M@n@gement, Vol. 2, No. 3, 1999, 163-181
Special Issue: Organizational Downsizing

Encouraging Organizational Learning Through Pay after a Corporate Downsizing

Jannifer Gregory

Michigan State University
School of Labor and Industrial Relations
eMail: gregor24@pilot.msu.edu

Corporate downsizing has been implemented by a large number of American firms in an effort to become more flexible and responsive to increased competition. The results associated with these downsizings have not been as stellar as researchers and practitioners had hoped. In fact, fewer than half of downsized firms reported achieving any reduction in costs (Hitt, Keats, Harback and Nixon, 1994). In addition to these dismal financial indicators, the effects of downsizing on the remaining employees have been substantial, including increased stress, reduced career opportunities and decreased company loyalty. This article looks at the possibility that person-based compensation systems such as skill/competency based pay or broad banding may alleviate some of the problems associated with both the poor financial performance and the negative impact on survivors of downsizing. By encouraging employees to acquire new skills and knowledge, person-based pay programs may foster the development of a highly flexible workforce. Employees with wider skills may prove valuable to downsized firms coping with large losses in organizational knowledge and memory.

Throughout the last two decades, many corporations have undergone extensive efforts to reengineer themselves. This reengineering, for the most part, has resulted in massive downsizing, presumably in an effort to become more competitive in the marketplace (Bowman and Singh, 1993). The underlying assumption of these downsizings has been that the bureaucracies, developed by some of these companies, hampered their ability to respond efficiently and effectively against new levels of competition. Despite the initial claims that downsizing would enhance firms' performances by making them more flexible, there is little research showing organizational performance increases as a result of these changes (Hitt, Keats, Harback and Nixon, 1994). Potentially, one reason for these results is because as firms downsize, they let go of one critical competitive advantage: their people. Drastic reductions in staffing, such as those of downsizing, affect many aspects of the firms' capabilities to perform not only because of the employees who were downsized out of firms, but also because of it's effects on employees who remain, the survivors. The employees, lost during downsizing, possess unique knowledge which facilitated the firms' performances in the past (Walsh and Ungson, 1991). These employees owned technical expertise and industry specific knowledge necessary for the firms to compete. They stored organizational memory that is now gone from the companies. Potentially, they were key people in information networks within the organizations. These networks allowed the firms to react to environmental threats efficiently through formal and informal communication channels, which must now be re-created in the downsized firms.

For the survivors of downsizing, these radical changes have numerous effects. Survivors are faced with a situation of not knowing if or when they will be the next to go (Brockner, Grover, O'Malley, Reed and Glynn, 1993). This uncertainty about their future can produce significant stress within the employees, reduce organizational loyalty (Brockner, 1988; Stroh and Reilly, 1997), eliminate previously held assumptions about career advancement (Metcalf and Briody, 1995), and perhaps most saliently, reduce the absolute number of employees available for the completion of work. A reduction in the total workforce may not correspond to less work needing to be accomplished. In fact, most companies that downsize will need increased performance from the survivors in order to make the reengineering effort successful (Hoskisson and Hitt, 1994). Given the internal, environmental changes imposed upon survivors by downsizing, eliciting this increased performance will not be easily achieved.

Person-based pay programs provide one method for employers to cash in on the flexibility of their newly downsized firms (Flynn, 1996). Person-based pay programs focus on paying individuals for the work they are capable of doing instead of paying them based on their job classification (Lawler, 1994). Skill/Competency Based Pay (SCBP) and Broad Banding (BB) represent the most common methods of person-based pay programs. SCBP compensates employees for learning specified sets of skills/competencies, which are determined to be critical to the firm. BB allows employees greater pay opportunities as they expand their knowledge base through job transfers. In addition to providing for compensation opportunities, both SCBP and BB require detailed training and development programs to allow employees the opportunity to learn new skills, that may or may not pertain to their original job classification, and to apply these skills at work. By implementing one of these programs, employers should be able to enhance employee and organizational learning, which in turn should improve organizational performance.

This article examines the relationship between downsizing efforts of firms, the adoption of person-based pay plans and subsequent organizational learning and performance. Specifically, this paper looks at whether companies that downsize are better equipped to replace or recreate lost organizational knowledge through person-based pay programs, than through traditional job-based pay programs. It is proposed that companies with well-developed person-based pay programs will create unique workforces. These employees may be a source of sustained competitive advantage for the firm, which may improve the firms' performance.

To develop this model, first a review of the literatures on downsizing, the effects of downsizing on organizational knowledge, and the research on person-based pay programs will be presented. Then the ideas from these three areas will be integrated to show potentially beneficial relationships among them. This discussion results in propositions suggesting how the use of person-based pay systems may improve organizational knowledge and subsequent performance in a downsized firm. Finally, the potential ramifications of and future research around these propositions for researchers and practitioners will be elaborated.

RESEARCH ON EFFECTS OF DOWNSIZING

Corporate downsizing has been considered the remedy for competitive sluggishness for many American firms in the last two decades. Companies faced with increased industry competitiveness, both domestic and international, have responded by slashing their employee roster in an attempt to eliminate «excess organizational weight» from company payrolls (Johansen and Swigart, 1994, p. 7). The theoretical rationale for downsizing presumed that many companies had developed unwieldy bureaucracies which made it difficult for them to compete in a fast paced market. The reengineered firm was supposed to provide more flexibility by having fewer layers between top management and line workers, by requiring less time to respond to market pressures because of shorter processes to reach decisions (Cascio, 1993), and enabling companies to focus more on their core competencies without being weighted down by non-competency related tasks.

