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Special Issue: Organizational Downsizing

Downsizing Trust

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Organizational downsizing has been a major organizational strategy emphasized by managers to improve performance since the late 1980s. Despite the popularity of downsizing in organizations, the implementation of downsizing has resulted in various negative effects on employee morale. This paper examines the relationship between downsizing and trust. The paper first provides a review of the philosophy and strategies for downsizing. It then examines the impact of various downsizing strategies on employee trust and organizational trust. Lastly, the paper offers a discussion about the implications of these strategies for individuals, organizations, and society.

INTRODUCTION

Organizations are social structures that represent individuals coming together to meet identified goals. The glue that holds the structure together is an implied contract between individuals focusing on economic and/or social obligations and rewards. A continuum of involvement between the individual and the organization exists ranging from limited to extensive commitment to organizational goals.

Trust is the basis for this commitment and for the establishment of the contract.

Within this context individuals expect that all parties will honor their explicit and implicit obligations. Distrust occurs when the obligations are not met or when the parties involved have different expectations regarding the obligations. Organizations in America for many years operated in a way that promoted a commitment to organizational goals and created employee job security.

Organizational downsizing has been a major organizational strategy emphasized by managers to improve performance since the late 1980s. As an organizational strategy, downsizing focuses on economic goals over the promotion of commitment, and despite the popularity of downsizing with managers, employees view the strategy with distrust. This paper examines the relationship between downsizing and trust by: 1/ reviewing the philosophy and basis for downsizing; 2/ examining the impact of downsizing strategies on employee trust and organizational trust; and 3/ by providing a discussion about the implications of these strategies for individuals, organizations, and society.

DOWNSIZING STRATEGIES

Downsizing is a competitive organizational strategy where human resources, the most significant expenditure for an organization are reduced (McCune, Beatty, and Montagno, 1988). A workable definition of downsizing is that it is a purposeful reduction in the size of an organization's workforce to improve efficiency, productivity, and competitiveness (Cameron, Freeman, and Mishra, 1991; Cameron, 1995). The process has occurred in all sectors of society from the private to the public sector affecting the size of the organization, workforce costs, and work processes. Four attributes define downsizing—intent, personnel, efficiency, and processes. Intent refers to a purposeful set of activities involving the decrease of personnel using many strategies, with the intent of improving efficiency and decreasing waste, by focusing on the organization as the unit of analysis restructuring, redesigning, or eliminating work processes (Cameron, 1994; 1995).

Three primary strategies are used by organizations to downsize: workforce reduction, organizational redesign, and systemic strategies. Workforce reduction is the most common type of strategy. The number of personnel is reduced based on a top-down directive that creates a crisis mentality. In a workforce reduction, the focus is on eliminating people quickly reducing the headcount for a short-term payoff. Organizational redesign strategies eliminate functions, divisions, and products focusing on work reduction rather than employee reduction. When systemic strategies are used to downsize the focus is on changing the organizational culture, the attitudes, and the values of employees to continuously improve the functioning of the organization (Cameron, 1994; 1995).

WORKFORCE REDUCTION STRATEGIES

In a workforce reduction people leave an organization based on a management decision, and downsizing or workforce reduction has become the most feared word in contemporary society (Wallulis, 1998). Downsizing has created acute job insecurity for individuals in all segments of American society with people becoming bitter, anxious, and disenfranchised. The overall effect in the United States seems to be a deep-seated pessimism as people question the American dream. One impact of downsizing is on individual dignity, which used to be associated with the job. Another impact is on the community, where ties are becoming frayed as corporate America and governments continue to downsize. A third impact is on politics, which must respond to the national mood of insecurity *(The New York Times,* 1996).

