



Managerial Ideologies as Rationalizers: How Managerial Ideologies Moderate the Relationship Between Change in Profitability and Downsizing

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ABSTRACT

This study investigates the moderating effects of three managerial ideologies on the relationship between change in profitability and subsequent downsizing. Results of a moderated regression analysis reveal that the managerial ideologies moderate the relationship between change in profitability and downsizing in a consistent manner. Strong belief in the ideologies increases the negative relationship between change in profitability and downsizing, suggesting that the ideologies enhance management's willingness to downsize when profits are stagnant or declining. The results are interpreted in terms of a theory of "rationalization," in which managerial ideologies are seen as mechanisms that rationalize or purify the ambiguous signals communicated by change in financial performance.

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As we begin the new millennium, organizational downsizing is becoming an increasingly common phenomenon. A series of articles on downsizing published by the The New York Times several years ago (New York Times, 1996) documented the pervasiveness of downsizing, and described its effects on the American workplace. Books and articles by management scholars (Cappelli et al., 1997; Filatotchev, Buck, & Zhukov, 2000; Leana & Feldman, 1992; Littler, Bramble, & MacDonald, 1994) have added to the evidence for the national and global scope of organizational downsizing and restructuring. Indeed, while some of the popular press attention that was lavished on downsizing in the mid-1990s (e.g., Byrne, 1994; Loomis, 1996) appears to have faded, this may actually reflect organizational downsizing's taken-for-granted status (McKinley, Sanchez, & Schick, 1995) rather than its reduced incidence.

As the practice of downsizing has become institutionalized, scholarly research on downsizing has grown. Much of this research has concentrated on the effects of downsizing on dependent variables like organizational structure, employee behavior, and financial performance. For example, DeWitt (1993), Freeman (1999), McKinley (1992), and Sutton and D'Aunno (1989) analyzed the influence of workforce reduction on various dimensions of organizational structure. Brockner (1988), Brockner, Grover, Reed, DeWitt, and O'Malley (1987), Mishra and Spreitzer (1998), and Mone (1997) studied the impact of downsizing on those employees who remain after a workforce reduction -- the survivors. On the other hand, Leana and Feldman (1992) and Leana and Ivancevich (1987) concentrated on how layoffs affect the non-survivors,



i.e., those who lose their jobs. Finally, a stream of empirical research has attempted to grapple with the question of whether organizational downsizing improves the financial performance of organizations (see, for example, Cascio, Young, & Morris, 1997; Mentzer, 1996; Worrell, Davidson, & Sharma, 1991).

Much less attention has been devoted to the causes of organizational downsizing than to its consequences. The traditional economic perspective on downsizing (see McKinley, Zhao, & Rust, 2000) assumes that anticipated financial performance benefits are the causes of downsizing -- managers downsize because they anticipate it will increase the efficiency and the profitability of their organizations. However, the lack of conclusive evidence that organizational downsizing actually *does* provide financial benefits (McKinley, Mone, & Barker, 1998; McKinley et al., 2000) casts some doubt on this explanation, at least as a complete account of why organizations downsize. Empirical studies that have directly examined the influence of prior financial performance on organizational downsizing also fail to resolve the uncertainty. For example, Mentzer (1996: 246), in a study of large corporations, found little evidence of "any consistent relationship between corporate [financial] performance and extent of future downsizing." On the other hand, Rust (1999) reported a significant negative relationship between changes in return on sales and later downsizing in electric utilities.

The uncertainty about whether organizational downsizing can be explained by actual or anticipated financial performance change has led to an exploration of other potential causes of downsizing that are not related to financial performance. These include institutional constraints (Budros, 1997; Goins, 2000; Lamertz & Baum, 1998; McKinley et al., 1995), managerial ideologies (McKinley et al., 1998), and sociocognitive processes that lead to objectification of organizational downsizing as an external inevitability (McKinley et al., 2000). While these non-financial explanations for the occurrence of downsizing are interesting, they remain largely untested.

One reason for the ambiguous empirical findings about the effect of financial performance on subsequent downsizing may be that the financial performance-downsizing relationship is moderated by managerial beliefs. This paper explores that possibility, developing theory about the moderating effects of standard sets of beliefs -- managerial ideologies -- on the relationship between change in corporate profitability and subsequent organizational downsizing. The theory posits that managerial ideologies modify the way managers view objective conditions like financial performance change, reducing their equivocality about the meaning of such change and how to respond to it. The theory results in the specification of three hypotheses, each of which predicts the moderating effect of a different managerial ideology on the relationship between change in profitability and downsizing. These hypotheses are then tested on a sample of investor-owned electric utilities (IOUs), using data on the financial and ideological attributes of those utilities that was collected in the mid-1990s. The results are supportive of the theory, and lead us to conclude that the managerial ideologies examined in our study strengthen the effect of financial performance change on organizational downsizing. Viewed from a cognitive perspective, these managerial ideologies seem to be "rationalizers," coupling downsizing decisions more closely to the financial performance changes being experienced by a utility. We develop the implications of this perspective for current theory and empirical research that is



seeking to produce a more holistic explanation of why organizations downsize (e.g., Budros, 1999).

By analyzing the interactions between change in financial performance and managerial ideologies, and tracing how those interactions affect downsizing, this paper paints a more complex picture of the causal antecedents of downsizing than most previous research has. Understanding how managerial ideologies modify the effect of change in financial performance on later downsizing leads to a better comprehension of the conditions under which financial pressures do -- and do not -- motivate workforce reduction. Documentation of such conditions will not only enhance scholars' ability to predict when downsizing will occur, but also provide managers better insight on their own decision processes about downsizing.