The realities of downsizing have been much less stellar than predicted. In fact, a national survey suggests that fewer than half of downsized firms achieve any reduction in costs (Hitt et al., 1994). Downsized firms do not seem to realize increases in productivity, market share, product quality or product development (Cameron, Freeman and Mishra, 1991; Hitt et al., 1994). Because downsizing was intended to improve these company outcomes, the inability to meet such expectations suggests there are serious, negative, unintended consequences of downsizing. A detailed account of these consequences for product development is presented here as an example, but it is anticipated that similar effects on other organizational outcomes (i.e., market share, product quality or productivity levels) would be present.

Theoretically, organizational flexibility should improve firms’ capabilities for product development. In downsized firms, some degree of flexibility is forced on survivors. With fewer levels of management and fewer people, employees from different departments should interact more. This should generate more new product ideas because a variety of perspectives may be heard during the beginning phase of product developments. Also, fewer people may require a streamlined development process, which may mean fewer points along the development path where an idea may get stopped. This should reduce the time needed for the entire product development process.

The process of bringing a new product from an idea to the market requires significant commitment on the part of the organization.

Typically, new products are championed by someone within the organization who will shelter the project in its early phases and convince others in the organization of its worth (Roberts, 1988). This championing role is indispensable to ensure successful completion of a product. A product champion creates information networks between departments so that product developers will have access to needed information, obtains needed resources to complete the project and makes management aware of the new product and its potential market value. Product development often requires reliance upon informal communication networks to facilitate completion of the project (Jelinek and Schoonhoven, 1993).

Dougherty and Bowman (1995) found that with downsizing many product champions were replaced by other managers whose knowledge of and commitment to the new product was limited. By assigning a new champion to a product, many products were lost as the networking capabilities of the new champion were not sufficient for the continuation of the project or the new champion was simply unwilling to utilize his/her resources to ensure the project's completion. Additionally, often pre-established networks were dissolved because critical players, other than the champion, were gone after the downsizing. Failure to maintain a consistent champion from beginning to end combined with the elimination of networking capabilities within the firm proved key in the demise of many product innovations.

The disruption of product innovation processes highlights an essential downsizing problem of not having the right people in the right place. It illustrates a serious contradiction inherent with downsizing. A company is trying to achieve stronger performance through a more efficient and effective workforce, but has eliminated much of its workforce in order to accomplish this goal. Similarly, production levels may be hard to maintain or increase with fewer workers. Product quality may suffer from employees working under higher stress conditions and employees feeling less organizational loyalty. Gaining new market share may prove difficult with fewer employees available to establish a foothold in new areas. The implications for the remaining workforce are substantial from two perspectives. First, employees are trying to maintain an optimal level of work to ensure the viability of the company through this change (Johansen and Swigart, 1994). Second, employees' self-interests are strongly affected by such changes (Brockner et al., 1993; Metcalf and Briody, 1995; Reilly, Brett and Stroh, 1993; Stroh and Reilly, 1997).

SURVIVOR EFFECTS

The survivors of downsizing are left with only a portion of the organization in which they are accustomed to performing. Because there are fewer workers to accomplish the same amount of work, survivors could realize a greater motivation to perform because they perceive a larger task significance which may lead to greater skill utilization and organizational commitment (Ganster and Dwyer, 1995). Ganster and Dwyer

(1995) tested this hypothesis and found that while understaffing may actually result in positive perceptions of task scope, it does not affect skill utilization or commitment. Their research indicates that understaffed groups tend to have lower overall performance than adequately or overstaffed groups. These findings imply that greater job task perceptions are not sufficiently motivating to alter performance to overcome inadequate staffing levels. Many reasons may account for the lower motivation of understaffed groups.

In the situation where downsizing is the cause of understaffing, demotivation may reflect employees' self-interest. Downsizing is often an iterative process where the first round of cuts may only be a prelude to additional rounds (Cascio, 1993; Madrick, 1995). Survivors of the first round have good reason to be concerned about their future job security. Brockner et al. (1993) found that these cuts often cause survivors to have discernible amounts of anxiety. They found that the individual levels of self-esteem interacted with the perceived threat of a future layoff to determine the level of employee work motivation following an initial layoff. Their results show that low self-esteem employees were more worried about job loss and had higher motivation levels and greater performance increases than high self-esteem employees. Higher work motivation in low self-esteem employees, however, may not imply they have higher organizational commitment. Further, long-term hidden costs may be associated with low self-esteem employees. Daniels (1995) argues the long-term effects of continued exposure to high levels of job stress to low self-esteem employees may create serious health problems and motivational problems. Motivational problems may include decreased aspirations and enthusiasm leading to lower job performance.

From an organizational perspective these employee reactions are problematic because firms are depending on the survivors' performance to carry the company through a difficult period. If high self-esteem employees do not change their performance levels and low self-esteem employees only sustain higher motivation levels for a short period of time, then companies should not anticipate increases in productivity, product development or any other organizational performance indicator from this wokforce.

Assurances from top management regarding the possibility of future layoffs may ease the mental strain of many employees. These employees, however, are not blind to the potential of future layoffs. Experiencing the loss of former co-workers and a simultaneous restructuring of the firm will make a salient impression. The possibility of losing one's job combined with the reduction of promotional opportunities within the firm will elicit an active reaction from many employees. Employees' company loyalty has been shown to be negatively related with corporate downsizing (Stroh and Reilly, 1997). Similarly, employees' career loyalty, defined as commitment to a career and not to a specific organization, has been shown to be positively related to corporate turbulence (Reilly et al., 1993).