Capitalism and the economic model are the basis for downsizing through a workforce reduction strategy. The assumptions of the economic model are that: 1/ individuals are rational, self-interested decision makers driven by primarily economic goals; 2/ economic relations between individuals are governed by contracts; and 3/ organizational structures are determined by cost-efficiency. The primary goal of the economic model is profit maximization or maximization of shareholder wealth, and management decisions must be made based on this goal. Supporting the economic model are agency theory, contract theory, shareholder value maximization and transaction cost theory all which have emerged from microeconomics and traditional scientific management theory. Downsizing, involving cost cutting through the elimination of underutilized resources to increase profitability through financial controls is based on economic model assumptions (Grant, Shani, and Krishnan, 1994).

ORGANIZATIONAL REDESIGN STRATEGIES

Downsizing through organizational redesign focuses on eliminating work, not workers. Strategies used in redesign are aimed at eliminating functions, structural elements, and streamlining organizational processes (Cameron, 1995). Key decisions made by management to accomplish these strategies are about job design, departmental bases, spans of control, and delegation of authority. Management's goal in organizational redesign is to improve effective organizational performance in the areas of quality, production, efficiency, competitiveness, development and survival (Gibson, Ivancevich, and Donnelly, 1997).

The focus on efficiency and competitiveness found in organizational redesign strategies is consistent with the economic model. Downsizing through workforce reduction and work redesign strives to achieve economic goals in a short period of time by altering the composition of the workforce and the process of work. Systemic strategies are more ambitious addressing the issue of creating a quality culture within the organization over a long period of time (Cameron, 1994; 1995).

SYSTEMIC STRATEGIES

Systemic strategies require a reorientation to downsizing. The focus changes from efficiency to quality, which is achieved through a committed workforce. Downsizing strategies using a systemic approach focus: on the organizational culture and values; on the human resource system; on the customer; and on continuous improvement (Cameron, 1994; 1995).

Since the 1980s, the quality initiative has been called quality assurance, continuous quality improvement, and total quality management. These terms have been used interchangeably, but they all describe a management style aimed at improving organizational performance and meeting customer expectations through continual analysis and improvement of the processes for producing goods or services. Key components of the quality movement are: internal and external customer satisfaction, an organizational commitment to quality, the use of continual data analysis, and a shared commitment to the process by empowered employees and enlightened management (Kano, 1993; Emory, 1996; Avery and Zabel, 1997).

Systemic strategies with a quality focus require an organization to change its fundamental assumptions about people, organizations, and management. The underlying assumptions of the quality movement are based on the belief that people are intrinsically motivated to work, to be creative, to succeed. A quality focus resurrects the traditional value of craftsmanship, and pride in one's work reflects a belief that products or services embody the creativity, values, and pride of the producers (Grant, Shani, and Krishnan, 1994).

For organizations to succeed they must value and empower the individuals who work there. Empowerment is power sharing and requires a change in organizational culture, leadership, and vision to achieve the goals of higher levels of productivity, quality and customer satisfaction (Berman, 1995; Gibson, Ivancevich, and Donnelly, 1997). Inherent in empowerment is the concept that everyone in the organization works to continuously improve all aspects of the work. This requires the organization to provide training, opportunity, and responsibility for decision-making in tandem with accountability, mutual respect, and trust (Amsden, Ferratt, and Amsden, 1996; Blankstein, 1996; Morris and Haigh, 1996).

Inherent in the quality movement, which systemic downsizing strategies embody, is the issue of trust between the employee and the organization. We argue that trust is also the primary issue when workforce reduction or organizational redesign strategies are used to downsize. To support our argument the types of trust identified in the literature will be discussed, and based on the literature we develop a model which links downsizing to trust.

TRUST

The issue of trust has been raised by several authors who have linked downsizing strategies with a reduction of trust in organizations (Morrison and Robinson, 1997; Elangovan and Shapiro, 1998; Mishra and Spreitzer, 1998; Mishra, Spreitzer, and Mishra, 1998). The workforce reduction downsizing strategy is the strategy most noted to erode trust within organizations. One reason for this is that organizations that downsize target middle management ending an era of organizational loyalty and creating a new era of insecurity. Not only has downsizing eroded trust but it has contributed to the economic restructuring of America along with technology and advanced computer networks (Wallulis, 1998).