Change in Profitability, Downsizing, and Managerial Ideologies

Despite the uncertainty posed by previous empirical findings concerning the effect of financial performance on downsizing (Mentzer, 1996; Rust, 1999), we think it likely that changes in corporate profitability will be an important determinant -- albeit not the only one -- of organizational downsizing. This expectation is based on several observations. First, empirical research (e.g., Thomas, 1998) indicates that many industries are undergoing a hypercompetitive shift. The dynamics of this transition to hypercompetition have been documented by D'Aveni (1994) and others. Under conditions of hypercompetition, declines in corporate profitability seem to present the corporate executive with few response options. Whatever the objective reality of the situation, corporate executives have apparently converged on a schema that eliminates price increases as an option for reversing declining profitability under hypercompetition (Harrison & Bluestone, 1988). Product innovation is a possible response to declining profitability, but as Mone, McKinley, and Barker (1998) have pointed out, innovation is relatively rare in organizations, and entails significant uncertainty. This leaves the option of cost reduction as an attractive adaptation to flat or declining profits, and as Harrison and Bluestone (1988: 23) have noted, corporate managers have increasingly shifted their attention to cost containment as a means of dealing with profitability problems. Whether downsizing objectively reduces dollar costs is in some doubt (McKinley et al., 1995), but nevertheless available theory and empirical evidence suggest that managers think it does, and that downsizing has become established as a well-accepted, institutionalized mechanism for effective financial management of organizations (McKinley et al., 2000). For these reasons we expect that declines in profitability will often be followed by corporate downsizing, and indeed that the amount of downsizing will be greater as changes in profitability tend toward flat (no growth) or negative.

This negative relationship between change in profitability and the amount of downsizing should be particularly apparent in industries that share the attributes of investor-owned electric utilities, the industry examined in this study. The investor-owned electric utility industry has been subject to intense regulatory change in recent years (Sanchez, 1995; Rust, 1998), and this regulatory transformation is beginning to erode the geographic monopolies that electric utilities once enjoyed. Faced with the potential intrusion of competitors whose prices might undercut their own, and realizing that their product is a commodity that affords little opportunity for differentiation, electric utilities are concentrating on cost reduction as an important mechanism for addressing issues of flat or declining profitability. This conclusion probably generalizes



beyond the electric utility industry to many other industries that are mature and offer commodity or semi-commodity products that are sensitive to competitive pricing pressures. Examples include airlines, some sectors of the automobile industry, banking, telecommunications, and many others. Many of these industries (e.g., airlines, banking) have also been subject to extensive deregulation in recent decades, and corporate managers are interpreting these deregulatory pressures as a signal that costs must be vigilantly contained. The implication is higher amounts of downsizing, particularly in response to flat or declining profitability.

Managerial Ideologies

While the argument for a negative relationship between change in profitability and the amount of downsizing is compelling, it is also possible that this relationship is moderated by managerial ideologies. Beyer (1981: 166) defined ideologies as "relatively coherent sets of beliefs that bind some people together and that explain their worlds in terms of cause-and-effect relations." We adopt this definition, with the additional specification that the ideologies we are concerned with refer to the belief systems of managers. Building on Beyer's work and the earlier contribution of Bendix (1956), a number of management scholars have investigated the role played by managerial ideologies in organizational settings. For example, Meyer (1982a, 1982b) showed how the ideologies of hospital administrators influenced their responses to a doctors' strike. One important inference from Meyer's studies was that different managerial ideologies constituted different cognitive lenses that led managers to interpret and respond to the same environmental event in different ways. Consistent with the possibility that managerial ideologies are related to downsizing, Meyer (1982a) reported significant correlations between measures of managerial ideologies and the size of layoffs during the strike. Hirsch (1986) discussed the role of ideologies and metaphors about hostile takeovers as institutionalizing mechanisms for hostile takeover activity, even among target company executives who were most at risk for loss of status and jobs. And Barley and Kunda (1992) argued that managerial ideologies have repetitively shifted between poles of rational and normative discourse, influencing business practice in the process. Finally, McKinley et al. (1998) presented a theoretical discussion of the effects of managerial ideologies on organizational downsizing. McKinley et al. (1998) identified two managerial ideologies currently being expounded in the consulting literature and the business press -- the ideology of employee self-reliance and the ideology of debureaucratization -- and suggested that both these ideologies create a context favorable to downsizing.

Returning to the specific relationship between change in profitability and organizational downsizing, the general argument for a moderating effect of managerial ideologies on this relationship stems from Beyer's (1981) emphasis on the role of ideologies as rationalizers of behavior. In the case of the change in profitability-downsizing relationship, managerial ideologies are predicted to rationalize more or less downsizing in response to a given decline in profitability, depending on the nature of the ideology. One managerial ideology that can play this rationalizing role is what we term the ideology of market competition. Following Rust (1999), we define the ideology of market competition as the belief by managers that market competition is beneficial for one's industry, for customers, and for other organizational constituencies. The ideology of market competition is an important component of capitalist culture, particularly as it penetrates new areas of the globe, and top executives in the business press frequently incorporate it in statements.



We maintain that if managers subscribe to an ideology of market competition, they will be more attuned to the cost reduction pressures created by declines in profitability, and will see it as more rational to respond to declines in profitability with substantial amounts of downsizing. A belief in the benefits of market competition prepares executives psychologically for the cost reduction that eroding profitability appears to dictate, and makes downsizing to achieve cost reduction both more palatable and more urgent. Adherence to an ideology of market competition also makes downsizing to reverse flat or declining profitability seem like a "natural" option -- the ideology provides a naturalizing metaphor for downsizing similar to the naturalizing metaphors described by Hirsch (1986). This leads to our first hypothesis:

Hypothesis 1: The greater the revealed belief in the ideology of market competition, the more negative the relationship between change in profitability and downsizing.

This hypothesis posits a negative moderating effect of belief in the ideology of market competition on the change in profitability-downsizing relationship. Because the direction of the moderating effect is predicted in advance, it is legitimate to use a one-tailed test of statistical significance in assessing the effect.