A shift from organizational loyalty to career loyalty is significant for downsized firms, as they, typically, have fewer possibilities for promotion. These firms have eliminated layers of management which were previously considered to be the career ladder for employees. Without these layers, employees have no traditional approaches for advancement. Employees, who are committed to their careers, will recognize these changes in the organization and understand that their opportunities for promotion are reduced (Metcalf and Briody, 1995). The combination of higher career loyalty and lower company loyalty could provide enough incentive for those employees with alternatives in the labor market to seek employment elsewhere. During the job search process, these employees may attend less to organizational objectives such quality, customer service, product development, thereby lowering organizational performance. Also, voluntary turnover added to the initial layoffs will further reduce firms' capabilties to react to market pressures. If downsized firms do not address these concerns their ability to retain and motivate these employees will shrink (Feldman, 1996).

DOWNSIZING EFFECTS ON ORGANIZATIONAL KNOWLEDGE

In addition to the psychological effects on employees associated with downsizing, there are the direct implications of downsizing on the processes with which work is done. The loss of a substantial portion of a workforce takes with it a similarly substantial portion of the organizational memory and knowledge (Johansen and Swigart, 1994). The re-creation of this knowledge, or some adaptation of it, is required for the firm to achieve performance levels at or above those experienced before the downsizing. Organizational learning will be needed for this re-creation of memory and knowledge to occur.

Organizational memory can be defined as «stored information from an organization's history that can be brought to bear on present decisions» (Walsh and Ungson, 1991, p. 61). Walsh and Ungson (1991) propose five places where this information may be stored: individuals, organizational culture, transformations, organizational structure and ecology of the organization. Individuals retain information about the organization and its processes in their own memories and with personally developed files and paperwork. The loss of individuals from downsizing will bring a concurrent loss of memory and make the use of information from personal files difficult. Culture provides employees with accepted methods of perceiving and thinking about phenomena in the organization. The shock associated with downsizing may be enough to disrupt the organization's culture, making the memory stored in it inaccessible. For many companies, a new culture, which focuses on customer needs and responsiveness, is one of the goals of downsizing (Dubrin, 1996). In these cases the inaccessibility of old memory should be considered a positive outcome. Transformations are processes within organizations that convert inputs to outputs. These may vary on their level of analyzability. Analyzability refers to the capability of employees to clearly communicate each step in a process and how individual pieces relate to other parts of the process. The less analyzable a transformation, the more dependent it's completion is upon the tacit knowledge of the employees involved. These less analyzable transformations will be more difficult to complete without the employees who usually perform these processes because explicit instructions are not possible. Organizational structure defines the roles that employees take on as part of their jobs. Downsizing will alter many if not all of the roles within a company. Ecology refers to the actual physical workplace. This will probably not change during the downsizing. Hence, with the possible exception of organizational ecology, the maintenance of all these storage methods is highly dependent upon the employees within the organization. The employees laid off in downsizing are often from all levels of tenure, but in many cases, employees with more tenure are targeted through early retirement plans or simply by removing whole levels of management (Feldman, 1996). Therefore, downsizing will affect the ability of organizations to call upon "memory" as portions of it may have disappeared or been permanently altered due to the change.

Organizational knowledge has been defined as understanding, interpreting, distinguishing, being acquainted with, being aware of, being able to explain, being able to demonstrate, and/or being able to perform certain tasks or phenomena (Machlup, 1980). These attributes of knowledge all presume some amount of familiarity with processes or tasks. While not all of the employees leave as a result of downsizing, a significant portion do and they may be those employees, who have the most knowledge, as mentioned above. It is a reasonable assumption that they will take with them a vast amount of organizational knowledge, some of which may not be known to the survivors.

Organizational memory and knowledge lost through downsizing will have to be re-created by the remaining employees through organizational learning. According to Nonaka's (1994) theory of organizational knowledge creation, individuals are the center of knowledge creation. Individuals gain knowledge through the transmission of tacit and explicit knowledge from one person to another or the conversion of tacit to explicit knowledge (or vice versa) within a person. Such transmissions or conversions take place through one of four methods: socialization, externalization, internalization or a combination of these three. Organizational level learning occurs when these modes of learning are amplified throughout the employees of the firm. Or more precisely, organizations "learn" when one piece of knowledge becomes known by all relevant parties within an organization. Therefore individual learning is a necessary but not sufficient condition for organizational learning. Only when individuals transfer this knowledge to other employees, who are affected by the knowledge, has organizational level learning occurred. It is this organizational level of learning, as described by Nonaka (1994), that should be the focus of downsized organizations.

According to Miller's (1996) typology of organizational learning, two different learning processes, emergent and methodical, occur as a result of various modes of thought and action. Emergent learning is accomplished through the intuition and instincts of employees. Methodical learning results from analytic appraisals of “objective” events. These classes of learning are analogous to Nonaka’s (1994) tacit and explicit knowledge. A large scale workforce depletion may result in a decrease in both of these learning types.