Trust is an intuitive concept, which eludes precise definition (LaPorte and Metlay, 1996) and is seen as a foundation for social relationships and social order by many intellectual disciplines (Lewicki, Mcallister, and Bies, 1998). In employment relationships trust is based on the psychological contract held by an employee regarding the reciprocal obligations between themselves and the organization (Rousseau, 1989). Psychological contracts range from transactional (economic based) contracts to relational (normative) contracts (Rousseau and McLean Parks, 1993). This division into economic and normative psychological contracts reflects the social sciences inquiry into trust, as a major factor in relationships, where two broad approaches to trust have been developed–the economic and the normative (Ruscio, 1997).

Rousseau, Sitkin, Burt, and Camerer (1998) have developed an interdisciplinary model of trust, which places the economic approach to trust (calculus-based trust) at one end of the model and the normative approach to trust (relational trust) at the other end. Here trust is presented as a dynamic bandwidth fluctuating between the economic and normative approaches facilitated or hindered by institutional support and/or control mechanisms. Within this bandwidth of trust according to Lewicki, Mcallister, and Bies (1998) both trust and distrust exist simultaneously in a state of ambivalence, with trust being positive and distrust being negative expectations about the conduct of others.

ECONOMIC APPROACH TO TRUST

The economic approach to trust posits that social relationships are rational and based on self-interest, and individuals calculate the costs and benefits of a relationship to maximize their own interests. This approach to trust is favored by economists and rational choice theorists in sociology and political science (Ruscio, 1997). Calculus-based trust is the term used to describe this rational approach to trust, where the characteristics of the relationship are based on economic exchange (Rousseau, Sitkin, Burt, Camerer, 1998). Granting trust becomes a calculated risk based on the amount of uncertainty in the relationship and the potential of the pay-off.In this form of relationship, the employee calculates the costs and rewards of the organization acting in an untrustworthy way (Williamson, 1985; Dasgupta, 1988; Ruscio, 1997).

Transactional contracts, which are monetarily based and use specific, short-term obligations, are the foundation for the economic approach to trust. In transactional contracts there is an expectation of limited involvement by both parties, and quid pro quo exchange governs the interaction with clearly defined obligations and expectations of compensation (O'Connell, 1984). Employees in transactional exchanges are vigilant, wary, and distrustful regarding contract fulfillment because balance and repayment predominate in the relationship (Morrison and Robinson, 1997). At the other end of the trust continuum is relational trust in which employees develop a relational psychological contract using a normative approach to relationships.

NORMATIVE APPROACH TO TRUST

In the normative "relational" approach to trust, employees see trust as an ethical relationship explained in terms of shared ideals and values. Here the focus is on fulfilling obligations, performing duties, and behaving appropriately within the context of the relationship (Ruscio, 1997). Relational trust develops from repeated interactions over time with reliability and dependability of the interactions developing a shared identity. Attachments are formed in this shared identity and emotions are part of the relationship based upon reciprocated interpersonal caring. Employees, who refer to the team or the organization as *"we",* derive psychic benefits from the relationship and are demonstrating this shared identity of relational trust with the institution. Much of societal trust is institution-based, and institutions can control or support the development of trust (Rousseau, Sitkin, Burt, and Camerer, 1998).

Relational trust evolves from relational psychological contracts, in which the employee must regard his or her obligations to the organization as long-term, broad, and open-ended. Employees operating under a relational contract demonstrate loyalty and support for the organization based primarily on socioemotional elements (Rousseau and McLean Parks, 1993). We argue that the continuum of downsizing strategies and the continuum of trust can be combined to explain why trust has become so important in the late 1990s to mangers, employees, and society.

DOWNSIZING TRUST MODEL

The economic and the normative approaches to trust are inherently different being based on different assumptions about trust relationships, and these assumptions link trust to the discussion of downsizing. We believe that the type of downsizing strategy an organization uses leads to the development of a certain type of psychological contract envisioned by the employee resulting in a particular type of trust or distrust.

