

# Downsizing and Stakeholder Orientation Among the Fortune 500: Does Family Ownership Matter?

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**ABSTRACT.** While downsizing has been widely studied, its connection to firm ownership status and the reasons behind it are missing from extant research. We explore the relationship between downsizing and family ownership status among Fortune 500 firms. We propose that family firms downsize less than non-family firms, irrespective of performance, because their relationship with employees is based on normative commitments rather than financial performance alone. We suggest that their actions are related to

employee- and community-friendly policies. We find that family businesses do downsize less irrespective of financial performance considerations. However, their actions are not related to their employee- or community-friendly practices. The results raise issues related to the motivations of large multinationals to downsize and the drivers of their stakeholder management practices.

**KEY WORDS:** downsizing, family business, performance, stakeholder orientation

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## **Introduction**

Over the past 15 years or so, downsizing has been utilized widely by American corporations as a strategic choice (Chadwick et al., 2004; De Meuse et al., 2004) and has been driven by pressures to improve operating efficiency (Chadwick et al., 2004; Nixon et al., 2004). Even though different ways to downsize exist, in the majority of cases downsizing involves layoffs (Greenberg, 1991; Greenhalgh and McKersie, 1980; McCune et al., 1988).

Research on downsizing has focused on different downsizing approaches (DeWitt, 1998), their association with various human resource management practices (Nixon et al., 2004), and their relation to different measures of performance (Chadwick et al., 2004; De Meuse et al., 2004; Lee and Miller, 1999). Results seem to converge that regardless of the downsizing approach or the performance indicators used, downsizing is not typically associated with performance improvements while the effects on employees and organizational learning are usually negative (Chadwick et al., 2004; De Meuse et al., 2004).

Theoretical approaches to the study of downsizing involve mainly economic theory or psychological contract theory (De Meuse et al., 2004). Downsizing, however, has not been studied through the lens of stakeholder theory: if employees are an important stakeholder group to organizations (Agle et al., 1999; Clarkson, 1994; Hillman and Keim, 2001) and the greatest asset for any organization (Nixon et al., 2004; Pfeffer and Veiga, 1999), then it would be useful for researchers and practicing managers alike to examine downsizing from a stakeholder perspective – as we do in this paper.

As Berman et al. (1999) propose, a firm's (and its management's) concern for a stakeholder group is determined either by the perceived ability of this concern to improve the firm's financial performance – what Berman et al. (1999: 488) term the “strategic stakeholder management orientation model” – or it is based on a moral commitment or obligation to treat stakeholders well – Berman et al.'s (1999: 488) “intrinsic stakeholder commitment model”. In the second case, this moral commitment shapes a firm's strategy and influences its financial performance (Berman et al., 1999). Broadly speaking, the predominant line of thinking, implicit or explicit, utilized in most studies on downsizing involves the strategic stakeholder management orientation model. Our focus, in this paper, is to examine whether in certain types of organizations, specifically family owned or controlled firms, downsizing is described more accurately by the intrinsic stakeholder commitment model.

Even though not previously explored, anecdotal evidence seems to suggest that businesses that are family owned or controlled have a different, more caring approach towards their employees compared to their non-family counterparts who may view employees as a means towards financial returns (Aronoff, 2004; Deniz and Suarez, 2005). These businesses, possibly because of family ownership or control, seem to treat employees more like family and to go to greater lengths than non-family firms to cater to employee needs. Furthermore, these types of firms seem to have a long-term orientation to performance and profits than their non-family counterparts (Anderson and Reeb, 2003; Aronoff, 2004), being less willing to sacrifice human capital for short-term returns.

Often the impression is that family firms are merely small “mom and pap” operations with little impact on the larger business arena. However, families control the majority of businesses around the globe and are important contributors to national and local economies (Stavrou and Swiercz, 1998). In the US alone, they control approximately 80% of businesses over a broad range of industries and sizes (Gomez-Mejia et al., 2003). Even though the majority is small-and-medium in size, family firms constitute 35% of the S&P 500 Industrials and 33% of Fortune 500 firms (Anderson and Reeb, 2003).

Therefore, we incorporate the consideration of family ownership within the context of Berman et al.'s (1999) theoretical framework and propose that businesses that are family owned or controlled are less likely to downsize than their non-family counterparts. Furthermore, we propose that while the downsizing practices of non-family firms will be significantly related to their performance – as numerous studies show but without considering family ownership status as an explanatory variable – the downsizing practices of family firms will not. Furthermore, we propose that the lower levels of layoffs of family firms are related to their more employee- and community-friendly policies.

