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Development of institutional downsizing theory: evidence from the MNC downsizing strategy and HRM practices in Taiwan

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Although downsizing is one of the most essential strategies of a firm, its effectiveness has been controversial. Institutional downsizing theory asserts that institutional factors influence the motivation of firms to adopt organisational downsizing as a common strategy. Institutional factors not only lead the internal motivation for downsizing, but also influence external downsizing actions. To develop institutional downsizing theory further, this study empirically examines whether the theory applies to the responsible downsizing strategy of multinational corporations (MNCs) and human resource management (HRM) practices to enhance intellectual capital. This study investigated 224 firms in Taiwan, including local firms and MNC subsidiaries from different countries, as the sample to examine this research question. The results revealed a high degree of isomorphism in actual downsizing strategy and HRM practices among these firms. However, universal value is a vital institutional force not discussed in the literature. The findings of this study support and extend institutional downsizing theory and imply the downsizing strategies of MNCs and HRM practices. However, the research background of this study is only in Taiwan; this may limit the generalisation capability of the findings to other contexts and cultures.

Keywords: downsizing; institutional downsizing theory; MNCs; HRM practices

Introduction

In rapidly changing environments, firms have consistently introduced numerous types of strategies to survive, thrive, and gain competitive advantage. Organisational downsizing has been a popular strategy since the 1980s (Cascio, 2002; Datta, Guthrie, Basuil, & Pandey, 2010; Fisher & White, 2000; Love & Kraatz, 2009; Tsai & Yen, 2008). Considerable research has observed the outcomes of organisational downsizing that are problematic and do not benefit firm performance, but possibly harm employees and their families (Datta et al., 2010; Guthrie & Datta, 2008; Mckee-Ryan & Kinicki, 2002). Although organisational downsizing has become popular practice in global business environments, it remains a controversial and frequently disputed subject. Numerous researchers have attempted to explain the economic motivations for organisational downsizing. However, based on institutional theory, McKinley, Sanchez, and Schick (1995) listed constraining, cloning, and learning as the three social forces behind applying an organisational downsizing strategy. In addition, several studies have claimed that institutional factors are part of downsizing motivation (Lamertz & Baum, 1998; Budros, 1999). McKinley, Zhao, and Rust (2000) suggested that through the collective and concrete process of socio-cognition, managers deem organisational downsizing as a legitimate, effective,

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and unavoidable strategy while neglecting their enterprise traits, managerial contingency, and resources. This institutional theory of downsizing provides a more complete explanation of downsizing motivation. Tsai, Wu, Wang, & Huang (2006) found that institutional factors not only influence internal motivation for downsizing but also lead firms to adopt similar and external actions in downsizing. However, because of the constraints of their smaller sample sizes, external downsizing actions are considered unsystematic actions that limit the generalisation capability of institutional downsizing theory. This work suggests adopting higher level strategies and comprehensive systematic human resource management (HRM) practices to make institutional downsizing theory more explanatory and predictable.

To mitigate the negative effect of downsizing, interest in the employee-centred comprehensive organisational downsizing strategy has increased rapidly in the past decade (Appelbaum, Everard, & Hung, 1998; Cascio, 2002; Freeman, 1999). After reviewing various studies on employee-centred organisational strategy, we determined that this type of downsizing strategy, referred to as the 'responsible downsizing strategy, is a comprehensive and systematic downsizing strategy that can enhance post-downsizing performance and reduce harm to employees.' Tsai and Shih (in press) provided empirical evidence that verifies our finding. Therefore, this study proposes applying this finding to examine the influence of institutional factors on this type of systematic downsizing strategy.

The responsible downsizing strategy specifically emphasises reevaluating and redesigning post-downsizing HRM practices to enhance organisational capabilities (Appelbaum et al., 1998; Cascio, 2002; Freeman, 1999). From the resource-based view (Barney, 1991), a firm's competitive organisational capability is based on its intellectual capital. Therefore, firms that adopt post-downsizing HRM practices for enhancing intellectual capital can strengthen organisational capabilities and ensure successful downsizing. Therefore, this study suggests using these crucial HRM practices to test evaluate the effects of institutional factors.