A second managerial ideology that may play the kind of rationalizing role envisioned by Beyer (1981) is the ideology of shareholder interest. Following Rust (1999), we define the ideology of shareholder interest as the belief that shareholder value should be the dominant criterion for managerial decision-making. We note that the ideology of shareholder interest is conceptually distinct from the ideology of market competition, because the latter refers to desirable market conditions while the former refers to a particular stakeholder group, the shareholders. The ideology of shareholder interest has become an important belief system for corporate managers in recent decades (Useem, 1993; Donaldson, 1994). This development has been driven by the concentration of stock ownership in the hands of institutional investors (Bethel & Liebeskind, 1993), by attempts to contain the demands represented by other corporate stakeholders, such as organized labor (Harrison & Bluestone, 1988), and, arguably, by the cognitive simplicity entailed in a single-minded focus on shareholder value. The ideology of shareholder interest puts a strong emphasis on the growth of corporate profits, given the taken-for-granted assumption that growing profits are correlated with rising stock prices, at least over the long term. Thus, corporate executives with a strong belief in the ideology of shareholder interest should be willing to do what it takes to maintain rising profitability, including cost reduction through organizational downsizing. While workers who lose their jobs are clearly not beneficiaries of workforce reduction, the ideology of shareholder interest contains a subtle message that in a capitalist system, the interests of workers must be subordinated to those of shareholders, because the latter provide capital for business expansion. Thus the ideology of shareholder interest rationalizes downsizing in response to stagnant or declining profitability. This suggests:

Hypothesis 2: The greater the revealed belief in the ideology of shareholder interest, the more negative the relationship between change in profitability and downsizing.

This hypothesis predicts a negative moderating effect of belief in the ideology of shareholder interest on the change in profitability-downsizing relationship. As was true for



Hypothesis 1, predicting the direction of the moderating effect in advance permits the use of a one-tailed test in assessing the effect.

A third managerial ideology with a potential moderating effect on the relationship between change in profitability and organizational downsizing is the ideology of employee worth. In contrast to the ideology of shareholder interest or the ideology of market competition, the ideology of employee worth is a belief system that focuses on employees, emphasizing their contributions to corporate activities and performance. Specifically, the ideology of employee worth holds that employees are a valuable corporate resource because they provide critical inputs to business processes (Rust, 1999).

The direction of the moderating effect of the ideology of employee worth on the relationship between change in profitability and downsizing is harder to predict than the two moderating effects described above. On the one hand, it may be that belief in the ideology of employee worth rationalizes smaller amounts of downsizing in response to a given decline in profitability, because the ideology emphasizes the interests of the firm's employees. When executives have a strong belief in the ideology of employee worth, they would therefore be less ready to sacrifice jobs through downsizing, even in the face of flat or declining profits. Strong belief in the ideology of employee worth would create a buffer against the pressure to shrink costs through downsizing, lessening the amount of downsizing in response to declining profitability and reducing the negative relationship between change in profitability and downsizing. This would be consistent with the prediction:

Hypothesis 3a: The greater the revealed belief in the ideology of employee worth, the less negative the relationship between change in profitability and downsizing.

On the other hand, one could interpret the ideology of employee worth from a more utilitarian (Gilbert, 2000) perspective, reasoning that it actually gives managers an incentive to downsize when profits are stagnant or declining. Managers who believe in the value of their employees may feel that poor financial performance demands the sacrifice of some jobs in order to preserve the welfare of the total workforce. This is the philosophy articulated by such celebrated turnaround artists as Al Dunlap, who has persistently argued that quick, deep downsizing in the face of declining financial performance is a job preservation device (Dunlap, 1996). To the extent that other managers share this somewhat paradoxical view, strong belief in the ideology of employee worth may increase the amount of downsizing that follows a given decline in profitability. This suggests:

Hypothesis 3b: The greater the revealed belief in the ideology of employee worth, the more negative the relationship between change in profitability and downsizing.

Because we cannot definitively predict the direction of the moderating effect of the ideology of employee worth, we use a two-tailed test in evaluating the significance of this moderating effect.



Method

Population and Sample

The hypotheses posed above were tested with data drawn from a study of the investor-owned electric utility industry in the United States (Rust, 1998). The population under investigation is the U. S. investor-owned electric utility industry in 1995, as reported in the *McGraw-Hill Electrical World Directory of Electric Power Producers, 105th Edition* (1997). The unit of analysis is a domestic firm in this industry. An investor-owned electric utility (IOU) is defined as “a class of utility that is investor owned and organized as a tax paying business, usually financed by the sales of securities in the capital market” (U.S. Energy Information Administration, 1993: 616). The *McGraw-Hill Electrical World Directories* (1995, 1996, 1997) provide organizational data on several categories of electric power producers, investor-owned being one of those categories. Of the 192 investor-owned utilities existing in 1995, thirty-seven had some missing data that could not be found in the *Electrical World Directories* or in other reliable sources (e.g., *Moody's Public Utilities Manuals*, 1994, 1995). This resulted in a sampling frame of 155 utilities with usable data. The missing data came from a wide range of variables: the number of employees, annual sales of megawatt hours, megawatt hours generated, the strength of belief in the three managerial ideologies, etc. This diversity of variables increases our confidence that the missing data did not bias the sample in any consistent way. In addition, since the data were collected from archival sources, the information is not subject to the non-response biases that often occur in mail surveys (e.g., lack of resources to respond in smaller firms) (Babbie, 1992).