## Theoretical development

### *Downsizing, stakeholder theory and family-business status*

Downsizing is generally regarded as an intentional process of personnel reduction in an organization aimed at improving the company's competitive position (Cameron and Huber, 1997; De Meuse et al., 2004; Noe et al., 2000). In the last two decades, an increasing number of companies have resorted to downsizing (Noe et al., 2000). Many organizations view downsizing either from a “pure cost” focus or a “strategic” focus, or a combination of the two (Becker and Gerhart, 1996). Researchers argue that most of the times downsizing is either driven by reductions in labor demand or by efforts of firms to increase operating efficiency by reducing labor costs (Chadwick et al., 2004).

Moreover, crisis-led financial management and change in organizational ideology and focus

(Appelbaum et al., 1999; Budros, 1997) have been connected to downsizing. Factors such as productivity and efficiency, business environment, globalization and the costs of downsizing are significant strategic considerations in making decisions about downsizing. Interestingly, business environment and globalization both act as external “determinist” explanations of downsizing, used to deflect “blame” for downsizing away from possible poor management decisions and towards external conditions and forces which managers do not control (Palmer et al., 1997).

By and large the above perspectives on the decision to downsize rest on the premise that organizations manage their relations with stakeholders purely in an effort to enhance value creation and more specifically to maximize their financial performance. Such organizations adopt a strategic stakeholder management model with the ultimate objective being marketplace success through improved financial performance. In fact, the notion that stakeholder management has instrumental value is at the core of Freeman’s (1984) argument that stakeholder relationships are the very basis of value added and strategic initiative (Berman et al., 1999).

However, downsizing as a practice to improve organizational performance has been widely debated. On the one hand, the positive effects suggested in the literature are that downsizing reduces operating costs, enhances short-term financial performance, eliminates unnecessary levels of management, enhances overall effectiveness, makes an organization more competitive, enables management to eliminate redundancies, and may save the organization from continuing financial deterioration and possible bankruptcy (Cappelli, 2000; De Meuse et al., 2004; McKinley et al., 2000; Schmidt and Svorny, 1998).

On the other hand, most of the times downsizing does not turn out the way executive management had planned (Orpen, 1997). In fact, the majority of studies show that (mostly in the long-term) downsizing affects rather negatively the firms that have implemented it (Budros, 1999; Nixon et al., 2004; Vanderheiden et al., 1999). In the short run, it creates the illusion that decisions are being made and actions are undertaken (Cameron and Huber, 1997; De Vries and Balazs, 1996; Genasci, 1994; Glebbeek

and Bax, 2004; Vanderheiden et al., 1999). In the long-term, Cascio (1993, 2002) showed that downsizing does not yield any performance gains. Finally, Chadwick et al. (2004) concluded that although downsizing may immediately reduce direct labor costs, it may also undermine the firm’s long-term competitive advantage.

One reason may be that large and quickly imposed layoffs cause many problems to the company. Another reason may have to do with the way in which managers decide to go through with the layoffs. Furthermore, managers’ expectations often exceed the potential outcome of the venture (Cascio, 1993) which means that when taking the decision to downsize, managers expect to gain much more than what downsizing can actually provide. Orpen’s (1997) claim is that layoffs are frequently the incorrect response for dealing with a firm’s problems.

Cameron and Huber (1997) listed a number of negative outcomes that were associated with the effects of downsizing. Those outcomes included increased centralization, adoption of short-term, crisis mentality, the loss of innovativeness, increased resistance to change, decreased employee morale, commitment and loyalty, risk-aversion and conservatism in decision-making, loss of trust among customers and employees, increased interpersonal conflict, less information sharing, lack of team work, and loss of forward-thinking. In addition, a number of hidden, hard to quantify costs (e.g., quality costs, increases in overtime payments, lack of human resources and skill base to exploit upcoming opportunities) appear to be related to downsizing (Mabert and Schmenner, 1997).