Emergent learning depends on intuition and instinct acquired through experience with processes being performed. Tacit knowledge is information, which is difficult for employees to explicitly articulate for others (Polanyi, 1958). The creation of patterns (Miller, 1996) developed through the repetitive interaction of employees, that are taken for granted and applied to a variety of settings (Cohen and Bacdayan, 1994), is often classified as emergent learning and may result in tacit knowledge. Such knowledge derives from actions or involvement in specific contexts and can usually only be acquired through shared experiences including both those who possess the knowledge and those trying to obtain this knowledge. Organizational socialization or externalization are examples of this type of learning (Nonaka, 1994). In a downsized firm, many employees with tacit knowledge leave the organization and will not interact with survivors or new hires to pass along their knowledge. Because more senior employees may be over-represented in the laid-off population (Feldman, 1996), those employees with the greatest amount of intuition and instinct may be systematically taken out of the company and thus the amount of emergent learning may be significantly curbed. Newer employees will be less capable of providing insights relevant to the company through such emergent processes because they have less experience with many organizational processes.

Because these same, longer tenured, downsized employees, who possess tacit knowledge also have market, product or technical knowledge, methodical or explicit learning may also be reduced. Methodical learning occurs through analysis, experimentation and observation of structural features (i.e., routines and standardized information processing). These systematic approaches to learning include gathering data and making decisions based upon these data. Unfortunately many of the employees who possessed and understood the required data may be gone after downsizing. While this type of learning may be easier to replicate than emergent learning, it may still be a formidable task when employees who formerly provided data and information are no longer available.

One consequence of downsizing is that the opportunity to transfer knowledge, either emergent or methodical, from one person to another may be significantly reduced because much knowledge that could have been passed along to others is gone. Surviving employees will not have the benefit of relying upon former co-workers’ knowledge. They will need to re-learn much of what has been lost. Person-based pay systems, which are discussed in the next section, may provide one method of fostering the re-learning process.

PERSON-BASED PAY PLANS

Person-based pay programs like Skill/Competency Based Pay (SCBP) and Broad Banding (BB) focus on the personal development of individual employees. Unlike traditional job-based pay plans, which compensate employees for their ability to perform one job, person-based pay plans focus on training and paying employees for those skills needed in the company regardless of job classification (Lawler, 1994).

Person-based pay plans were designed to increase the opportunities available to employees to learn new skills and expand their understanding of facets of the firm not necessarily within the scope of their original job classifications (Haslett, 1995; Mansfield, 1996; Merrick, 1997). These types of pay plans are becoming popular in companies trying to increase the value of their human capital. A recent survey showed an increase in BB from 17% of surveyed firms in 1994 to 29% in 1996 (Merrick, 1997). Similarly an American Compensation Association (ACA) survey regarding the use of SCBP showed that approximately 25% of responding firms have or are considering SCBP (American Compensation Association, 1996). Given the select sample of ACA surveys (i.e., companies whose compensation professional(s) are ACA members), 25% is probably an overestimate of the prevalence of SCBP, but it does indicate that such programs are being used in industry. The added flexibility of a workforce trained in a variety of skills and jobs, such as those of firms with person-based pay plans, has been proposed as a potential for sustained competitive advantage for firms (Lado and Wilson, 1994).

FEATURES OF PERSON-BASED PAY PLANS

SCBP compensates employees for mastery of blocks of related skills or competencies. Skills needed for the operation of the firm are catalogued and grouped into discrete blocks of similar skills. An amount of money is then attached to each of these blocks. Employees are assessed as to which skill blocks they can perform and paid according to the money attached to these blocks. Employees, typically, may choose which skill blocks interest them most and learn those. This should lead to a variety of skill levels in a workforce where some employees develop a wide breadth of skills (generalists), while others focus on one skill area (specialists). Employees' wages are determined in accordance with the blocks of skills they possess. Critical to these plans is that employees may not always be performing those skills for which they are being paid. Rather they are being compensated for their potential value to the firm instead of their actual value at all times.

Administration of SCBP requires a large commitment on the part of the firm. While no compensation plan is completely objective or fool-proof, the unique problems with SCBP are new and have yet to be worked out by practitioners. Determining the composition of skill/competency blocks may be time consuming and these blocks are likely to change as the technology and nature of the industry shift (Mansfield, 1996).

Training is an essential part of this program. Employees must be allowed the opportunity to learn new skill/competency blocks for the program to achieve its goals. Assessment of employees' skills is also key to the success of these programs. Typical issues involved with the assessment of skills include who will do the evaluations, what form the evaluation will take and how often evaluations must be performed to avoid the deterioration of skills. Despite these difficulties companies are forging ahead with these plans in hopes of profiting from the improved knowledge base of their workforces.

BB represents another attempt at developing skills and creating flexibility in a workforce through compensation. These plans focus on the elimination of the traditional salary structure composed of many narrow ranges and replacing it with a few extremely broad salary bands (Braddick, Jones, and Shafer, 1992). By reducing the number of salary grades, the emphasis on promotion through the ranks is diminished as promotions will no longer result in movement to a higher grade level. By reducing the tie of pay to control points (e.g., minimum, midpoint and maximum of grades), compensation is determined by changes in the employee's value to the organization.

BB allows for more flexibility in the assignment of employees to jobs. Lateral and downward transfer are encouraged as these will no longer require salary grade changes that would adversely effect the employee's pay. Employees may be more amenable to transfers that previously would have been considered downward transfers because the concomitant decrease in pay is no longer attached to these moves (Risher and Butler, 1994). With the increased transfer possibilities, employees can expand their understanding of company processes by working in a variety of areas. Individual employee's increased knowledge of other areas, will create a better overall understanding of the firm for the employee, thereby enhancing organizational knowledge. For the firm, this translates into more flexible human capital that can utilize a wider scope of knowledge to accomplish work.