Furthermore, institutional factors influence the global popularity of organisational downsizing and cause firms to adopt isomorphic downsizing actions (McKinley et al., 2000; Tsai et al., 2006). This study investigated whether institutional forces cause firms with various national and cultural backgrounds to adopt similar responsible downsizing strategies and post-downsizing HRM practices to enhance intellectual capital. The literature focusing on transnational comparisons of HRM practices (Bjorkman, Fey, & Park, 2007), based on institutionalism, is minimal. In particular, research emphasising the responsible downsizing strategy and post-downsizing HRM practices for enhancing intellectual capital is lacking.

To develop institutional downsizing theory further, this study adopted a quantitative research method for examining a large-scale sample. Taiwanese and MNC firms with various home country cultures (e.g. USA, Japanese, and European Union (EU) multinational corporations (MNCs)) were selected as the samples to verify whether firms adopt isomorphism in responsible downsizing strategy and post-downsizing HRM practices for enhancing intellectual capital. Following the quantitative research, three focus group interviews were conducted to explain the statistical results.

Literature review

Institutional theory of downsizing

Downsizing has been one of the most critical strategies for firms facing managerial challenges. Particularly in an era of global financial depression, many firms have adopted organisational downsizing strategies to survive (Wilkinson, 2005). The performance and

effectiveness of downsizing have been controversial, generally harmed employees and their families, and even caused social problems (McKinley et al., 2000; Mckee-Ryan & Kinicki, 2002; Tsai & Yen, 2008). The reasons for downsizing popularity have been investigated, including its negative effects. McKinley et al. (1995, 2000) have proposed using downsizing theory to explain these phenomena.

The influence of institutional motivations on organisational downsizing

Previous literature has indicated multiple driving motivations behind organisational downsizing. For decades, considerable research has identified organisational decline as the main factor (economic factor) for organisational downsizing. Because organisational downsizing also entails negative effects, the question remains what the rationale for downsizing is. According to the explanations of institutional downsizing theory proposed by McKinley et al. (1995, 2000), social institutional forces motivate firms to execute organisational downsizing strategy. The forces include constraining, cloning, and learning. Managers consider organisational downsizing as an unavoidable action with legitimacy and ethical acceptability via the psychological process of socio-cognition.

The influence of institutionalism on external behaviours and practices in organisational downsizing

Using qualitative research on 18 firms in Taiwan, Tsai et al. (2006) verified the contention that institutional factors induce internal motivations for organisational downsizing. They further proposed that downsizing motivation is a combination of economic, institutional, and socio-cognition factors. Most firms forming downsizing motivation prioritise benefits; however, to maintain a certain social image and to gain expected advantage, external downsizing behaviours generally follow recognised social norms. Findings from Tsai et al. (2006) demonstrate that most firms have adopted a mild and gradual strategy to execute downsizing, which is linked with reengineering and overall system change. The chosen targets for layoff were primarily performance based and all the firms offered legitimate severance conditions and job-seeking consultations. These institutional factors are meaningful in balancing the harm to downsized employees.

One drawback of the findings of Tsai et al. (2006) is that they were derived from 18 firms in Taiwan. However, generalising a widely acceptable theory needs the support of empirical evidence from quantitative research with a larger sample size. Those downsizing practices were also unsystematic actions lacking supportive values; therefore, we suggest adopting higher level strategies and systematic HRM practices to verify the development of institutional downsizing theory as more explanatory and predictable.

Responsible downsizing strategy

Numerous studies have focused on types of downsizing strategy; namely the hierarchy of workforce reduction strategies (Greenhalgh, Lawrence, & Sutton, 1988), three strategies for organisational change (Cameron, Freeman, & Mishra, 1993), the social institutional downsizing strategy (McKinley et al., 1995), the alternative strategy (McCune, Beaty, & Montagno, 1988), and three resource reduction approaches (Dewitt, 1998). Although there have been many arguments and discussions regarding downsizing strategy, relevant literature offers contradictory findings about the influence of organisational downsizing (Cameron, 1994; Cascio, 2002; Rigby, 2002; Tsai & Yen, 2008).