In addition to the above, in studies on downsizing, survivors report a sense of psychological withdrawal from their organizations. They also express a range of emotional responses such as “enhanced cynicism,” “lack of morale and motivation that has had a direct impact on productivity levels” and “fear and a sense of betrayal” about the organization’s motives for downsizing (Sahdev et al., 1999: 915). Medical studies have shown an increased rate of medically certified sickness and an increased risk of death among people who remain at work following a major downsizing (Vahtera et al., 2004). It was also proposed that downsizing programs that limit the inflow of new employees were associated with

increased feelings of role overload and role ambiguity as well as increased inter-group conflict (Feldman, 1995). Even from the point of view of management responsible for implementing downsizing, this process is not easy: they find themselves dealing with moral choice predicaments wherein the pursuit of their benefit (such as keeping their job) would result in harms that have a negative effect on others in ways they cannot control (Hosmer, 1994). These findings about the impact of downsizing on employees' and even management's well-being point to the range of challenges facing organizations that have downsized.

Given the aforementioned discussion on the challenges faced by organizations that downsized, Berman et al.'s (1999) intrinsic stakeholder commitment model may be of value when considering an organization's relations with an important stakeholder group such as its employees and when viewing downsizing beyond financial performance. The question that we raise in this paper is whether certain types of businesses follow Berman et al.'s (1999) intrinsic stakeholder commitment model in their downsizing practices or whether all are more likely to espouse the strategic stakeholder management model instead.

According to Aronoff (2004), family ownership groups, while not denying the importance of the firm's successful financial performance, are typically motivated by and committed to a set of "family values" represented by their business, which supersede financial considerations. These values become the basis for the family business culture over generations which distinguish the governance of family firms from that of other enterprises. These values influence strategic and personnel decisions, which otherwise would have been driven by financial performance considerations alone.

At the same time, Anderson and Reeb's (2003: 1302) study of S&P 500 firms shows that family ownership or control offers greater influencing and monitoring power over company operations as well as larger investment horizons, leading to greater investment efficiencies and less "myopic" decisions by management.

In addition to the above, in an effort to propose a theoretical model of agency and altruism in family firms, Schulze et al. (2002) classified owner-managers as altruistic. Deniz and Suarez (2005) describe

owner-managers as stewards committed to acting on the basis of their principles rather than financial needs, towards the collective interests of the company's stakeholders. According to Aronoff and Ward (1992), successful family businesses often have a philosophy that includes stewardship of the family resources for the benefit of the family, the employees, and the community and a wish to leave behind an enduring institution. Along similar lines, Guzzo and Abbott (1990) report that owning families, more than management in non-family firms seek harmony and are especially committed and loyal to their organization and its stakeholders.

Such behaviors and values in family firms are consistent with Berman et al.'s (1999: 492) "intrinsic stakeholder orientation model," which states that firm relationships with stakeholders are based on "...normative, moral commitments rather than on a desire to use those stakeholders *solely* to maximize profits." In other words, a firm's treatment of its stakeholders and its overall decision-making are driven by a set of fundamental moral principles. According to this perspective then (Berman et al., 1999: 494) "...the interests [and claims] of stakeholders have intrinsic value [unrelated to their instrumental value to a firm], enter a firm's decision-making prior to strategic considerations and form a moral foundation for corporate strategy itself." In proposing that stakeholder interests have intrinsic worth, Donaldson and Preston (1995) argue that such interests are essentially independent of strategic considerations and cannot be ignored by firms simply because addressing them does promote their strategic interests. Interestingly, the revenue, profitability and competitiveness benefits of stakeholder management result from a firm's "genuine commitment to ethical principles" and its commitment to "...ethical relationships with stakeholders regardless of expected benefits" (Berman et al., 1999: 493–494).

When stakeholders are employees, Budros (1999) argues that organizations with a tradition of placing greater value on employees' needs and interests than on short-term profits should avoid downsizing, since it seems to be incompatible with a philosophy endorsing humane treatment of employees. In contrast, organizations lacking this philosophy should be inclined to downsize,

since this act seems to be compatible with the organization's emphasis on the profit motive. Given this consistency and since controlling families have a significant say in their companies' strategic direction (McConaughy et al., 2001), it is possible that in family owned or controlled firms, downsizing might be considered inconsistent with "family values" and as a means of disrupting the desired harmony and thus be avoided. Furthermore, the relationship between downsizing and family businesses will not be contingent on performance considerations. Therefore, we propose that:

*Hypothesis 1a:* The relationship between family business status and downsizing will be significant and negative: Family firms will show lower levels of employee downsizing than their non-family counterparts.

*Hypothesis 1b:* Family-business status will be a significant moderator in the relationship between downsizing and performance: while downsizing in non-family businesses will be significantly and inversely related to performance, downsizing in family firms will be significant and negative but not related to performance.