While both BB and SCBP target individual employees for learning, the effects may generate a higher level of organizational knowledge. In SCBP the acquisition of new skill blocks often entails employees working outside their original job classifications. This is similar to BB's job transfers. Through this outside work methodical learning, in the form of technical or product knowledge, is propagated through the organization. Also, relationships between employees in different functions can be established, that otherwise might not exist. These relationships may foster interactive development, one form of emergent learning (Miller, 1996). The interaction between employees who are not typically in close contact with one another creates opportunities for the transfer of emergent or methodical learning across the organization. It is these kinds of knowledge transfers that Nonaka (1994) refers to as organizational learning.

COMPARISON OF PERSON-BASED AND JOB-BASED PAY PLANS

Both SCBP and BB require significant changes to the compensation method within a firm. Person-based pay programs differ from job-based pay programs in their base unit of analysis. Job-based pay programs, or traditional salary structures, focus on paying each job within the organization. Every job is compared to other jobs in the organization. They are also compared to external market data of similar jobs in other organizations. A combination of these internal and external comparisons results in a hierarchy of jobs. This hierarchy groups like jobs into a grade for which pay ranges are specified (i.e., minimums, midpoints and maximums). Employees are assigned to jobs and paid within the job's associated pay range. Further, many firms have policies regarding employees' progression through the grades' ranges. (For a complete discussion of traditional salary structures, see Milkovich and Newman [1996]).

In a job-based system, an employee transferring to another job may require a change in salary grade and, typically, a commensurate change in the employee's salary. This can be especially troublesome if the new job is in a grade lower than the employee's original job. BB eliminates these problems by reducing the number of grades and job classifications. Employee transfers occur within a band and will not necessarily dictate a change in pay. Additionally, employees, who are performing skills that are usually part of another job, would require a re-evaluation of their jobs' placement in the overall hierarchy. This type of realignment is administratively difficult, especially if done for each incumbent, and therefore employees are usually confined to one job classification. SCBP alleviates this problem by determining individual employee's pay on skill blocks rather than whole jobs.

Compensation changes, however, are not enough to ensure the success of these programs. The success of both BB and SCBP necessitates a cultural shift to a more person-focused career development environment (Lawler, 1994; Risher and Butler, 1994). SCBP relies on formal training and development programs. These training efforts must enhance skills and competencies needed by the firm and must be accessible to all employees. BB encourages the use transfers within a band in an effort to broaden the scope of employee knowledge to other areas within the business (Flynn, 1996). While this is accomplished by replacing narrow salary grades with wider, fewer bands, the ease and ability of employees to make these transfers is essential to the program's success. If these training and transfer programs are readily available methodical learning should increase through on-the-job training and emergent learning should increase through more employee and cross-functional interactions.

PROPOSITIONS

The reviewed literature suggests some opportunities for downsizing firms to alleviate the problems of lackluster performance through person-based pay plans. Human resource policies designed to improve the flexibility and knowledge of survivors provide a potential source of competitive advantage. Person-based pay plans (i.e., SCBP and BB) encourage the attainment of the skills and generalized knowledge of the firm that will be needed to replace organizational memory and knowledge lost to downsizing. Through implementation of these plans companies can highlight the need and provide opportunities for increasing organizational learning and creating organizational knowledge as well as retaining organizational memory. The model developed here illustrates how compensation plan design combines with the concepts of organizational learning, knowledge and memory, and survivor retention to effect firm performance. In this model compensation plan design captures the use of person or job based pay programs. Organizational learning is defined using Miller's (1996) typology, which distinguishes between emergent and methodical learning. Organizational knowledge refers to Nonaka's (1994) tacit and explicit knowledge types. Organizational memory is defined as the information stored by individuals and embedded in an organization's culture, structure and ecology (Walsh and Ungson, 1991). Survivor retention refers to firms' abilities to reduce voluntary turnover after a downsizing and firm performance may be any organizational outcome (e.g., product development, market share, product quality or productivity levels).

Person-based pay programs allow employees to increase their skills through obtaining new skill blocks or through job transfers. The formal learning which occurs in this process will increase methodical learning (Nonaka, 1994; Miller, 1996). The interactions between employees from a variety of areas within the company will probably assist in developing new organizational patterns or networks, which are a part of tacit learning (Polanyi, 1958). Therefore both types of learning may result from these person-based programs, thereby increasing the rate of learning and level of organizational knowledge in the firm. In the downsized firm, re-creation of lost memory and knowledge will be critical to achieving performance objectives. By contrast traditional job-based pay programs encourage employees to learn skills associated with one job and provide no incentive for them to learn any tasks related to other jobs as they will not be paid for this additional knowledge.

The following propositions explain how the use of person-based pay programs after downsizing may improve company knowledge and learning thereby improving company performance, more than job-based pay plans because person-based pay plans link skill development with pay.

One problem of downsizing involves the psychological effects on survivors and their impact on survivor retention. Loss of promotional opportunities up the career ladder (Metcalf and Briody, 1995) and a reduction in company loyalty (Stroh and Reilly, 1997) may increase voluntary turnover rates after a downsizing. SCBP and BB may reduce tensions created by the loss of career advancement opportunities among survivors. Employees can expand their knowledge bases and earn higher salaries without traditional promotions. By giving employees the ability to continue growing in their careers and financially rewarding them for this, employees should be less concerned with promotional opportunities (Feldman, 1996) and turnover of these survivors may be lower than if the company maintained a traditional job-based pay program. In a traditional, job-based system, survivors' pay would be confined to their jobs' salary ranges and they would have little or no opportunity for promotion to a higher salary range. To advance in their careers, these survivors will need to find "promotions" by gaining new employment outside the downsized firm. By increasing the possibilities for higher salaries and better career development with SCBP or BB, the company may improve the potential for keeping these survivors and keep an important source of organizational knowledge and memory (Johansen and Swigart, 1994). These survivors understand the cultures, transformations, structures and ecologies (Walsh and Ungson, 1991), which store organizational memory. As such, some of the organizational memory and knowledge of the firm may be retained.