Many researchers have proposed long-term and comprehensive employee-centred downsizing strategies, such as the prescription for successful organisational downsizing (Cameron, 1994), downsizing driving redesign, the redesign driving downsizing strategy (Freeman, 1999), and responsible strategies for restructuring (Appelbaum et al., 1998; Cascio, 2002). Cascio (2002) investigated 6418 firms among the top firms listed on the S&P 500 Index from 1982 to 2000. Because the strategies have some common traits, this study constructed a strategy that encompasses these traits, referred to as the responsible organisational downsizing strategy. The four traits are (1) management deeming employees as long-term assets and a source of innovativeness when designing an organisational downsizing strategy; (2) firms strategically consider long-term payoff prior to downsizing to choose an appropriate change strategy; (3) employees participate in opinion-sharing, and the lay-off procedure is justifiable; and (4) firms employing suitable employee caring practices that correspond to the downsizing strategy, such as a reasonable amount of compensation, job-leaving consultations, job-seeking services, or career-change training. Tsai and Shih (in press) empirically proved that the strategy can improve firm performance when firms use a quantitative method. Therefore, this research considered the responsible organisational downsizing strategy to be a more strategic and systematic strategy for examining institutional downsizing theory and for contributing substantially to its development.

HRM practices for enhancing intellectual capital

An employee-centred organisational downsizing strategy emphasises reexamining and redesigning HRM practices (Appelbaum et al., 1998; Cameron, 1994; Cascio, 2002; Freeman, 1999) and addresses organisational downsizing concerns with corporate long-term profits, and whether future operations after downsizing meet customer requirements and create customer value more effectively. Currently, firms must provide high-quality and inexpensive new products and services to create competitive advantage (Chang & Huang, 2010; Shih, Lin & Lin, 2011). From the perspective of resource-based theory (Barney, 1991), organisational innovativeness is a key competence for firms to create valuable resources. Hamel (2000), and Kaplan and Norton (2004) have denoted four categories of such resources as intangible assets or intellectual capital: (1) human capital, referring to valuable employees with strategically key job positions regarding specific knowledge, skills, and talent (Kaplan & Norton, 2004); (2) structural capital, referring to a firm's unique and innovative abilities to combine internal and external resources effectively, and to modify or create new markets (Teece, Pisano, & Sheun, 1997); (3) social capital, referring to abilities to acquire profits in existing social networks or social structures (Snell, Youndt, & Wright, 1996); and (4) organisational capital, referring to a firm's abilities to incorporate distinct cultures, leadership, employees, strategic objectives, and employee knowledge sharing (Kaplan & Norton, 2004). Youndt, Subramaniam, and Snell (2004) suggested that firms concentrate on generating valuable ideas and design business models based on their culture and daily routines.

Creating and enhancing the above intellectual capital depend on employees. Firms should therefore possess a set of HRM practices to create and strengthen intellectual capital post downsizing and to ensure the success of an organisational downsizing strategy. The set of HRM practices is comprehensively systematic and is relevant in the era of knowledge economy; therefore, we propose using this set to verify institutional downsizing theory, which might contribute greatly to its development.

Individual strategies, practices, and international context

According to basic logic and managerial mentality, firms should consider their external management environments, internal/external resources, and overall management strategy to formulate various downsizing strategies to improve corporate performance (Cascio & Wynn, 2004; Datta et al., 2010). This is particularly true for MNCs with various host country cultural backgrounds. For example, the USA and European countries are generally capitalistic; however, European societies are more socialistic. Regarding general management practices, Americans are more outcome-oriented, whereas Europeans are more procedure-oriented. European firms value employee behaviours, whereas US firms generally value performance; and social institutional constraints are more powerful in European and Asian firms than in US firms (Hodgetts, Luthans, & Doh, 2006). In some societies strongly influenced by Confucius, firms generally are benevolent and righteousness oriented (Graham & Lam, 2003; Tsai et al., 2006). The national cultural framework of Hofstede (1980) indicates that Europeans and Americans are more individualistic and Asians are more collectivistic; Asians maintain greater power distance from others than Europeans and Americans do; and Asians tend to avoid uncertainty more than Europeans and Americans do. Research in the cross-cultural management field (Swierczek & Hirsch, 1994) has shown that Asian firms possess distinct basic values, management styles, management types, and action-orientations more than USA and European countries do. An increasing concern is that both the responsible downsizing strategy and the intellectual capital concept were developed in the USA. Relevant literature on this topic is insufficient for determining whether these concepts meet the needs of other cultures. Therefore, we propose the following two hypotheses:

H1: Firms exhibiting different national cultural backgrounds will adopt a differentiated responsible downsizing strategy.