The investor-owned electric utility industry was studied for several reasons. First, the firms in this industry are publicly held, and also regulated by states and the federal government, which means that the financial performance of these firms is closely monitored and recorded. Secondly, the investor-owned electric utility industry has been subject to a radical restructuring over the past decade. This restructuring is partially a product of the proposed deregulation of electricity generation and the expanding options of consumers to buy power from any broker or supplier (U.S. Energy Information Administration, 1996). Public utility commissions in over 20 states, as well as the Federal Energy Regulatory Commission (FERC), are considering restructuring legislation. As of early 1997, California, New Hampshire, Rhode Island, and Pennsylvania had passed legislation giving consumers the right to choose their electricity provider. This trend is expected to accelerate (U.S. Energy Information Administration, 1996). In the context of this restructuring, downsizings have occurred and are expected to continue in this industry (e.g., *Electric Utility Week*, 1997; U.S. Energy Information Administration, 1996). From 1986 to 1995, employment at major IOUs decreased by about 20%, a reduction of more than 100,000 employees (U.S. Energy Information Administration, 1996: 86). The restructuring in the investor-owned electric utility industry gives us confidence that the workforce reductions included in our dependent variable are intentional downsizings.

Some researchers have suggested that organizational disruptions, such as mergers and restructuring, make cultural beliefs more salient (Meyer, 1982b; Trice & Beyer, 1993: 14). These beliefs become salient because their relevance in the new organizational context is questioned. Issues that challenge current ideologies raise everyone's consciousness and



awareness of them (Trice & Beyer, 1993: 43). If this view is correct, it suggests that the current upheaval in the investor-owned electric utility industry will "bring to surface" managerial ideologies that might otherwise have remained hidden. The ability to access evidence of ideologies that reside in managerial belief structures is a critical aspect of the data collection portion of this study.

Measures

Independent variable. Change in profitability was operationalized as each utility's proportional change in return on sales, measured over the 1993-1994 time period. Other downsizing researchers (Mentzer, 1996; Norman, 1995) have used change in net income and change in sales as predictors of later downsizing. We used the proportional change in return on sales because this measure standardizes for the volume of revenue and indicates the efficiency with which profits are extracted from a firm's revenue stream.

The source of data for this measure was the 1995 and 1996 editions of the *McGraw-Hill Electrical World Directory*. For each utility in our sample, net income divided by total electricity revenues in 1993 was subtracted from the same value for 1994, and the result was divided by the ratio of net income to electricity revenues in 1993. The measure therefore represents the proportional change in return on sales from 1993 to 1994. Positive values on this measure indicate an increase in return on sales from 1993 to 1994, while negative values indicate a decline in return on sales over the same period.

Dependent variable. Following Bethel and Liebeskind (1993), Cascio et al. (1997), Filatotchev et al. (2000), and Mentzer (1996), we operationalized downsizing as the change in number of employees at each utility. The number of employees in each utility at year-end 1994 was subtracted from the number of employees at year-end 1995, and the result was divided by the number of employees at year-end 1994. Thus the measure represents the proportional change in the number of employees over the 1994-1995 period. The source of these data was the *McGraw-Hill Electrical World Directory*, 1996 and 1997 editions. The measure was reverse-coded, so that positive values indicate 1994-1995 downsizing, while negative values indicate an increase in the number of employees from 1994 to 1995 (1994-1995 "upsizing"). The time ordering of the change in return on sales and downsizing variables helps ensure that any empirical relationship between the two reflects the causal effect of change in profitability on downsizing, rather than the reverse. Given the competitive nature of the contemporary electric utility industry, we felt that significant profit declines would be followed by rapid downsizing decisions, so that the one-year lag between our independent and dependent variables is appropriate.

Moderating variables. Measures were developed to tap the strength of belief in each of the three managerial ideologies included in our hypotheses. The first source of information on managerial ideologies was data obtained from several semi-structured telephone interviews with IOU executives. Open-ended questionnaires were combined with a pre-determined typology to conduct these interviews, and data were collected over a five-week period. During the scheduled telephone interview that lasted, on average, forty minutes, each participant was asked to name other executives (s)he thought might be interested in being involved in the research. As a result



of such referrals, interviews were conducted with a total of five executives representing four different investor-owned utilities in three states: Illinois, Missouri, and New York.

The respondents were instructed to describe their perceptions of dominant industry beliefs, or what they considered "common knowledge," with respect to two dimensions -- external and internal issues. The external issues were specified as deregulation, shareholders, mergers, acquisitions, customers, suppliers, and government agencies. The internal issues were defined as employees/human resources, organization design and structure, management, organizational decision-making, and technology.

The two authors of this paper analyzed the information elicited from the telephone interviews independently. Individually, we read the responses and grouped together common sets of shared beliefs. We subsequently compared the sets of shared beliefs we had extracted from the data and together determined that there were at least three industry-level ideologies revealed in the interviews. We labeled these the ideology of market competition, the ideology of shareholder interest, and the ideology of employee worth, resulting in the construct descriptions presented above in the theory section of this paper.

The next step was to collect annual reports from the 155 investor-owned utilities in our sample. The letter to shareholders portion of these annual reports was used to measure the strength of revealed belief in each of the three ideologies described above. We felt that annual reports would be an excellent source for tapping the strength of belief dimension, because annual reports have been viewed as a reliable source of data for examining management perceptions, intent, and actions (D'Aveni & MacMillan, 1990; Dougherty & Bowman, 1995). In addition, Clapham and Schwenk (1991: 219) argued "statements by management, in annual reports and elsewhere, provide some of the best data on the cognitive aspects of strategic management." Bettman and Weitz (1983) also exhibited a preference for annual reports, and particularly letters to shareholders, because of the documents' inherent comparability. Finally, Michalisin (2001) has concluded that annual report text about innovativeness provides a valid indicator of the actual amount of innovativeness exhibited by a firm.