If not performance, then what are the "family values" that could possibly contribute towards the preference of family firms not to resort to downsizing? Even though family values have not been studied previously in the context of downsizing, Aronoff (2004) and Deniz and Suarez (2005) report that especially important are a family firm's reputation, quality, hard work, ethical business practices, customer and employee relations, philanthropy and support for its community and employees. Along similar lines, Gallo (2004) explains that family firms fulfill their social responsibility towards employees and their communities to a large extent and value unity, commitment, industriousness, teamwork, and helping others. Stavrou and Swiercz (1998) report that family businesses are more concerned than their non-family counterparts about contributing to the welfare of their communities; also, family firms tend to exert a deep sense of personal responsibility towards their employees.

To illustrate, Deniz and Suarez (2005) explain that owning families are unlikely to uproot their

employees from their positions. Moreover, they generally sit on the boards of charitable and non-profit organizations that contribute to the welfare of their communities. Finally, owning families have an intense philanthropic activity based on an internal value system whose rewards have a social and interpersonal rather than a financial character.

The above values do not suggest that owning families are not concerned with profits at all. In fact, Gallo (2004) notes that one of the major aims and duties of family businesses are, like their non-family counterparts, to create economic wealth. However, their values may be driven by unique concerns and interests, such as stability, capital preservation, reputation concerns and intentions to pass the business onto succeeding generations, which may not align with the interests of other investors (Anderson and Reeb, 2003: 1303).

At the same time founding families are in a unique position to exert influence and control over their firms. Based on Mitchell et al. (1997) work, owning families may be viewed as an important set of stakeholders due to the power and legitimacy they have within their business. As important internal stakeholders, they can directly influence the practices of their organizations. Therefore, remaining with Berman et al.'s (1999) intrinsic model of stakeholder relationships, the preference of family firms not to resort to downsizing may be attributed to their willingness to care for their employees and their communities as discussed above. In turn, we propose that:

*Hypothesis 2:* The relationship between downsizing and family-business status will be moderated by employee and community friendly policies: the negative relationship between downsizing and family businesses will be stronger where employee and community friendly policies are applied.

Employee- and community-friendly policies reported in the literature abound. Some have been connected to downsizing and include charitable contributions, work and family benefits to employees (such as child care, elder care, and flexibility at work), employee involvement in profits (such as profit sharing and stock options) and decision-making, and good retirement benefits (Beinetti, 1992; Budros, 1999; Ettore, 1995; Nelson, 1997).

These policies are consistent with stakeholder theories promoting the quality of life of the employees and the communities of organizations within the context of socially responsible practices (Anfuso, 1995; Berman et al., 1999; Grow et al., 2005; Henriques and Sadosky, 1999; Kassinis and Vafeas, 2006). In turn, consistent with Berman et al.'s (1999) intrinsic model of stakeholder relationships and given the preceding discussion on "family values," these employee- and community-friendly practices could be an important factor for which family firms are less inclined to downsize.

In summary, in this paper we propose that family businesses downsize less than their non-family counterparts, regardless of financial performance considerations, and this may be attributed to their different value system and the resulting employee- and community-friendly approach.

## Methods

### Sample

Our primary sample included large capitalization U.S. firms from a broad range of industries, as listed in Fortune magazine's Fortune 500 list during the period 2000–2002. We chose this time period because it includes the terrorist attacks of September 11, 2001 in New York City. Since downsizing may be accentuated during difficult economic periods (Cascio, 2002), we wanted to see if a difference in downsizing practices between family and non-family firms during such a period would exist in comparison with the year before and the year after the events of September 11th.

A sample of 102 family firms from the Fortune 500 list of 2002 was initially identified using information from corporate proxy statements found in SEC's *EDGAR Database*. We matched each family firm with a control firm, which operated in the same industry (2-digit SIC code) and was closest in size (measured by total assets) – allowing for variation of one standard deviation (Anderson and Reeb, 2003) – as the identified family firm. This yielded a matched pairs sample of 204 Fortune 500 businesses (102 family and 102 non-family firms). Downsizing activity data for these firms were collected by an exhaustive manual examina-

tion of corporate downsizing announcements published in *The New York Times* and *The Wall Street Journal* during the period 2000–2002. Data for estimating the variable capturing the firm's downsizing activity came from *Compact Disclosure*. Firm specific control variables were calculated with data drawn from the *COMPUSTAT* Industrial files. Finally, data on community- and employee-related practices were collected for the same period from the *KLD* database.<sup>1</sup>

Firms that were not actively managed by the family during the study period, those with missing data (financial information or information regarding the announced number of employees downsized) or firms that were not ranked by KLD, were excluded from the final sample. In the end, we found complete data on 180 out of the 204 initial firms (90 family and 90 non-family), yielding 540 firm-year observations for the period of 2000–2002.