H2: Firms exhibiting different national cultural backgrounds will adopt differentiated HRM practices for enhancing intellectual capital.

To examine these hypotheses empirically, we investigated 224 firms in Taiwan, including local firms and MNCs from various host country cultural backgrounds as the sample to test the further development of institutional downsizing theory.

Methodology

Sample and data

The samples were collected from three sources in Taiwan: the first source was from a list of downsizing investigations from the Taiwan Labor Department; the second was one of a famous national management consultations held in Taiwan, and the third was a list of 370 top foreign corporations in Taiwan, indexed by the China Credit Information Service, Ltd. in 2009. The research targets were limited to firms' strategic business units that had experienced downsizing. We requested that the respondents of each firm be HRM executives or department managers.

To facilitate understanding of the questionnaire, we sent questionnaires to MNC firms in two languages (Chinese and English) and sent the Chinese questionnaires to local firms via mail or e-mail. We made contact by telephone or e-mail if we had not received replies after three weeks.

The data collection yielded 224 effective replies from 236 firms. The sample encompassed various business categories, including 98 local firms (43.8%), 35 US MNCs (15.6%), 48 Japanese MNCs (21.5%), 35 EU MNCs (15.6%), and eight other Asian

MNCs (3.6%). Among them, 75% were manufacturing firms, 22.3% were service-providing firms, 55.3% had annual sales amounting to more than US\$166 million; 19.6% had annual sales amounting between US\$166 million and US\$30 million; 19.2% had total employees numbering of over 1000; and 51.3% had total employees numbering between 100 and 1000. From the aspect of span of downsizing, most of the firms (39.3%) laid off 5–15% of their employees, and 16.9% of the total firms laid off 16–50% of their employees.

Reliability and validity tests on measuring tools

Responsible downsizing strategy

The tool for measuring the responsible downsizing strategy was developed according to 19 principles of the responsible restructuring strategy proposed by Cascio (2002), 30 successful downsizing prescriptions by Cameron (1994), and variables addressed in a generalised organisational downsizing strategy proposed by Freeman (1999). There were originally 18 items. After three factor analyses, items 4, 5, and 11 were deleted and the other items were merged into four dimensions: (1) the mindset of treating employees as long-term assets; (2) appropriate strategies for change; (3) employee anticipation and justifiable procedures in downsizing; and (4) employee caring practices during downsizing. Therefore, we obtained construct validity of the measuring tools and used Cronbach's α to examine the reliability of the four dimensions. The mindset of treating employees as long-term assets is .762; an appropriate change strategy is .850; employee anticipation and justifiable procedures in downsizing is .728; and employee caring practices during downsizing is .757. The overall values of reliability are greater than .7 and the Pearson Correlation Coefficients of the four dimensions reached significant level ($<.01$).

Post-downsizing HRM practices enhancing intellectual capital

The tool for measuring HRM practices to enhance intellectual capital was developed based on focused group interviews with top management teams (TMTs) in practical fields. We invited 16 top executives from various businesses, such as information technology, petrochemical, steeling, construction, retailing, chemical material, medical, education, and logistics and divided them into two focused groups. The focus group members included presidents, TMT members such as VPs, directors, and senior managers, and heads of functional departments. These interviewees not only possessed years of top management practical experience but also participated in strategic, HRM, and intellectual capital lectures at the EMBA Program. Before discussion, we posed the question, 'In the post-downsizing period, what HRM practices will your firms adopt to enhance intellectual capital to build competitive advantage?' We also reminded group members to pay attention to influential factors from their specific businesses. The group discussions began by executives illustrating HRM practices in their firms to enhance intellectual capital, followed by interactive discussions. During the discussions, researchers observed and reminded them to focus on the main topic. After every group reached a concrete primary conclusion, we mixed the two groups to facilitate discussion and to form a consensus.