To preserve an appropriate time ordering between our strength of revealed belief measures and the dependent variable (1994-1995 downsizing), 1993 annual reports were used. The 1993 annual reports were available for 134 of the 155 investor-owned utilities in our sample. Our inability to obtain the 21 missing reports was attributable to several causes: a few firms had a policy of providing annual reports only to shareholders, while some charged a substantial fee for this service, or claimed they didn't have any copies left to mail. The missing annual reports are spread over both small and large firms, suggesting that no systematic bias was introduced by the missing data, at least in terms of firm size.

The strength of revealed belief measures were derived from a content analysis of the letter to shareholders portion of the 1993 annual reports. Six different volunteer coders were asked to read the letter to shareholders portion of each utility's annual report to determine the strength of revealed belief in a particular ideology based on the text (Kerlinger, 1992). Two independent coders were used for each of the three ideologies. The measures were constructed



using a Likert-type scale to capture variance in the strength of revealed belief across utilities. The measurement scale used by each coder was:

- 1 = no revealed belief in ideology
- 2 = weak revealed belief in ideology
- 3 = moderate revealed belief in ideology
- 4 = strong revealed belief in ideology
- 5 = very strong revealed belief in ideology

where "ideology" was replaced with "the ideology of market competition," "the ideology of shareholder interest," and "the ideology of employee worth," depending on the particular ideology assigned to the coder. The ideologies were defined for the coders with the same construct definitions presented in the theory section above.

Perreault and Leigh's (1989) reliability index was used to determine the inter-rater reliability of the three measures of strength of revealed belief in the ideology of market competition, the ideology of shareholder interest, and the ideology of employee worth. The reliability indices for the three strength of revealed belief measures were .68 for the ideology of market competition, .75 for the ideology of shareholder interest, and .61 for the ideology of employee worth. These reliabilities are acceptable, and indicate substantial convergence between each pair of coders independently coding the same ideology. As further evidence of inter-rater convergence, Table 1 reports the zero-order correlations between the strength of revealed belief scores generated by all six volunteer coders coding the ideologies. For example, Coder a provided strength of revealed belief scores for the ideology of market competition, as did Coder b. Coder c furnished strength of revealed belief scores for the ideology of shareholder interest, as did Coder d. Finally, Coders e and f provided independent assessments of the strength of revealed belief in the ideology of employee worth. The pattern of correlations in Table 1 indicates both convergent and discriminant validity: the strength of revealed belief scores for the coders independently coding the same ideology were highly correlated (r 's of .67, .75, and .52, all statistically significant at $p \leq .0001$), while the strength of belief scores for coders coding different ideologies were uncorrelated. Based on these patterns and the inter-rater reliabilities cited above, it was deemed appropriate to average the scores of coders coding the same ideology, and these average scores are the measures used as moderating variables in our analysis.

Table 1
Correlations Between the Strength of Revealed Belief Scores of the Coders*
n=134

	IMCa	IMCb	ISIC	ISId	IEWe	IEWf
IMCa	1					
IMCb	0.67	1				
ISIC	-.079	-0.07	1			
ISId	-0.067	0.02	0.75***	1		
IEWe	0.069	-0.02	0	0.07	1	



IEWf 0.001 -0.11 -0.09 -0.13 0.52*** 1

*** $p < .0001$

[†]a, b, c, d, e, and f represent the six volunteer coders. The top number in each cell is the zero-order correlation coefficient; the bottom number is the two-tailed significance level. IMC = ideology of market competition; ISI = ideology of shareholder interest; IEW = ideology of employee worth.

As a further validation step, the average strength of revealed belief scores were compared with equivalent measures produced by industry experts. Six industry experts (two per ideology) were asked to read the shareholders' letters of thirty randomly selected 1993 annual reports. The coding process was identical to that followed by the volunteer coders. That is, each expert independently coded the strength of revealed belief for one ideology, and the scores of the two experts coding the same ideology were averaged. Those average scores were then correlated with the average scores used as our moderating variables, taken over the same 30 firms. The zero-order correlation between the volunteer-produced measure of the ideology of market competition and the expert-produced measure of the ideology of market competition was .69 ($p \leq .0001$). The correlation between the volunteer-produced and expert-produced measures of the ideology of shareholder interest was .78 ($p \leq .0001$), and the correlation between the volunteer-produced and expert-produced measures of the ideology of employee worth was .73 ($p \leq .0001$). These correlations are large enough to serve as additional evidence of convergent validity (Campbell & Fiske, 1959: 82). Industry experts and volunteer coders apparently converge in their evaluation of the strength of belief in a given ideology across the same firms, strengthening our faith that the moderating variables employed in this study are valid indicators of the constructs they are designed to tap.

Finally, a factor analysis was conducted on the multiple measures of the three ideologies to provide additional evidence for the distinctiveness of the three ideology constructs. A varimax rotation resulted in three factors with eigenvalues greater than 1.0. These three factors, one representing each ideology, explained 77.5% of the total common variance accounted for by the measures (Cooper, 1983). The factor analysis results (Table 2) show convergence among multiple indicators of the same ideology and divergence among indicators of different ideologies.

Table 2
Factor Analysis of the Ideology Measures form Volunteer and Expert Coders*
n=30

	Factor 1 (IEW)	Factor 2 (IMC)	Factor 3 (ISI)
IMCa	0.141	0.801	0.27



IMC1	0.113	0.79	0.163
ISId	-0.064	0.071	0.89
ISI3	-0.312	0.093	0.883
IEWe	0.767	0.34	-0.146
IEW5	0.903	0.136	-0.083
IMCb	0.253	0.847	0.127
IMC2	0.16	0.847	0.048
ISId	0.43	0.215	0.747
ISI4	-0.031	0.255	0.797
IEWf	0.893	0.201	0.078
IEW6	0.89	-0.074	-0.019
Variance Explained	3.38	3	2.92

† a, b, c, d, e, and f represent the six volunteer coders. 1, 2, 3, 4, 5 and 6 represent the six expert coders. IMC = ideology of market competition; ISI = ideology of shareholder interest; IEW = ideology of employee worth.