Our model of downsizing trust is presented in **Table 1**, which identifies the assumptions underlying trust relationships and downsizing strategies. Here the trust continuum is combined with the downsizing strategy to demonstrate how and why downsizing impacts employee and organizational trust.

Table 1. Model of Downsizing Trust

Workforce Reduction & Work Redesign	Comparisons	Systemic Strategies
Assumes individuals are: – Rational – Self-interested – Economically motivated	Assumptions	Assumes individuals are: – Emotional – Self-interested & altruistic – Motivated to meet human needs to create or to be useful
Transactional Contracts – Monetary base – Quid pro quo – Clear obligations & compensation	Psychological Contracts	Relational Contracts – Socioemotional base – Reciprocated interpersonal caring – Shared ideals & values with a shared identity
Economic Trust – Based on economic exchange – Short term focus – Exchanges vigilant & wary – Calculated	Form of Trust	Relational Trust – Based on ethical relationship – Developed over time – Exchanges provide psychic benefits – Unguarded

The idea of a bandwidth of trust indicates that institutional mechanisms in the form of downsizing strategies are critical in creating this mix of trust and distrust that exist in organizations. The downsizing strategies of reduction in workforce and work redesign are based on the economic model of management, and it follows that the economic approach to trust is consistent with these strategies, so in our model they have been combined for discussion purposes. We believe that work redesign combines the types of psychological contracts and trust in varying degrees, but that the economic model predominates in the use of this strategy.

The downsizing strategy used by an organization is based on decision-makers assumptions regarding others. Workforce reduction and work redesign strategies see individuals as human capital to be manipulated in ways that maximize the economic goals of the organization. Our position is that management decisions to downsize using workforce reduction and work redesign assume that all individuals are rational and motivated by self-interest and economic gain ignoring the socio-emotional aspects of individuals. A belief in rational self-interest is a basic assumption for both of these frames of reference.

An organization selecting the downsizing strategies of workforce reduction and work redesign operates using rational economic self-interest with a short-term, limited obligation perspective. Employees to successfully deal with downsizing must match their type of psychological contract with the downsizing strategy selected by the organization. Transactional contracts using a quid pro quo format come from the economic model making them compatible with workforce reduction and work redesign strategies. Economic trust forms the basis for transactional contracts. Employees are wary and distrustful of downsizing decisions made by management anticipating a loss of work or an excessive workload. Limited involvement in the organization by the employee and a short-term perspective are the hallmarks of transactional contracts.

At the opposite end of the downsizing continuum are systemic strategies, and downsizing occurs as employees continually improve the processes of the organization because they are committed to its values and goals. Management enters into a relationship with an employee to improve the quality of the product or service and to improve customer satisfaction through maximizing the organization's human resources. The assumptions for systemic strategies are that individuals are emotional, creative, and altruistic and desire to be a part of the organization for more than financial reward. These humanistic assumptions regarding individuals held by management are at the opposite end of the continuum from the economic assumptions that form the basis of workforce reduction and work redesign strategies.

To achieve downsizing in this way the organization needs the employee to develop a long-term, empowered relationship or a relational contract. This relational contract must be long-term, based on shared values and norms, and focused on organizational improvement through extensive employee involvement. Relational trust based on interpersonal caring and a shared commitment to the process by empowered employees and enlightened management is the basis for this relationship. Both parties are expected to act honorably in the relationship meeting both explicit and implicit expectations.

Difficulties in a relationship affecting the level of trust arise because of an imbalance in the relationship and the perception of the psychological contract between and an employer and the employee. The literature indicates that the psychological contract is developed by the employee (Rousseau, 1989) not the organization. The terms and conditions governing the execution of the psychological contract between the employee and the organization are found in the social contract. In regards to the employment exchange relationship, the social contract conveys the employee's perception of the norms and beliefs about exchange, reciprocity, good faith, and fair dealings. It is based upon the norms of the social contract that an employee interprets a perceived breach or violation of the psychological contract (Morrison and Robinson, 1997).

An organization may or may not hold the same beliefs regarding the contract as the employee, and as organizations downsize or respond to a changing environment the commitment to a relational contract with employees may change and the employee may perceive a violation of their trust.

