). For example, values such as well-being and sustainability may influence the organizational culture and even long-term organizational performance.

In more recent research, values are described as a management tool in modern organizations. For example, Dolan and Garcia introduce the management by values (MBV) concept, which contributes to cultural redesign to assist strategic organizational change at the outset of the twenty-first century. The authors claim that 'the system of beliefs and values that shaped the model for management and organizations during the twentieth century is just not good enough today. In order to keep a business functioning well and competing successfully in markets that are increasingly more global, complex, professionally demanding, constantly changing and oriented towards quality and customer satisfaction, a new model is needed' (2002, p. 101). In these organizations, and especially in multinational firms, where cultural complexity exists, key stakeholders want to get a clear understanding of which values and beliefs need to be changed, as well as how to go about the process of change, more specifically in downsizing, in a successful manner. The authors introduce the MBV concept as a 'strategic leadership tool' (2002, p. 102), whose added value is specifically useful throughout the change process in a downsizing context.

A better fit (Nadler and Tushman, 1980) between global and local values focuses on how closely local values match the global values. The basic assumption (O'Reilly, Chatman, and Caldwell, 1991) is that the closer the fit the lower the conflict inherent in the particular situation (downsizing, for example). Summarizing all of the above, downsizing processes within MNCs are founded on a set of both universal and particularistic work values that derive from the beliefs and perceptions inherent in culture and that guide interactions between actors from different countries. The better the fit between the levels, the higher the probability of success. One of the resources for these values is the national culture within which an individual operates.

Culture: Local and global

Culture is defined as what a group learns over a period of time as that group solves its problems of survival in an external environment and its problems of internal integration (Schein, 1992; Erez and Gati, 2004). In this context, one of the greatest challenges in successfully leading a global downsizing initiative is overcoming cultural diversities. From a cross-cultural perspective, global downsizing initiatives may be complex because of the need to navigate wisely between three dimensions: the organizational culture dimension; the national culture dimension; and the global culture dimension. Organizational culture is defined as 'the sense of common identity and purpose across the whole organization'

(McNulty and De Cieri, 2010, p. 21). Organizational culture, it has been suggested, influences the commitment of employees, with implications for retention strategies. Organizational culture has also been shown to influence the transfer of management practices across subsidiaries, particularly in post-merger or downsizing operations (McNulty and De Cieri, 2010).

National cultures and their influence both in the external business arena and in the internal organizational context have been widely discussed in the literature (Leung *et al*., 2005). Since the seminal study by Hofstede (1980), there have been a significant number of large-scale projects investigating dimensions of cultural variability at the country level (Fischer and Mansell, 2009; House, Hanges, Javidan, Dorfman, and Gupta, 2004; Schwartz, 1994). Across these various projects, three consistent dimensions of cultural variability have emerged: individual/collective, power distance, and mastery/harmony. These dimensions are of particular importance in the context of downsizing at the global level, on the one hand, and for the local integration of a downsized firm in local operations in a post-merger scenario (Fischer and Mansell, 2009).

In the course of global downsizing processes, local cultures are increasingly 'contaminated and penetrated by elements of global culture' (Lin and Ke, 2010, p. 638). Western nations are economically advanced and often perceived to be the representatives of global culture. However, many studies support the idea that some aspects of local culture will survive the erosive effects of globalization. Since cultures are often classified in a dichotomous way (Hofstede, 1980), cultural pluralism and hybridization result when global culture enters the local, as it does in global downsizing (Lin and Ke, 2010). This emphasizes the economic interdependence among countries that develops through cross-national flows of goods and services, capital, know-how, and people (Erez and Gati, 2004).

The global work environment is highly diverse when it crosses cultural borders. In downsizing initiatives, this increases as the level of sensitivity rises. Therefore, one of the challenges for global organizations, particularly at times when there are cuts to be made, is to develop an awareness of cultural variations, and to respect cultural diversity. Tolerance for diversity enables companies to operate effectively across cultural borders, and to motivate employees from different cultures to join forces in strengthening the sustainable competitive advantage of their global corporation (Erez and Gati, 2004, p. 592).