Control variables. Measures of the change in productivity from 1993 to 1994 and the change in overhead costs from 1992 to 1993 were computed for each utility. These measures were used in our analyses to control for extraneous influences on the dependent variable, 1994-1995 downsizing. In addition, three dichotomous variables were created to control for the variance in 1994-1995 downsizing explained by mergers and acquisitions, employee stock ownership plans, and prior year (1993-1994) downsizing. Table 3 describes the method of computation and data sources for all five of these control variables, as well as the independent, dependent, and moderating variables in this study.

Name	Description	Data Source
Downsizing*	Annual change in employment levels: (number of employees year end 1995) - (number of employees year end 1994) divided by (number of employees year end 1994) * Reverse Coded: positive change scores indicate 1994-1995 downsizing	McGraw-Hill Directory of Electric Power Producers (1996, 1997)



Return on Sales (ROS)	Annual change in ROS: (Net income divided by electric revenues 1994) - (Net income divided by electric revenues 1993) all divided by (Net income divided by electric revenues 1993)	McGraw-Hill Directory of Electric Power Producers (1995, 1996)
Productivity (PROD)	Annual change in PROD: (Number of megawatt hours produced divided by total assets year end 1994) - (Number of megawatt hours produced divided by total assets year end 1993) all divided by (Number of megawatt hours produced divided by total assets year end 1993)	McGraw-Hill Directory of Electric Power Producers (1995, 1996); Moody's Public Utilities Manual (1994, 1995)
Overhead Costs (OHC)	Annual change in administrative and general expenses: (A&G expenses for year end 1993 divided by electric revenues year end 1993) - (A&G expenses for year end 1992 divided by electric revenues year end 1992) all divided by (A&G expenses for year end 1992 divided by electric revenues year end 1992)	Financial Statistics of Major U.S. Investor-Owned Electric Utilities (1994, 1995)
Ideology of Market Competition (IMC)	The strength of the revealed belief in the ideology of market competition Likert-type scale: 1= no belief... 5= a very strong belief.	The Letter to Shareholders portion of the 1993 Company Annual Reports.
Ideology of Shareholder Interest (ISI)	The strength of the revealed belief in the ideology of shareholder interest Likert-type scale: 1= no belief... 5= a very strong belief.	The Letter to Shareholders portion of the 1993 Company Annual Reports.
Ideology of Employee Worth (IEW)	The strength of the revealed belief in the ideology of employee worth Likert-type scale: 1= no belief... 5= a very strong belief.	The Letter to Shareholders portion of the 1993 Company Annual Reports.



Mergers and Acquisitions (M&A)	Merger and acquisition activity per IOU over 1992-1994; coded '1' if a merger or of acquisition occurred, '0' otherwise	U.S. Energy Information Administration (1996) Report on the Changing Structure of the Electric Utilities Power Industry
Employee Stock Ownership Plan (ESOP)	Existence of a plan in 1994; coded '1' for yes, '0' otherwise.	Company Annual Reports (1994)
Prior Year Downsizing (PYD)	Evidence of a negative change in the number of employees (downsizing) from year end 1993 to year end 1994; coded '1' if a firm downsized, '0' otherwise.	McGraw-Hill Directory of Electric Power Producers (1995, 1996)

Analysis procedure. Because our hypotheses postulated moderating effects of the three ideologies on the relationship between change in profitability and downsizing, moderated regression analysis (Arnold, 1982) was used to test the hypotheses. In moderated regression analysis, a dependent variable is regressed on an independent variable, a moderating variable, any control variables, and a cross-product term between the independent variable and the moderating variable. This partials the linear effects of the independent and moderating variables from their cross-product, so that the regression coefficient for the cross-product term represents the interaction between the independent and moderating variables *independent* of these linear effects (Cohen & Cohen, 1975). Under these conditions, a statistically significant regression coefficient for the cross-product term provides evidence that the slope of the relationship between the independent and dependent variables changes across levels of the moderating variable (Arnold, 1982). In addition, the sign of the regression coefficient for the cross-product term indicates the direction of the change in the independent-dependent slope. For example, a negative sign for a cross-product term regression coefficient shows that the independent-dependent slope is changing in a negative direction as the moderating variable increases. As pointed out by Bedeian and Mossholder (1994) and Sanchez and McKinley (1998), the relevant test statistic for assessing a moderating effects hypothesis is the statistical significance of the regression coefficient for the cross-product term, not the significance of the total regression equation.

In our analysis, 1994-1995 downsizing (D) was first regressed on change in return on sales (ROS), change in productivity (PROD), change in overhead costs (OHC), the strength of revealed belief in the ideology of market competition (IMC), the strength of revealed belief in the ideology of shareholder interest (ISI), the strength of revealed belief in the ideology of employee worth (IEW), mergers and acquisitions (M&A), the existence of an employee stock ownership plan (ESOP), and prior year downsizing (PYD). In a second equation the cross-product term between ROS and IMC (ROS x IMC) was added to these variables. Hypothesis 1 predicts a negative regression coefficient for this cross-product term. In a third equation, ROS x IMC was removed and ROS x ISI was substituted for it. We did not include more than one



cross-product term in the same regression equation, because the presence of the common component (ROS) in the cross-product terms would have caused severe multicollinearity problems. Hypothesis 2 predicts a negative regression coefficient for the ROS x ISI cross-product term. Finally, in the fourth equation, ROS x ISI was removed and ROS x IEW was inserted in its place. This allowed us to test whether Hypothesis 3a or Hypothesis 3b represents the better prediction of the moderating effect of the ideology of employee worth on the relationship between change in profitability and downsizing. As indicated above in the theory section, one-tailed tests were appropriate for testing the significance of the ROS x IMC and ROS x ISI interactions; a two-tailed test was appropriate for testing the significance of the ROS x IEW interaction.