After referring to the focused group conclusions, the literature, and existing measuring scales, such as the intellectual capital scale and the organisational capability audit, we integrated the 18 items in the survey. After three factor analyses, the 18 items were categorised into four dimensions, namely human capital, procedure capital, internal social capital, and external social capital. We acquired the construct validities of these four dimensions by

performing exploratory factor analysis and used Cronbach's α to determine the measurement reliability. Consequently, human capital is .884, procedure capital is .899, internal social capital is .873, and external social capital is .876. The overall reliability is above .7, and the Pearson correlation coefficient of the four dimensions reached a significant level ($<.01$).

Data analysis

We used a one-way analysis of variance (ANOVA) to verify potential differences when firms with varying home country cultures execute an organisational downsizing strategy (including four dimensions) and apply HRM practices for enhancing intellectual capital in the post-downsizing period. We also used the Scheffe comparison to conduct *post hoc* multiple comparisons to determine whether their differences rank according to size.

Focused group discussions

To apply the statistical results approach to reality, this work conducted three focus group interviews to verify the statistical results, including HR managers, TMT executives, and labour union leaders. Each focus group comprised six to eight members. Before the focus group interviews, quantised summaries were provided to each member. After the discussions, the conclusions were summarised and member consensus was reached. We then used the triangulation comparison method (Figure 1) to compare conclusive opinions from the three focus groups.

Analysis and discussion

Results from quantitative analysis

Comparisons of actions in the responsible downsizing strategy

In addition to combining the detailed actions of responsible organisational downsizing into four dimensions, this work also analysed parts that cannot be categorised and may have special meaning. Table 1 shows that the overall degree of the responsible downsizing strategy of MNCs is high (the average is between 4.78 and 4.92) with a mean of 4.915. Among them, Japanese MNCs have the highest number (5.008). However, the average scores for the four dimensions are as follows: 'the mindset of treating employees as long-term assets' is 5.678, significantly higher than other dimensions (4.992, 4.630, and 5.208). The dimension 'employee anticipation and justifiable procedure in layoff' scored the lowest. In national background, US MNCs scored higher in the dimension 'employee anticipation and justifiable procedure in layoff,' whereas European MNCs scored lower.

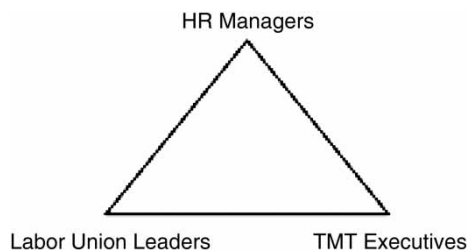


Figure 1. Triangulation analysis on focus groups.

Table 1. The comparisons of the responsible organisational downsizing strategies.

		Overall responsible downsizing strategy	Treating employees as long-term assets	Changing strategy	Employee participation and justifiable procedure	Employee caring practices
0. Local firms	Average	4.928 ^a	5.697 ^a	5.040 ^b	4.670 ^b	5.181 ^c
	Samples	98	98	98	98	98
	Standard deviation	0.655	0.982	0.946	1.115	1.134
1. American MNCs	Average	4.946 ^b	5.733 ^d	5.071 ^d	4.457 ^a	5.321 ^a
	Samples	35	35	35	35	35
	Standard deviation	0.681	1.044	0.950	1.1764	1.165
2. Japanese MNCs	Average	5.008 ^d	5.729 ^b	4.989 ^a	4.895 ^d	5.276 ^b
	Samples	48	48	48	48	48
	Standard deviation	0.7041	1.057	1.069	1.175	1.048
3. EU MNCs	Average	4.780 ^c	5.457 ^c	4.900 ^c	4.328 ^c	5.257 ^a
	Samples	35	35	35	35	35
	Standard deviation	0.746	1.078	1.297	1.246	1.049
4. Other Asian MNCs	Average	4.652	5.875	4.468	4.625	4.437
	Samples	8	8	8	8	8
	Standard deviation	0.921	1.207	1.739	1.356	1.279
Total	Average	4.915	5.678	4.992	4.630	5.208
	Samples	224	224	224	224	224
	Standard deviation	0.693	1.027	1.064	1.171	1.114

Notes: EU MNCs include: French, British, German, Dutch, and Swiss. Sample from Asian MNCs into account due to its small sample size (sample size: 8).