### Measures

#### Family-business status

The independent variable is a binary measure where Fortune 500 firms identified as family owned or controlled receive a value of one (1) and all other businesses receive a value of zero (0). In order to identify family firms, we used as a basis Gomez-Mejia et al.'s (2003), definition of a family business: a business is family owned or controlled if (a) at least two directors have a family relationship (are members of the same descendant group) and (b) family members own or control at least 5% of the voting stock. While the above definition provides a measure of family control similar to other ownership studies, it does not differentiate between active and passive family participation. Active family participation involves family members serving as the firm's CEO or occupying other top management positions – a relatively common attribute among family firms (Anderson and Reeb, 2003; Davis et al., 1997; Morck et al., 1988). Therefore, in order to capture this active family participation, we used family firms that satisfied all three of the following criteria: (a) at least two directors have a family relationship, (b) family members own or control at least 5% of the voting stock of the firm and (c) a family member serves as an executive officer.

*Downsizing (layoff ratio)*

The layoff ratio is the dependent variable in our study. We created the layoff ratio by dividing the reported number of downsized employees for each company by the total workforce of the company at year's end before downsizing. In order to determine the number of downsized employees, we manually examined corporate downsizing announcements from January 1, 2000 to December 31, 2002, compiled from *The New York Times* and *The Wall Street Journal*. For each firm in our sample, we recorded the year of the announcement and the number of employees affected by the downsizing. We extracted the total workforce in each firm for each year from Compact Disclosure. Announcements that lacked sufficient information on the number of employees affected by the downsizing or that described minor downsizing events – layoff ratio was less than 0.5% of the total workforce of the firm – were excluded from the sample (McWilliams and Siegel, 2001; Nixon et al., 2004).

*Performance*

We use performance as a control variable in order to explore the relationship between family-business status and downsizing over and above performance considerations. In the majority of studies, the relationship between downsizing and performance has been found to be statistically significant (Budros, 1999; Nixon et al., 2004; Vanderheiden et al., 1999). Consistent with previous studies (Cascio, 1998; De Meuse et al., 2004), financial performance is operationalized as return on assets (ROA) – computed as the ratio of earnings before interest, tax, depreciation and amortization divided by total assets.

*Employee- and community-friendly policies*

We needed to develop a set of measures to account for the “family values” that characterize family firms. According to the literature (Aronoff, 2004; Deniz and Suarez, 2005; Gallo, 2004) these are expressed in the form of socially responsive actions taken by family firms towards their employees and the community in general. Given the difficulty of obtaining such information from firms directly, we used the following six relevant indicators obtained from *KLD* as proxies for these values: (a) generous

charitable giving, (b) innovative/non-traditional charitable giving to support non-profit organizations, (c) outstanding family benefits or other programs addressing work/family concerns (e.g. child care, elder care, and flexible work), (d) cash profit-sharing programs to the majority of a firm's workforce, (e) employee involvement (e.g., sharing of financial information, participation in management decision-making) and/or ownership options (e.g., stock ownership, gain sharing), and (f) the existence of a strong retirement benefits program. Each of these indicators is measured on a binomial scale: *KLD* assigned a value of one (1) if a company's behavior regarding the indicator was satisfactory and zero (0) if it was not.

*Analysis*

To test the proposed hypotheses, we used a set of linear and hierarchical moderated regressions all assuming a significance level of 0.05 (Cohen et al., 2002). The analyses for the moderations were conducted in steps. In Step one, we tested for main effects and in subsequent steps we tested for the moderation effects (Tabachnick and Fidell, 2000). If an interaction accounted for a significant amount of incremental variance in the dependent variable, then evidence would support the hypothesis that a significant moderating effect existed. In these cases, separate analyses were conducted. We also tested for multicollinearity: the results seem to indicate that multicollinearity was not a major issue, as Tolerance statistics were all found to be between 0.50 and 0.94 (Tabachnick and Fidell, 2000). Finally, we examined the sensitivity of the results to alternative model specifications with the inclusion of year dummy variables. The results were very similar with the models reported in Table III, suggesting that our results are not driven by year effects.