Results

Table 4 presents the descriptive statistics and zero-order correlations for the study variables, while Table 5 displays the results of the moderated regression analyses.

Table 4
Descriptive Statistics and Zero-Order Correlations for Study Variables (n=108)

Variable	Mean	S.D.	2	3	4	5	6	7	8	9	10	11	12	13
1. Downsizing (D)	0.051	0.079	-0.04	0.09	-0.20*	.27**	0.03	0.04	0.18	-0.14	0.16	-0.12	-0.04	-.21*
2. Return on Sales (ROS)	-0.076	0.678		-.07	-.13	0	-.03	-.05	0.11	-.11	0.08	.91***	.98***	.89***
3. Productivity (PROD)	-0.009	0.102			0.02	0.16	0	-.11	0.04	0	-.05	-.08	-.05	-.06
4. Overhead Costs (OHC)	0.0171	0.321				-.14	0.13	-.09	-.11	-.14	-.28*	-.10	-.20*	-.10
5. Ideology of Market Competition (IMC)	2.5	1.115					0.12	0.03	0.15	-.04	-.10	-.06	-.01	-.10
6. Ideology of Shareholder Interest (ISI)	3.03	1.147						0.04	0.14	0.04	0.06	-.05	-.02	-.05
7. Ideology of Employee Worth (IEW)	2.61	1.077							-.08	-.13	0.07	-.15	-.06	-.16
8. Mergers and Acquisitions (M&A)	0.156	0.364								0.04	-.09	0.11	0.1	-.01
9. Employee Stock Ownership Plan (ESOP)	0.367	0.484									0.14	-.01	-.11	-.06
10. Prior Year Downsizing (PYD)	0.743	0.439										0.04	0.12	0
11. ROS X IMC	-0.189	1.1798											.87***	.91***
12. ROS X ISI	-0.257	2.34												.88***
13. ROS X IEW	-0.233	1.72												

* p<.05

**p<.01

***p<.001

Table 5



Moderated Regression Analysis Results for Downsizing Equations

Variable	Equations			
	1	2	3	4
1. Return on Sales (ROS)	-0.012 (.011)	0.027 (.028)	0.058 (.056)	.059*** (.025)
2. Productivity (PROD)	0.046 (.072)	0.038 (.072)	0.056 (.072)	0.046 (.069)
3. Overhead Costs (OHC)	-0.037 (.025)	-0.035 (.025)	-.050* (.027)	-.042 (.024)
4. Ideology of Market Competition (IMC)	.013** (.007)	.012* (.007)	.012* (.007)	0.01 (.007)
5. Ideology of Shareholder Interest (ISI)	-.000 (.007)	-.000 (.006)	0.001 (.007)	0 (.006)
6. Ideology of Employee Worth (IEW)	-.000 (.007)	-.003 (.007)	-.001 (.007)	-.006 (.007)
7. Mergers and Acquisitions (M&A)	.036* (.021)	.037* (.016)	0.033 (.021)	0.017 (.021)
8. Employee Stock Ownership Plan (ESOP)	-.032** (.016)	-.027* (.016)	-.034** (.016)	-.028* (.015)
9. Prior Year Downsizing (PYD)	.030* (.018)	0.027 (.018)	.031* (.018)	0.011 (.017)
10. ROS X IMC		-.016* (.011)		
11. ROS X ISI			-.020* (.017)	
12. ROS X IEW				-.031*** (.010)
Constant	0.009	0.018	0.012	0.04
R ²	.099**	.110***	.104**	.177*****

†Coefficients are the unstandardized regression coefficients. Standard errors are in parentheses. One-tailed tests of significance were used for the cross-product terms in equations 2 and 3; two-tailed tests were used for all other coefficients.

*p≤.10

**p≤.05

***p≤.01

****p≤.001

As shown in Row 10 of Table 5, the sign of the regression coefficient for the ROS x IMC cross-product term is consistent with the prediction of Hypothesis 1. Independent of the main effects of change in profitability and the ideology of market competition, the ideology of market



competition has a significant ($p \leq .10$) negative moderating effect on the relationship between change in profitability and subsequent downsizing.

Moving to row 11 of Table 5, the negative sign for the ROS x ISI cross-product term is consistent with Hypothesis 2. Even after controlling for the main effects of change in profitability and the ideology of shareholder interest, the ideology of shareholder interest has a significant ($p \leq .10$) negative moderating effect on the relationship between change in profitability and subsequent downsizing.

Turning to the cross-product term between ROS and IEW (Table 5, row 12), the sign of the regression coefficient for this cross-product term is consistent with Hypothesis 3b. Independent of the main effects of change in profitability and the ideology of employee worth, the ideology of employee worth has a significant ($p \leq .01$) negative moderating effect on the relationship between change in profitability and downsizing.

Discussion and Conclusion

The results in Table 5 reveal a pattern of negative moderating effects that supports the logic underlying Hypotheses 1, 2, and 3b. While some of these moderating effects are stronger than others, the uniformity among them is encouraging. The results suggest that a strong managerial belief in the ideology of market competition, the ideology of shareholder interest, and the ideology of employee worth all increase the negative relationship between change in profitability and downsizing, enhancing the amount of downsizing that managers are willing to engage in when responding to declining profitability. These results are particularly interesting in the case of the ideology of employee worth, because on the face of it, the ideology of employee worth is a belief system that favors the interests of employees. The logic underlying Hypothesis 3b helps to explain the findings: electric utility managers who believe strongly in the worth of their employees probably see downsizing as a way to safeguard the interests of the total workforce by preserving the financial viability of the firm. Thus, when financial performance is stagnant or declining, the ideology of employee worth increases the willingness of these managers to go ahead with a downsizing program. The paradox involved in such “Chainsaw AI” reasoning (Dunlap, 1996), which interprets downsizing as a job preservation device, may or may not be apparent to the managers involved. The salience of this paradox and others that are probably inherent in adherence to managerial ideologies would be an interesting topic for future investigation.