^athe 3rd highest rank; ^bthe 2nd highest rank; ^cthe 4th highest rank; ^dthe highest rank.

This research attempted to determine whether the differentiations of varying downsizing actions of MNCs reach a significant level. The analysis of ANOVA shows the results have not reached a significant level. The F (P) values for responsible downsizing strategy, long-term perspectives, changing strategies, participation and justifiable procedures, and employee caring practices are .537(. 708), .645(. 631), 1.428 (. 226), 1.124 (. 346), and .654 (. 625). The above result is highly isomorphic; the varying MNCs' responsible downsizing actions differentiate, however, they have not reached a significant level, therefore H_1 was rejected, which also indicates their actions in organisational downsizing strategy are highly similar.

Comparison of the action not included in the responsible downsizing strategy

Three downsizing actions are not included in the four dimensions: 'we lay off employees and sell unprofitable assets (such as selling whole business units or factories)', 'we take quick action to lay off employees', 'we designate an organizational downsizing project to plan and execute downsizing affairs.' The comparisons are shown in Table 2. The average scores of these three actions are lower than the previous four dimensions, meaning that the sampled MNCs generally did not consistently agree on these actions as responsible downsizing actions. Among them, 'we lay off employees and sell unprofitable assets' scored 3.83. However, we designated an organisational downsizing project

Table 2. Comparison of the action not included in the responsible downsizing strategy.

		We lay off employees and meanwhile sell unprofitable assets	We take quick actions to lay off employees	We designate an downsizing project team to plan and execute downsizing affairs
0. Local firms	Average	4.06 ^a	4.09 ^b	3.89 ^c
	Samples	98	98	98
	Standard deviation	1.673	1.663	1.435
1. American MNCs	Average	3.89 ^d	4.40 ^d	4.14 ^d
	Samples	35	35	35
	Standard deviation	1.827	1.786	1.648
2. Japanese MNCs	Average samples	3.87 ^c 48	4.73 ^a 48	3.71 ^b 48
	Standard deviation	1.794	1.647	1.458
	Average Samples	3.03 ^b 35	4.23 ^c 35	4.49 ^a 35
3. EU MNCs	Standard deviation	1.200	1.516	1.579
	Average samples	3.88 8	3.75 8	4.38 8
	Standard deviation	1.126	0.886	1.847
4. Other Asian MNCs	Average Samples	3.83 224	4.29 224	4.00 224
	Standard deviation	1.670	1.645	1.521
	Total			

^athe highest rank; ^bthe 4th highest rank; ^cthe 3rd highest rank; ^dthe 2nd highest rank.

Table 3. Comparisons on HRM practices enhancing intellectual capital in the post-downsizing period.

		Overall intellectual capital HRM practices	Human capital	Procedure capital	Internal social capital	External social capital
0 Local firms	Average	5.290 ^a	5.320 ^a	5.279 ^a	5.326 ^a	5.229 ^a
	Samples	98	98	98	98	98
	Standard deviation	0.9229	0.872	1.036	1.059	1.018
1 American MNCs	Average	5.444 ^b	5.388 ^b	5.382 ^b	5.407 ^b	5.628 ^b
	Samples	35	35	35	35	35
	Standard deviation	0.940	1.056	1.029	1.055	0.868
2 Japanese MNCs	Average	5.218 ^c	5.195 ^c	5.237 ^c	5.213 ^c	5.229 ^c
	Samples	48	48	48	48	48
	Standard deviation	0.904	0.998	0.939	0.979	0.998
3 EU MNCs	Average	5.030 ^d	5.040 ^d	4.988 ^d	5.050 ^d	5.050 ^d
	Samples	35	35	35	35	35
	Standard deviation	0.977	1.026	1.019	1.012	1.392
4 Other Asian MNCs	Average	4.333	4.125	4.100	3.968	5.250
	Samples	8	8	8	8	8
	Standard deviation	1.518	2.067	1.585	1.764	0.896
Total	Average	5.224	5.217	5.199	5.223	5.264
	Samples	224	224	224	224	224
	Standard deviation	0.969	1.031	1.054	1.089	1.061

^athe 2nd highest rank; ^bthe highest rank; ^cthe 3rd highest rank; ^dthe 4th highest rank.

team to plan and execute downsizing affairs in European MNCs scored the highest. Clearly, MNCs from various national backgrounds differentiate on these three items.