**Results**

In Table I, we report descriptive statistics broken down by family-business status to provide an overview of variable and sample characteristics. According to this table, family businesses downsize

TABLE I  
Summary statistics of the variables in the study

Results reported over the period 2000–2002 Variables	Family firms ( <i>n</i> = 270)		Non-family firms ( <i>n</i> = 270)		Total ( <i>n</i> = 540)	
	Downsized ( <i>n</i> = 33)	Not downsized ( <i>n</i> = 237)	Downsized ( <i>n</i> = 42)	Not downsized ( <i>n</i> = 228)	Mean	Standard deviation
1. Annual mean number of employees downsized	1705	0	3970	0	3005	11214
2. Annual average percentage layoff ratio	4.33	0	6.50	0	0.76	2.66
3. Annual average performance (ROA)	3.06	3.83	− 1.87	5.12	3.89	7.58
4. Annual average frequency of generous giving	15%	15%	3%	6%	5%	0.22
5. Annual average frequency of innovative giving	7%	7%	6%	7%	7%	0.25
6. Annual average frequency of family benefits	15%	15%	9%	6%	8%	0.27
7. Annual average frequency of cash profit sharing	15%	15%	18%	14%	14%	0.35
8. Annual average frequency of employee involvement	4%	4%	18%	6%	6%	0.24
9. Annual average frequency of strong retirement benefits	7%	7%	18%	22%	19%	0.39

\**p* < 0.05.  
\*\**p* < 0.01.

less than their non-family counterparts, have consistently positive average ROA, and vary compared to their non-family counterparts in their use of

employee- and community-friendly practices. Specifically, they contribute more to charity, are more likely to provide employee benefits and less likely to

TABLE II  
Pearson correlations of the variables in the study

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Family status	1.00								
2. Downsizing (Layoff ratio)	− 0.06	1.00							
3. Performance (ROA)	− 0.04	− 0.15**	1.00						
4. Generous giving	0.00	0.03	− 0.02	1.00					
5. Innovative giving	− 0.02	0.00	− 0.07	0.16**	1.00				
6. Family benefits	0.04	0.08	− 0.03	0.13*	0.20**	1.00			
7. Cash profit sharing	− 0.02	− 0.01	0.11	0.06	0.00	0.04	1.00		
8. Employee involvement	− 0.11*	0.10	0.05	− 0.06	0.04	0.06	0.12*	1.00	
9. Strong retirement benefits	− 0.05	− 0.07	− 0.03	0.13*	− 0.03	− 0.06	0.21**	− 0.12*	1.00

\**p* < 0.05.  
\*\**p* < 0.01.

TABLE III  
Downsizing, direct effects and moderating effects of family ownership with performance

Dependent variable: layoff ratio ( $n = 540$ )		Coefficient	Standard error	$Adj. R^2$	$\Delta R^2$
Step 1	Intercept	1.25**	0.17	0.03	
	Family ownership	-0.48*	0.23		
	Performance	-0.06**	0.02		
Step 2	Family $\times$ Performance	0.07*	0.03	0.04	0.01*

\* $p < 0.05$ .

\*\* $p < 0.01$ .

TABLE IV  
Downsizing and performance models for family and non-family firms

Variable	Family firms ( $n = 270$ )		Non-family firms ( $n = 270$ )	
	Coefficient	Standard error	Coefficient	Standard error
Intercept	0.59**	0.15	1.35**	0.20
Performance	-0.01	0.02	-0.09**	0.02
Model statistics				
$F$ -test	0.51		16.22**	
$Adj. R^2$	-0.002		0.05	

\* $p < 0.05$ .

\*\* $p < 0.01$ .

provide strong retirement benefits. In addition, they involve employees in decision-making less frequently, and use innovative giving and cash profit sharing at comparable levels with their non-family counterparts.

We also report bivariate correlations in Table II, which do not show any significant relationship between family-business status and layoffs. They do show however a significant negative relationship between layoffs and performance, possibly indicating suppressor effects by performance between layoffs and family-business status.

Next, we explored the relationship between the layoff ratio and family-business status controlling for financial performance. As Step 1 of the hierarchical moderated regression in Table III shows, there was a negative and statistically significant relationship between family-business status and the layoff ratio. Further, the change in  $R^2$  in Step 2 shows that family ownership moderates the relationship between downsizing and performance.

We then carried out a separate analysis for family and non-family firms and found that the relationship between downsizing and performance for non-family firms was negative and statistically significant, while the overall model as well as the relationship between downsizing and performance among family firms were not (Table IV).