Proposition 1: Because of higher survivor retention, downsized organizations that have or adopt person-based pay programs will retain greater organizational memory and knowledge than downsized organizations that have or adopt job-based pay programs.

In addition to retaining organizational memory and knowledge, downsized firms must re-create knowledge that is lost by employee lay-offs. Person-based pay programs are specifically designed to increase organizational learning. SCBP and BB may increase both the methodical and emergent learning in employees. By training employees on certain skills and competencies required to perform new tasks or new jobs, they address the methodical learning (explicit knowledge) necessary to minimally complete the work. However, both SCBP and BB also require employees to actually spend time working either on specific skills and competencies for which they have been trained or in different job classifications. Interaction with workers outside of the employee's normal circle is a by-product of this cross-training, which will increase the level of emergent learning (tacit knowledge) that occurs (Nonaka, 1994). Traditional job-based systems do not require any training outside of the employees' job classifications. These employee have no reason to acquire new skills or knowledge. They are confined to the original jobs, which requires no additional learning or interaction with employees outside their normal circle. Without a formal program to encourage learning, the amount of methodical or emergent learning which occurs under a job-based pay program will probably be limited.

Proposition 2a: Downsized organizations that have or adopt person-based pay programs will be more effective at creating explicit organizational knowledge through methodical learning than downsized organizations that have or adopt job-based pay programs.

Proposition 2b: Downsized organizations that have or adopt person-based pay programs will be more effective at creating tacit organizational knowledge through emergent learning than downsized organizations that have or adopt job-based pay programs.

The propositions presented thus far are important to organizations because of organizational knowledge's potential impact on firm performance. It is proposed here that person-based pay plans may improve organizational performance by enhancing the firms' abilities to retain survivors and organizational memory and to create new organizational knowledge. One purported goal of downsizing was to provide more flexibility in responding to the market through more direct managerial involvement and more efficient production capabilities (Bowman and Singh, 1993). All of these potential benefits rely heavily upon the firm's organizational knowledge. The significant loss of people may result in a significant loss of organizational memory and knowledge. Some of this loss may be beneficial, as the shift in culture required for successful downsizing (Dubrin, 1996) may be easier if some harmful knowledge is lost. However, the company will still need to perform many of the functions it performed before the downsizing. To ensure a minimum amount of continuity, survivors' organizational memory and knowledge may be helpful. New knowledge will also be critical to replace lost knowledge. This new knowledge may or may not take the form of the lost knowledge. Skills and knowledge, which are best aligned with company objectives in its new downsized state should be the goal of the person-based pay program.

The knowledge created through person-based pay systems will be unique to each firm and therefore a potential source of sustained competitive advantage. Employees in BB companies will choose job transfers to fit their own interests. Similarly employees in SCBP firms will learn skill blocks that interest them. If job transfer opportunities and skill blocks are defined with the goals of the organization in mind, then this workforce should be a valuable, company asset. Another workforce with identical skills would be difficult to imitate or substitute. Uniqueness, value, unimitability and non-substitutability are the four characteristics associated with firm resources which provide sustained competitive advantages (Barney, 1991). Such strategic assets have been linked to firm performance (Amit and Schoemaker, 1993). Therefore any improvements in the firm's ability to maintain old knowledge or create new knowledge would suggest an improvement in firm performance. Traditional job-based systems will not encourage the development of these unique skills in the workforce. Therefore no sustained competitive advantage should be present in job-based pay system firms as a result of these job-based pay systems.

Proposition 3: Downsized organizations that have or adopt person-based pay programs will have better firm performance than downsized organizations that have or adopt job-based pay programs.

Figure 1 presents a model of the preceding propositions.

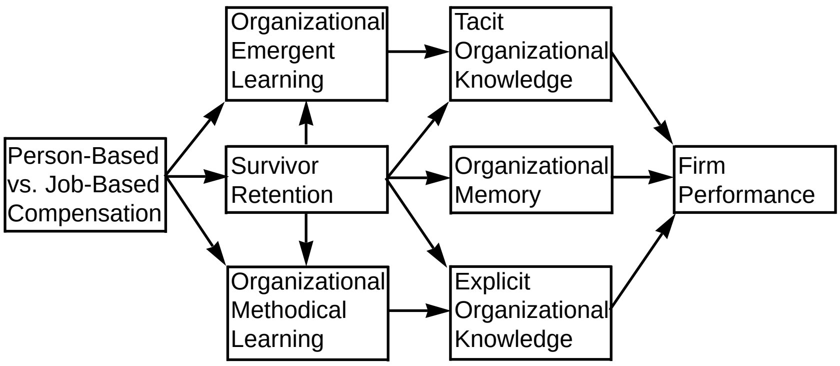

Figure 1. Model of Firm Performance Based on Compensation System and Organizational Learning

DISCUSSION AND FUTURE RESEARCH IDEAS

The model and propositions presented in this paper are based upon a blending of three research streams. In summary the model illustrates a more positive relationship between person-based pay programs in downsized firms and survivor retention, organizational learning and firm performance than the relationship between these dependent variables and job-based pay programs. Corporate downsizing represents a major issue for firms trying to compete against smaller, more nimble competitors. The perceived options available to firms to become more competitive are limited and many firms have chosen downsizing as their solution. The potential problems with downsizing, which have been identified (Brockner et al., 1993; Hitt et al., 1994; Dougherty and Bowman, 1995; Metcalf and Briody, 1995; Stroh and Reilly, 1997), indicate that counter-measures, such as person-based pay systems, which may alleviate these problems, are worth investigation.