The ANOVA analysis indicates that the item, 'we lay off employees and sell unprofitable assets' reached a significant level with $F(P)$ value of 2.574 (.039); the items, 'we take quick actions to lay off employees'; 'we designate an organizational downsizing project to plan and execute downsizing affairs' scored $F(P)$ values of 1.490 (.206) and 1.686 (.654). The analytical results of the Scheffe multiple comparison on 'we lay off employees and sell unprofitable assets' scored a p -value of .041, indicating that local firms are inclined to take this action comparatively with European MNCs.

Comparison of post-downsizing HRM practices enhancing intellectual capital

Table 3 shows that varying MNCs generally adopt HRM practices to enhance intellectual capital (with an average between 5.03 and 5.29); the average score for all investigated firms is 5.224; among them, the US MNCs scored the highest with 5.444 and also scored higher in the other four dimensions, compared with other firms. Local firms and US MNCs also scored higher than Japanese and European MNCs. This finding differs from the traditional impression that local firms and Japanese firms should be similar.

The analysis of ANOVA shows that the items ‘overall intellectual capital HRM practices’, ‘human capital’, ‘procedure capital’, and ‘internal social capital’, in local firms are significantly higher than other Asian MNCs. However, because of the small sample size of Asian MNCs (eight firms only), the statistical meaning is weak. The differentiation of other MNCs has not reached a significant level. Therefore, H_2 was also rejected, indicating that their HRM practices for enhancing intellectual capital are highly similar.

These quantitative statistics verify that MNCs adopt highly isomorphic actions in their organisational downsizing strategies and HRM practices for enhancing intellectual capital. This result is consistent with institutional theory. Based on neo-institutional theory (DiMaggio & Powell, 1983), institutionalism allows members to choose good management and organisational structural norms for reducing uncertainties and acquiring behavioural legitimacy (McKinley et al., 2000). Business behaviours that comply with social expectations increase legitimacy, resources, and survival capability, and eventually help organisations survive and succeed (Carroll & Hannan, 1989; DiMaggio & Powell, 1983; Oliver, 1991, 1997; Scott, 1987). Once managers regard organisational downsizing as a social convention that they should obey, they will accept isomorphic behaviours as legitimate (Oliver, 1997). Therefore, this result contributes to further development of institutional downsizing theory.

Explanation from focused group interview

This study used a qualitative method to explain the quantitative results, and summarised the findings based on the results from interviewing three focus groups. MNCs employ

Table 4. Reasons why varying MNCs take similar actions during downsizing and post-downsizing time.

	Labour union leaders	HR managers	TMT executives
1. The samples are taken from one single country (Taiwan). The MNCs managerial actions usually have to comply with local related laws, governmental requirements, social expectations and values, common practices, and labour relationships, etc. Therefore, the practices might not similar to their home countries	V	V	V
2. The widespread of massive media and internets make managerial mentality and practices reach certain consistency via learning and imitation	V	V	V
3. Obeying laws, treating employees well, and managing firms in a responsible way have been a universal value in developed countries. Therefore, makes no big differences among these practices	V	V	V
4. The popularity of management education (e.g. MBA and EMBA) has made managers to access to similar managerial strategies and recognition on intellectual capital		V	V
5. The managers who filled out the questionnaires might concern about social image and deliberately gave lower grades to these two variables			V
6. These MNCs are all firm come from capitalism countries	V		

similar actions to the responsible downsizing strategy and HRM practices to enhance intellectual capital in the post-downsizing period.