Finally, we added the employee- and community-friendly policies to the initial model to test for possible moderation effects of these variables on the layoff/family-business status relationship, again controlling for performance. As Step 1 of the hierarchical moderated regression in Table V shows, the relationship between family-business status and downsizing remained consistent. From the changes in  $R^2$  in Steps 2-7, none of the employee- and community-friendly policies are important moderators to the relationship between family-business status and downsizing.

In summary, the results show that family businesses are less likely to downsize regardless of

TABLE V

Downsizing, family business and moderating effects of employee- and community-friendly policies on family status

	Dependent variable: layoff ratio ( $n = 540$ )	Coefficient	Standard error	$Adj. R^2$	$\Delta R^2$
Step 1	Intercept	1.97**	0.29	0.08	
	Family ownership	-1.04**	0.38		
	Performance	-0.13**	0.03		
	Family $\times$ Performance	0.11*	0.04		
	Generous giving	-0.09	0.78		
	Innovative giving	-0.98	0.70		
	Family benefits	0.57	0.64		
	Cash profit sharing	0.22	0.51		
	Employee involvement	1.30***	0.74		
	Strong retirement benefits	-0.81***	0.46		
Step 2	Generous giving $\times$ Family ownership	1.81	1.55	0.08	0.00
Step 3	Innovative giving $\times$ Family ownership	1.32	1.41	0.08	0.00
Step 4	Family benefits $\times$ Family ownership	-0.07	1.33	0.07	0.01
Step 5	Cash profit sharing $\times$ Family ownership	-0.28	1.01	0.07	0.00
Step 6	Employee involvement $\times$ Family ownership	-2.07	1.65	0.07	0.00
Step 7	Strong retirement benefits $\times$ Family ownership	-0.38	0.94	0.07	0.00

\* $p < 0.05$ .\*\* $p < 0.01$ .\*\*\* $p < 0.10$ .

performance considerations, but their reduced willingness to downsize is not significantly related to any of the employee- or community-friendly practices explored.

## Discussion and conclusions

To the best of our knowledge, our paper is the first to examine downsizing in family and non-family firms from a stakeholder perspective. We found that family firms are less likely to downsize than their non-family counterparts and that financial performance is not part of their decision-process. Differently, the layoff ratio of non-family businesses is negatively related to performance. Descriptively too, Table I shows that for family firms the annual mean number of employees downsized is 1705 compared to 3970 for their non-family counterparts and the annual average percentage layoff ratio is 4.33 compared to 6.5 for their non-family counterparts.

Can we, then, infer that family owned or controlled firms follow Berman et al.'s (1999) intrinsic

stakeholder relationship model when managing their employees while their non family counterparts espouse Berman et al.'s (1999) strategic stakeholder relationship model? If that is the case, should we go a step further and postulate that – on the basis of Freeman's (1984) logic that a company's relationship with stakeholders is crucial in understanding how it operates and draws value from stakeholders – their reduced willingness to downsize is related to their intrinsic commitment towards their employees as stakeholders, expressed in the form of employee- and community-friendly approaches?

While we found support for the negative family-business/downsizing relationship beyond profitability considerations, we found no evidence of moderating effects of community and employee friendly policies to this relationship. As a matter of fact, Deniz and Suarez (2005) report that family firms may even be accused of having a narrow vision of social responsibility, favoring family over non-family employees. In the present study, the overall pattern of employee- and community-friendly policies of family compared to non-family businesses was not discouraging. Actually, a greater number of

family firms compared to their non-family counterparts were involved in generous charitable giving and family benefits to employees; while the two types of companies were comparable in relation to innovative giving and cash profit sharing (see Table I). However, our regression results show no statistically significant relation between these actions by family firms and their downsizing practices. Despite such non-findings, future research can investigate further the possible moderating effects of employee- and community-responsible practices by developing more refined or different proxies for these practices or by introducing possible intervening variables – especially given the potential managerial implications of such an empirical investigation.

If not employee- or community-friendly policies, at least not those examined in this study, what could explain the finding that family firms may be less willing to downsize? Budros (1999) relates a company's downsizing actions with compatibility of employment traditions. Looking at family firm employment traditions, it is possible that their unwillingness to downsize may stem from what Anderson and Reeb (2003) report as unique concerns and interests related to stability, capital preservation and reputation, with the ultimate goal to pass the business onto succeeding generations as part of the family legacy. Deniz and Suarez's (2005) statement that owning families have values related to continuity and integrity in the management policies they apply, point towards the same direction. In turn, their unwillingness to downsize may be ingrained into their identity and their role of applying and transmitting their value system into society and through the generations of the business (Gallo, 2004) – regardless of their socially responsible actions. Certainly, further investigation of these issues is warranted.