Person-based compensation systems have been a fad in human resource management for the past few years. They are being adopted as the solution to many problems of restructuring organizations. Little research, however, has been done to understand how these person-based plans actually impact organizational effectiveness or performance differently than traditional job-based plans. This paper attempts to clarify the advantages person-based pay systems may have over job-based pay systems in the specific situation of downsizing firms, through their impact on survivor retention, organizational learning, and organizational knowledge and memory. From a contingency theory perspective, it is possible that downsizing and person-based pay systems form a synergistic combination that the combination of downsizing and job-based pay systems do not and that this synergy has benefits for firms' performances. Downsized firms are in the precarious position of not only trying to retain as much organizational memory and knowledge as they can through survivors, but also to create new knowledge replacing that which was lost. Person-based pay systems support an environment conducive to learning new skills and rewarding employees for the acquisitions of these new skills. Job-based pay systems do not incorporate any system features, which would encourage employee learning.

Empirical research in this area has been rare. Compensation is a particularly sensitive topic for most firms and their employees. As such, it is difficult for researchers to obtain access to these data and even more challenging to find field sites open to experimentation. Nonetheless, precisely because compensation is so important to firms and employees, quality research is needed. Testing the propositions in this paper would provide researchers and practitioners with some concrete evidence of the effects of person-based pay system in a downsized environment. The results could confirm the benefits of using these systems or could conclude that BB and SCBP are indeed just human resource fads and should be discontinued. If the results confirm that person-based systems do hold incremental benefits over job-based pay systems in creating organizational knowledge and improving firm performance for the downsized firm, many more questions remain to be answered.

For example, it is possible that different types of employees (i.e., professional, clerical, or manufacturing workers) may have a variety of outcomes with these plans. One reason for this potential difference may be that the range of skills, which could be learned, varies by employee group. Clerical workers may not have many opportunities to learn new skills, while manufacturing employees have sometimes seemingly limitless possibilities for learning. In this case, clerical workers may not be the best candidates for person-based pay systems.

Another research direction addresses participation rates in person-based pay programs. In most cases of person-based pay systems, employees volunteer for job transfers or to learn new skills. Given the problems of company loyalty (Stroh and Reilly, 1997) in downsized firms, the rate of employees volunteering may differ in this group from the rate of volunteering in non-downsized firms. Alternatively, employees in downsized firms may volunteer more as a means of obtaining job skills which will make them more attractive to other employers in the job market. Research regarding the underlying causes of volunteer rates may prove insightful about the possibility of cross-purposes of different stakeholders working under these programs.

CONCLUSIONS

This paper combines the compensation literature with that of strategic management literature to develop a model of the effects of person-based compensation systems on firm performance in a downsizing environment. Specifically, the propositions suggest that person-based compensation systems, like broadbanding and skill/competency based pay, may provide a semi-structured method of increasing organizational learning, where traditional job-based pay systems limit such opportunities to learn. The large loss of employees through downsizing suggests that a significant amount of organizational memory and knowledge is lost. Therefore, person-based pay systems may be better suited than job-based pay systems to improve downsized firms' ability to perform.

Compensation research on person-based pay plans such as broadbanding or skill/competency based pay plans has been limited and in the area of downsizing it is non-existent. Given the extensive impact downsizing is having on a great number of firms, it may be time to begin contemplating the effects of different pay distribution methods under these circumstances. This may eventually benefit both downsized firms through higher performance and survivors of downsizing through larger opportunities for higher pay and job enrichment.

Jannifer Gregory is a doctoral candidate at Michigan State University's School of Labor and Industrial Relations specializing in employee compensation and benefits. She has participated in research projects in the areas of group incentive programs, and the link between corporate strategy and compensation systems. She has taught undergraduate courses on employee compensation, benefits, and employee performance and collective bargaining. She is currently completing her dissertation in the area of employee compensation and the intra-firm coexistence of internal and external labor markets.

REFERENCES

■ American Compensation Association 1996
Raising the Bar: Using Competencies to Enhance Employee Performance, Scottsdale: American Compensation Association.

■ Amit, Raphael, and Paul J. H. Schoemaker 1993
Strategic Assets and Organizational Rent, *Strategic Management Journal,* 14:1, 33-46.

■ Barney, Jay 1991
Firm Resources and Sustained Competitive Advantage, *Journal of Management,* 17:1, 99-120.

■ Bowman, Edward H., and Harbir Singh 1993
Corporate Restructuring: Reconfiguring the Firm, *Strategic Management Journal,* 14: Special Issue, 5-14.

■ Braddick, Carol A., Michael B. Jones, and Paul M. Shafer 1992
A Look at Broadbanding in Practice, *Journal of Compensation and Benefits,* 7:7, 28-32.

■ Brockner, Joel 1988
The Effects of Work Layoffs on Survivors: Research, Theory and Practice, *in* Barry M. Staw and L. L. Cummings (Eds.), *Research in Organizational Behavior,* vol. 10, Greenwich: JAI Press, 213-255.