VIOLATION OF TRUST

Several authors refer to a loss of trust and to a breach of the psychological contract, when organizations downsize using a reduction in workforce with systemic strategies (Kochan, Katz, and McKersie, 1994; Robinson and Rousseau, 1994; Parks, 1995; Gordon, 1996; Poirier and Tokarz, 1996). A common model of systemic implementation begins with the status quo, and then moves to forced change. In forced change many organizations want to quickly reap the benefits of quality improvement and choose a generic approach or hire a consultant to initiate forced changes in structure, systems, or procedures. Frequently this has not worked and management forces change to decrease fixed costs by reducing labor costs though a reduction in workforce form of downsizing (Poirier and Tokarz, 1996). Many organizations talk of adopting systemic downsizing strategies, but most organizations are merely tinkering with participatory strategies leaving the economic model in place (Kochan, Katz, and McKersie, 1994; Parks, 1995; Gordon, 1996; Poirier and Tokarz, 1996). And if systemic strategies are co-opted to fit the economic model, employee morale and loyalty deteriorate to the possible point of employee isolation, sabotage, and physical violence (Emory, 1996).

What occurs in these situations is that when systemic strategies are adopted by the organization, the employees are encouraged to develop a relational psychological contract with the organization, but the organization continues to operate using a transactional economic contract using calculus-based trust. According to Morrison and

Robinson (1997), two situations hasten an employee feeling that the organization has betrayed the psychological contract. First is reneging when an agent of the organization breaks a promise to the employee, and the second is incongruence when the employee and the agent have different understandings about the promise. In situations, where systemic strategies are sacrificed for short-term economic goals a negative relationship between the level of quality and downsizing results, because most organizations downsize in a way that contradicts the principles of quality improvement. As cost considerations replace quality considerations, the principles of employee empowerment, responsibility and loyalty are sacrificed for a reduction in overhead. This tradeoff results in a loss of employee trust in the organization and a betrayal of the concept of work (Cameron, 1995; Emory, 1996; Poirier and Tokarz, 1996; Wolman and Colamosca, 1997).
Using the model we have developed of the inherently different assumptions, psychological contracts, and trust that the different downsizing strategies are based on the reasons for a loss of trust and a sense of betrayal are very clear. An employee's perception of betrayal by the organization is based on how he or she perceives the situation and the type of psychological contract they operate from. If the employee operates using calculated trust and has developed a transactional contract with the organization, he or she will be wary of the relationship and will be watching for a break in the contract. Because this employee is always weighing the possibility of the organization acting in an untrustworthy way, he or she experiences a less violent feeling of betrayal than the individual who evaluates their relationship with the organization using relational trust. Employees that perceive the existence of a relational psychological contract between themselves and the organization are more trusting and less vigilant of the relationship. If a violation of the contract is perceived it creates strong feelings of violation because it is inconsistent their belief in fairness, reciprocity, and good faith (Morrison and Robinson, 1997).
Another perspective for the strong feeling of betrayal experienced by individuals operating from a position of relational trust comes from the belief that individuals on whom we depend will meet our positive expectations of them and act with integrity. Integrity refers to honesty and consistency in one's words and actions, and gaps between words and actions can produce distrust. Vulnerability is also, a component of trust, and the more an individual trusts the greater the risks of disappointment (Shaw, 1997). When organizations violate employee trust, especially relational trust, the ethical implications are significant for the employee, the organization and society.

CONCLUSION

Relational trust falls into the broad category of normative trust based on ethical principles. Fairness regarding treatment within the relationship (Morrison and Robinson, 1997) and integrity (Shaw, 1997) are the two major ethical principles that have been linked to this form of trust. The use of the social contract as a measure of psychological contract compliance focuses on social responsibility in relationships. In expanding our comparison of downsizing strategies, a moral perspective offers another view.