In summary, if family firm unwillingness to downsize is indeed ingrained into their value system – as part of their identity – and goes beyond immediate performance considerations, then it would be reasonable to accept that family firms do espouse Berman et al.'s (1999) intrinsic stakeholder orientation model. However, given the idiosyncrasies of a family firm's value system, future work can further explore the relationship between downsizing and family status by directly consid-

ering proxies describing the basic parameters of this value system.

## Implications

What are the potential implications of this study for employers/managers, employees and researchers about family and non-family multinationals? Even though we have not identified the important factors related to family firms' reluctance to downsize, their presumed intrinsic employee commitment orientation (Berman et al., 1999) suggests that these firms seek to achieve their strategic and financial objectives – at least as far as downsizing is concerned – by exhibiting a sincere interest to employee well-being. In other words, family firms may be less likely to use employees primarily as a means to an end, as has been the implicit or explicit assumption in relation to firm practices in the majority of related studies so far (Cameron and Huber, 1997; Chadwick et al., 2004; De Meuse et al., 2004; Noe et al., 2000). As Budros (1999) argues about organizations with a tradition of placing greater value on employees' needs and interests than on short-term profits, family firms may adopt a more employee-centered employment philosophy, achieving greater effectiveness and efficiency in the long run.

Such sincere interest could have a series of positive effects on employees and other firm stakeholders, translating not only into long-term efficiency and effectiveness but also possibly into reduced short-term negative results on performance even in the cases when downsizing is deemed necessary. To illustrate, looking at Table I, the average annual end-of-year performance of family firms that have downsized during the 2000–2002 period is positive (3.06) while that of their non-family counterparts is negative (–1.87). A possible explanation could be that an intrinsic commitment towards employees even when downsizing does take place may help reduce negative performance effects.

Finally, while Berman et al. (1999) have developed and suggested the intrinsic commitment model of stakeholder relationships, to the best of our knowledge, ours is the first study that finds empirical support for it, opening up the doors for researchers to examine business strategies related to downsizing or other

related issues not only purely from a utilitarian perspective but also from a social responsibility one.

### Limitations and directions for future research

Overall, the study adds to the burgeoning literature on downsizing confirming that family owned or controlled businesses downsize significantly less than their non-family counterparts and that their decisions are not related to financial performance. It extends previous studies by not only demonstrating an important difference between family and non-family businesses but also that Berman et al.'s intrinsic stakeholder theory may be relevant to a certain type of business.

We have been careful about moving from correlation to causality (Wright et al., 2005), especially in the case of performance, since we were not testing for the effects of performance on downsizing or downsizing on performance, but rather the relationship between family-business status and downsizing. We have been careful also in our assertions of the downsizing-family-business relationship because of the distal-proximal discussion of the number of possible "boxes" intervening between these two variables (Wright et al., 2003). Given that this is the first study of its kind, we followed the contention that it is preferable to test for this relationship directly, using few intervening variables. This notwithstanding, room exists for studies using different and perhaps more intervening variables. Finally, the potential time-lag is also an issue in our study, which can be examined in future research. Even though we controlled for time effects, our study was not longitudinal in nature and therefore we did not test for effects among our variables across time.

In summary, establishing a direct link between downsizing and family-business status as well as the reasons behind such a link is inevitably complex. Exploring such a link for the cases of large multinational conglomerates that belong to different industries adds to this complexity. Despite its limitations, we believe this study provides evidence from a representative sample of Fortune 500 firms reflecting the diversity in industry contexts and showing empirically a link between downsizing and

family-business status. Our findings provide support for the notion that an intrinsic stakeholder model is at least partly followed by some of the largest, most visible multinationals in the world when they manage their stakeholder relations. In turn, the insights that our paper provides will hopefully encourage further in-depth investigation of the issues we raised.

### Note

<sup>1</sup> KLD is a commonly used database with measures on corporate social performance. It is compiled by an independent rating service that focuses exclusively on ranking over 3000 publicly traded U.S. companies (including the S&P 500 and Russell 1000 Indexes) on nine areas of social performance. This rating scheme has been tested for construct validity and has been adopted as one of the best measures of corporate social performance available (see Hillman and Keim, 2001).

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