■ Brockner, Joel, Steven Grover, Michael N. O'Malley, Thomas F. Reed, and Mary Ann Glynn 1993
Threat of Future Layoffs, Self-esteem, and Survivors' Reactions: Evidence from the Laboratory and the Field, *Strategic Management Journal,* 14: Special Issue, 153-166.

■ Cameron, Kim S., Sarah J. Freeman, and Aneil K. Mishra 1991
Best Practices in White-collar Downsizing: Managing Contradictions, *Academy of Management Executive,* 5:3, 57-73.

■ Cascio, Wayne F. 1993
Downsizing: What Do We Know? What Have We Learned?, *Academy of Management Executive,* 7:1, 95-104.

■ Cohen, Michael D., and Paul Bacdayan 1994
Organizational Routines Are Stored as Procedural Memory: Evidence from a Laboratory Study, *Organization Science,* 5:4, 554-568.

■ Daniels, Kevin 1995
A Comment on Brockner et al. (1993), *Strategic Management Journal,* 16:4, 325-328.

■ Dougherty, Deborah, and Edward H. Bowman 1995
The Effects of Organizational Downsizing on Product Innovation, *California Management Review,* 37:4, 28-44.

■ Dubrin, Andrew J. 1996
Reengineering Survival Guide: Managing and Succeeding in the Changing Workplace, Cincinnati: Thomson Executive Press.

■ Feldman, Daniel C. 1996
Managing Careers in Downsizing Firms, *Human Resource Management,* 35:2, 145-161.

■ Flynn, Gillian 1996
Compare Traditional Pay with Broadbanding, *Personnel Journal,* 75:2, 20, 26.

■ Ganster, Daniel C., and Deborah J. Dwyer 1995
The Effects of Understaffing on Individual and Group Performance in Professional and Trade Occupations, *Journal of Management,* 21:2, 175-190.

■ Haslett, Susan 1995
Broadbanding: A Strategic Tool for Organizational Change, *Compensation and Benefits Review,* 27:6, 40-46

■ Hitt, Michael A., Barbara W. Keats, Herbert F. Harback, and Robert D. Nixon 1994
Rightsizing: Building and Maintaining Strategic Leadership and Long-Term Competitiveness, *Organizational Dynamics,* 23:2, 18-32.

■ Hoskisson, Robert E., and Michael A. Hitt 1994
Downscoping: How to Tame the Diversified Firm, New York: Oxford University Press.

■ Jelinek, Mariann, and Claudia Bird Schoonhoven 1993
The Innovation Marathon: Lessons from High Technology Firms, San Francisco: Jossey-Bass.

■ Johansen, Robert, and Rob Swigart 1994
Upsizing the Individual in the Downsized Organization: Managing in the Wake of Reengineering, Globalization, and Overwhelming Technological Change, Reading: Addison-Wesley.

■ Lado, Augustine A., and Mary C. Wilson 1994
Human Resource Systems and Sustained Competitive Advantage: A Competency-Based Perspective, *Academy of Management Review,* 19:4, 699-727.

■ Lawler, Edward E., III 1994
From Job-Based to Competency-Based Organizations, *Journal of Organizational Behavior,* 15:1, 3-15.

■ Machlup, Fritz 1980
Knowledge: Its Creation,Distribution and Economic Significance, Vol. 1, Princeton: Princeton University Press.

■ Madrick, Jeffrey 1995
Corporate Surveys Can't Find a Productivity Revolution, Either, *Challenge!,* 38:6, 31-34.

■ Mansfield, Richard S. 1996
Building Competency Models: Approaches for HR Professionals, *Human Resource Management,* 35:1, 7-18.

■ Merrick, Bill 1997
Pay and Performance: 1997 Salary Survey–Part II, *Credit Union Magazine,* 63:7, 44-49.

■ Metcalf, Crysta J., and Elizabeth K. Briody 1995
Reconciling Perceptions of Career Advancement with Organizational Change: A Case from General Motors, *Human Organization,* 54:4, 417-428.

■ Milkovich, George T., and Jerry M. Newman 1996
Compensation, 5th edition, Chicago: Irwin.

■ Miller, Danny 1996
A Preliminary Typology of Organizational Learning: Synthesizing the Literature, *Journal of Management,* 22:3, 485-505.

■ Nonaka, Ikujiro 1994
A Dynamic Theory of Organizational Knowledge Creation, *Organization Science,* 5:1, 14-37.

■ Polanyi, Michael 1958
Personal Knowledge: Towards a Post-Critical Philosophy, Chicago: University of Chicago Press.

■ Reilly, Anne H., Jeanne M. Brett, and Linda K. Stroh 1993
The Impact of Corporate Turbulence on Managers' Attitudes, *Strategic Management Journal,* 14:Special Issue, 167-179.

■ Risher, Howard, and Robert J. Butler 1994
Salary Banding: An Alternative Salary-Management Concept, *ACA Journal,* 2:3, 48-57.

■ Roberts, Edward B. 1988
What We've Learned: Managing Invention and Innovation, *Research-Technology Management,* 31:1, 11-29.

■ Stroh, Linda K., and Anne H. Reilly 1997
Loyalty in the Age of Downsizing, *Sloan Management Review,* 38:4, 83-88.

■ Walsh, James P., and Gerardo Rivera Ungson 1991
Organizational Memory, *Academy of Management Review,* 16:1, 57-91.