Table 4 illustrates the common consensus from the focused groups, indicating that focused groups reached agreements on items 1–3, but did not reach agreements on items 4–6. Item 1 indicates that MNCs should adjust themselves according to local laws, social cultures, and labour relationships. Therefore, they might not engage in the same actions as home country firms do. The rationale for this is that the survival of a firm depends on complying with the legitimate action of external environments. This finding also corresponds to propositions of HRM practices in MNCs. Item 2 indicates that ‘firms tend to take consistent actions via learning or imitating’, matching organisational downsizing theory proposed by McKinley et al. (1995), which emphasises that organisational downsizing behaviours stem from learning. Item 3 shows that ‘law-abiding, treating employees well, and just management are universal values in developed countries, promoting the influence of institutional factors on firms to a universal level.’ This finding is meaningful for developing institutional theory, particularly in the field of international business management and management practices.

With regard to item 4, ‘the prevalence of management education facilitates managers to have similar recognition on management,’ reached a consensus. This finding extends the proposition raised by McKinley et al. (2000) that firms should use social recognition to adopt the responsible downsizing strategy and HRM practices to enhance intellectual capital. The reason labour union leaders cannot reach a consensus is that they do not have management education opportunities. Item 5 indicates that compared with labour union leaders, managers who completed the questionnaires rated these two variables higher because they care more about social image. Although this item might create a flaw in common method bias, it shows the effect of social expectation on managers who completed the questionnaires.

Conclusions and suggestions

The findings from this research reveal that institutional factors influence MNCs with varying national backgrounds that conduct the responsible downsizing strategies and HRM practices that enhance intellectual capital in the post-downsizing period, to eventually adopt isomorphic actions. This finding is consistent with the institutional downsizing theory proposed by McKinley et al. (1995, 2000) and the empirical research result from Tsai et al. (2006). The finding also contributes to generating a further development of institutional downsizing theory. The results of this research indicate that institutional factors include laws in local countries, social recognition, and ethical norms upgraded to a cross-national level. In particular, this research found that treating employees well entails demonstrating universal values with a soft coercive power that mitigates the harm caused from downsizing and helps firms redevelop employee capabilities in the post-downsizing period. This universal value spreads, due to globalisation and the prevalent interactions of management and practices (learning and imitation). Considering factors when applying the neo-institutional theory on international business is also necessary (organisational downsizing), namely the dependent relationships among countries and the recognition of supervisor responsibilities.

Implications of research

The field of international business has not widely discussed the organisational downsizing institutional theory proposed by McKinley; however, the responsible downsizing strategy

and HRM practices enhancing intellectual capital in the post-downsizing period should draw more attention. Universal values should be the critical force in institutionalism, particularly when applied to international business. Responding to the proposition by Kostova, Roth, and Dacin (2008), the institutional theory research on multinational business practices should include both internal and external institutional factors, as well as other organisational theories, such as the dependence relationships among countries (resource dependence theory and power theory), and managers' recognition of their agency responsibilities (agent theory).

Practical implications

Behavioural legitimacy is critical to business management, particularly for the organisational downsizing strategy, which might harm employees and cause social instability. International management firms should not only acquire internal legitimacy, but also legitimacy in foreign social institutions. To comply with the internal institution of host firms and acquire profits from foreign investments, MNCs should design appropriate strategies and practices based on the interfaces of host firms and local institutional factors. For example, adopting a responsible institutional downsizing strategy would reduce objections to and criticism for organisational downsizing in host environments. Using isomorphic HRM practices to enhance intellectual capital would help demonstrate that cultivating local employees contributes to maintaining competitiveness with other countries. This image would be easily accepted by local employees and society, and gradually decrease the number of negative images of organisational downsizing. Universal values such as 'treating employees well' should be emphasised.

Suggestions for future research

The research background in this study is Taiwan, a Chinese society, with the national characteristics of a medium level of power distance, masculinity, individualism, and uncertainty avoidance that emphasise benevolence and righteousness. Therefore, different research targets in another social context might incur varying outcomes. Further research should investigate cross-cultural comparisons on various backgrounds to design a larger sample to construct a more comprehensive organisational downsizing institutional theory. According to Kostova et al. (2008), we should not only apply institutional theory to examine MNC actions (isomorphic actions) but also adopt other perspectives. Actions that are less isomorphic imply an inability to explain some aspects of neo-institutional theory.

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