According to Kohlberg (1981), there are three stages of moral development –the preconventional, conventional, and postconventional stages that come to bear in relationships and in decision making. The basic minimum standard for interaction is encompassed by the preconventional stage, where individuals act in response to power or from self-interest using a quid pro quo relationship. In the conventional stage individuals move to a higher level of moral functioning, where decision making and interpersonal relationships focus on social norms and on obeying the law. The highest level of moral functioning is envisioned as the postconventional stage, where the social contract and belief in universal ethical principles guide social relationships. Basic universal ethical principles for relationships are honesty, integrity, and justice or fairness.

These stages of moral development fit neatly into our downsizing trust model. We believe that workforce reduction and work redesign strategies based on the economic model focus on self-interest or power and demonstrate the lowest level of moral development or the preconventional stage. We argue that systemic strategies of downsizing are postconventional because of the emphasis on the social contract and because honesty, integrity, and fairness or justice are necessary in maintaining the relational psychological contract. It follows that systemic downsizing strategies require that managers in organizations using systemic downsizing strategies must adhere to universal ethical principles. For systemic strategies to be effective principled implementation focusing on the philosophy behind the quality movement is required along with respect for the concepts and the principles of participative management. This position echoes the growing call for managers or leaders in organizations to act in ethical ways when downsizing recognizing the existence of the social contract and its importance in developing and building trust (Emory, 1996; Shaw, 1997; Ciulla, 1998).

The call for principled implementation of downsizing strategies has also resulted in a change in the popular management literature. During the 1990s, the term leadership based on the ideals of trust and power has replaced the word management. Trust has become the new foundation of leadership replacing authority focusing on the reciprocal relationship between leaders and followers. Reciprocity in this relationship refers to a mutual loyalty and commitment between leaders and workers based on truth and honesty (Ciulla, 1998).

This reciprocity is based on organizational leaders acknowledging that a *psychological contract* exists between the employee and the organization, and that the organization must honor the contract. Downsizing strategies comprise a range of organizational responses from workforce reduction based on the economic model to systemic strategies focusing on changing the organizational culture. Organizational goals using the economic model are based on monetary needs, while quality and the needs of both the customer and the employee are primary in systemic strategies of downsizing. The three downsizing strategies are based on different assumptions about the individual and differing organizational emphasis. In systemic strategies, the assumption is that an individual intrinsically desires to create through work and to participate in an organization, while the economic model of downsizing assumes individual economic self-interest and rational decision making. The organizational emphasis in systemic strategies is on customer satisfaction, while in workforce reduction and work redesign the emphasis is on increasing shareholder value.

We argue that these downsizing strategies to manage a changing environment are incompatible. One strategy seeks to empower employees, while the other two make employees powerless. One strategy takes a dynamic ongoing creative focus to change, while the others seek short-term solutions. By attempting to merge these concepts, a hypocritical situation occurs that erodes trust.

Downsizing has had a dramatic impact on the erosion of trust in American organizations (Shaw, 1997), and we believe that it has occurred because organizations have disregarded the principles, assumptions and values inherent in the different downsizing strategies. In addition, the extensive use of workforce reduction alone or in tandem with systemic strategies has lowered the level of moral interaction between individuals and organizations. Relational trust in organizations has given way to transactional trust and wary employees see all interactions from this preconventional moral perspective.

Globalization of the marketplace has moved the economic model into a prominent position throughout the world, and downsizing through workforce reduction strategies remains the primary way for organizations to adapt to change. The difficulty is that this form of downsizing shifts the interactions between individuals and organizations toward preconventional moral interactions. Moral crisis may not be too strong a term to describe this global transition away from postconventional moral interactions toward the lower standard of preconventional moral behavior. For interactions to move to a higher moral level and for trust to shift from wary, calculated interactions toward a relational form, a new focus on the social contact is needed to hold both organizations and employees to a standard of honesty in their relations.

Organizational leaders need to take responsibility for their actions and the moral implications of those actions. We believe that we have demonstrated that the choice of a downsizing strategy has a direct economic, emotional, and moral impact on the individual, the organization, and on the baseline level of trust in society. Truly the overuse of economic downsizing strategies by organizations has downsized trust.

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