Positive stakeholder behaviour: Trust as a tool for overcoming the gap

One of the key success factors of the change process as a whole was that there was open communication and trust between sides as the change process emerged. It took us three years. Of course every country has its local culture. However, this strong feeling of trust enabled us to create a global culture, our culture, and everyone was willing to accept that, wherever trust exists. (Global Compensation and Benefits Manager, multinational firm)

A global downsizing scenario can be a long and painful process. It entails a reshuffling of organizational resources on a multinational basis. We believe that trusting behaviour, or a relationship built on trust between the global and local companies, is the key for successfully overcoming the constraints inherent in the decision to downsize employees. Coleman (1990) mentions that trustworthiness has important implications for the social environment, especially in enabling the norm of reciprocity to flourish. Following the logic that people's social environment, and especially trust, has an important role in people's health and behaviour, Suzuki and his colleagues (2010) found that an environment of workers' distrust relates to poor health, and Chen, Aryee, and Lee (2005) found that organizational trust is a key concept in achieving better work outcomes.

The role of trust in collaborative inter-firm ties, as well as in cooperative relationships, is of fundamental importance (Zaheer *et al.*, 1998, p. 141). A substantial amount of theoretical and empirical work has suggested that trust is also a critical factor in interorganizational collaboration (Alter and Hage, 1993; Cummings and Bromiley, 1996; Fichman and Levinthal, 1991; Jarillo, 1988; Currall and Judge, 1995). It has been argued that trust has a positive effect because it strengthens dyadic ties (Fichman and Levinthal, 1991), speeds up contract negotiations, and generally reduces transaction costs (Cummings and Bromiley, 1996). Additionally, research has revealed that trust affects managerial problem-solving (Zand, 1972), openness and receptivity (Butler, 1991), affective commitment (Herscovitch and Mayer, 2002), and risk-taking (Mayer, and Davis, and Schoorman, 1995).

Researchers have shown that national culture has affected trust through macro factors such as national health, education, democracy, etc. (Ferrin and Gillespie, 2010, p. 65). Nevertheless, MNCs wanting to promote effectiveness and efficiency (Dolan *et al.*, 2000) will try to close the cultural gap (Gould and Grein, 2009) between the parties involved.

These MNCs, through their managers (Ferrin and Gillespie, 2010), will have a willingness to increase their resource investment in local organizations with positive expectations over time. These dynamic interactions that build and develop trust over time (Tzafrir and Dolan, 2004) reciprocate (Gouldner, 1960) with positive stakeholder behaviour, which in turn facilitates the existence of an MNC's global culture.

A company which successfully adopts a strong global culture has a set of core values and practices that are shared worldwide. This culture often reflects a deep connection to global sources. It serves as a yardstick to guide operations and actions worldwide. This does not mean that local values and differences are ignored. In fact, failing to adapt the global culture to local realities may hinder the company's success. Respect and trust in local knowledge are often key. This allows companies to localize the company's core values in a way that evolves into effective local practices (Levy, Taylor, and Boyacigiller, 2010). As one of the interviewees commented:

> I felt that the reason that trust was not hurt between sides throughout the downsizing process was because of this amended global culture that our company wisely developed internationally and locally. (Global Compensation and Benefits Manager)

Conclusion and implications

The fact that MNCs have expanded their reach and now extend into every corner of the globe creates the need to better understand different stakeholder needs and requirements. The point of departure in creating a positive environment between the various stakeholders rests on trusting behaviour. The way to build, develop, and achieve trusting behaviour is first by understanding each other and taking into account others' interests (Tzafrir and Dolan, 2004). De Cieri, Wolfram, and Fenwick (2007, p. 14) suggest that the 'cultural' values of an MNC's home country may help to explain the types of international human resource management strategies and practices that it tries to extend to its international subsidiaries. We propose that MNCs need to bridge between different values rather than enforcing similar values everywhere; thus, organizational processes will be implemented in a way that fits between values and culture.