Implications for Future Theory and Research

The findings reported in this paper appear to justify the tentative conclusion that managerial ideologies influence the way managers respond to financial performance changes in their firms. More specifically, it would appear that downsizing is not just a straightforward reaction to signals produced by changes in profitability. As implied in the work of Beyer (1981) and others, ideologies appear to rationalize or “purify” the signals presented to managers by change in profitability, removing noise and ambiguity that would otherwise be part of those signals. Absent strong belief in the ideologies described in this paper, managers may hope that poor financial performance will rectify itself with a change in the economic cycle, or that the



next product introduction will increase revenues and turn around performance, or that a multitude of other possibilities will eliminate the need to cut jobs. When poor financial performance is combined with a strong belief in these ideologies, however, some of those options may be filtered out, or seen as longer-term events that do not prevent the need to downsize now. Managers will thus have a purified interpretation of the information contained in the accounting numbers, and this purified signal will make them more willing to “bite the bullet” and reduce the workforce. This purification or rationalization process fits the argument (McKinley et al., 1998) that managerial ideologies reduce uncertainty for their adherents, providing standardized interpretations of what’s going on “out there.”

To get a more complete picture of the decision to downsize, we may therefore need to study a complex configuration of ideological, financial, and institutional variables that provide input to the decision and help establish it as the right thing to do. Among such efforts, of course, should be replications of the results reported in this paper, using measures of strength of belief in the same three ideologies, but derived from different sources. One possibility would be to survey practicing managers, obtaining their responses to items tapping their ideological beliefs about market competition, shareholder interest, and employee worth. The items could then be cumulated into measures and used to reexamine the moderating effects reported in this paper. Other indices of financial performance besides change in return on sales could also be employed in such tests. The results of such research would be a more robust picture of how managerial ideologies moderate the effect of an organization's financial condition on the decision to downsize.

In addition to replicating the current results, researchers could investigate other managerial belief systems that influence the way managers respond to financial performance changes with programs other than downsizing -- restructuring, total quality management, or employee empowerment, for example. What managerial ideologies enhance the tendency to introduce major administrative structure changes in the face of financial performance that is deteriorating, either in absolute terms or relative to securities analysts' expectations? When a major competitive threat intrudes into a firm's environment, what managerial ideologies predispose the firm to imitate the strategic responses of other firms, and what ideologies motivate the firm to “go it alone”? Can the study of managerial ideologies be productively combined with neo-institutional theory (DiMaggio & Powell, 1983, 1991; Haunschild, 1993) to produce a more complicated and valid understanding of the decisions that underlie organizational change? The exploration of research questions such as these would make a major contribution to the ongoing scholarly effort to conceptualize organizational change processes.

Most generally, these results suggest the need to integrate managerial cognition more directly into our studies of the relationships between macro variables in organizations. Ever since Child's (1972) work on strategic choice, organizational scholars have espoused this goal, but, arguably, little progress has been made toward its realization. The fact remains that relationships between variables conceptualized and measured at the macro level are usually mediated through managerial cognitions. Managers must interpret events occurring at the firm or environmental level, decide what aspects of the information thus derived are relevant to action, and use the resulting signal as input to a choice among decision options. This is clearly a complicated cognitive process, subject to influence by all sorts of factors inherent in the



collective belief systems managers share. This cognitive “black box” has been ignored for too long in macro-organizational research.

Implications for Managers

From the perspective of top management, the most important implication of this study may be that organizational downsizing is a decision. It is not a phenomenon that is deterministically driven by financial performance changes, nor is it an external force that has assumed a natural ontological status (McKinley et al., 2000). Managers have a choice about whether or not to downsize, and their choice is likely to be molded by ideological beliefs that are a reflection of capitalist culture and the conflicting priorities of different organizational stakeholders. Decisions to downsize may also be affected by the way managers feel about their employees, particularly when those feelings include a utilitarian philosophy of the greatest good for the greatest number (Gilbert, 2000). The important thing is that managers counter the institutionalization of downsizing practice (McKinley et al., 1995, 2000) with the ability to see that downsizing is actually a voluntary act influenced by their own cognitions.

From a practical perspective, knowledge of the managerial ideologies discussed in this paper may help managers understand their own predilections to downsize, as well as those of their subordinates. For example, if top management knew how belief in the ideology of employee worth was distributed among middle managers and first-line supervisors, it might be possible to predict differences in those individuals’ willingness to undertake downsizing. This poses an ethical dilemma, however. Top managers are generally not content with understanding and prediction for its own sake -- for better or worse, they usually want to use knowledge as a basis for action. So an understanding of the distribution of an ideology might be the precursor to top management action designed to leverage that knowledge -- for example, the assignment of downsizing tasks to individuals whose altruistic beliefs about the workforce make them compliant participants in such endeavors. In our opinion, such an assignment process would be ethically dubious. Alternatively, under the pressure of performance expectations, top managers might be tempted to engage in ideological modification programs designed to transform the belief systems of their subordinates in directions that are “downsizing-friendly.” We do not mean to suggest that top managers are Machiavellian – rather, we are simply sounding a cautionary note about the automatic manner in which most human beings (including academics) translate knowledge into action. That puts a premium on analyzing the anticipated *and* unanticipated consequences of managerial knowledge about workplace ideologies; at the present time, our understanding of these consequences is no more than rudimentary. Hopefully in the future our investigations of managerial ideologies will have advanced to the point that these investigations can support valid scholarly models *and* ethical management action.



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