Gould and Grein concluded that 'for International Business cultural theory and research is to avoid confounding or conflating national culture with other cultural forms and processes' (2009, p. 250). We suggest that implementing a decision for major organizational change, such as downsizing in MNCs, needs to take into account the different levels of fit between various forms of culture and values. Does the universalistic part of the model answer the question of the preferred approach when implementing such decisions around the globe? We suggest that MNCs need to create equilibrium between culture and values at the two levels of analysis by eliminating part of the gap that focuses on non-standardized principles while using the constructive separate national and organizational values. This framework provides a common logic that enables CEOs and HR leaders to reorganize and focus their strategic planning and behaviour in respect of the three challenges: operational, cultural, and behavioural.

The PAP (Policy, Alignment, Prioritization) operational challenge concerns the upper echelon's prior decision on the downsizing process (Battistoni and Longo, 2009; Gandolfi, 2009; Munoz-Bullon and Sanchez-Bueno, 2010). We suggest that the optimal strategy is to build bridges between country, organization, and individuals. Thus, three main issues need to be raised in order to achieve efficiency and effectiveness. The downsizing policy will involve a glocal (global-local) national and organizational culture (Levy *et al.*, 2010) as well as analysis comparing values in order to get an answer for three questions: (1) Have the main Policy issues of centralization versus decentralization in the process and implementation of downsizing been considered? (2) Is global versus local Alignment being considered? For example, Erez and Gati (2004) have proposed an idea for calculating the commonly used phrase 'think global, act local'. (3) Has consideration of the Prioritization of needs followed a clear distinction between 'must do' and 'nice to have'?

The second core challenge concentrates on cultural differentiation between individuals and groups (Fischer and Mansell, 2009; Schwartz and Bilsky, 1990). Charts and scripts help in evaluating and making sense of incoming information such as the reasons to downsize. A perception of national, organizational, and individuals' values would influence the organizational evaluation of the reasons, process, and consequences of downsizing, and therefore the formation of related attitudes. However, the question remains: do all employees fall into the same category? Research has already pointed out that different employees have different perceptions and expectations (Cook and Crossman, 2004). Thus, we suggest that managers must use a proactive and systematic tool to build and develop reliable benevolence (Mayer *et al.*, 1995) and harmony (Tzafrir and Dolan, 2004) within the organization (Dolan and Garcia, 2002). Management by values is proposed as a management tool to overcome several cultural gaps; the methods proposed by Dolan and colleagues are designed to audit the gap (Dolan and Garcia, 2002; Dolan *et al.*, 2006) and then coach people and teams (or entire organizations) to narrow it (Dolan, 2011), which is at the core of the concept of value and culture re-engineering.

Finally, as in every organizational decision, the aspect of behaviour is a significant challenge. Our suggestion is to focus on building and developing trusting relationships (Tzafrir, 2005). Some suggest that trust is the meta-value, or the 'value of Values' (Dolan, 2011). Creating positive cultural behaviour based on international flexibility, openness (Tzafrir and Dolan, 2004), concern (Mishra, 1996), empathy, and sensitivity (Dolan and Garcia, 2002) will help managers to implement the downsizing process with low costs, overcoming resistance and sabotage, and meeting important timeline constraints, eventually leading to a greater degree of sustainability and higher levels of productivity.

Notes

1. 'Globalization' even ranks ahead of 'technology' as a force for change (Connell, 2010).
2. Our method in the examination of this subject has two phases. The first is the collection and integration of the downsizing literature, with a focus on the global perspective. The second includes some fieldwork in the form of semi-structured interviews.
3. Our model, presented in the following, accounts for these important variables.

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