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Labor union negotiations: stepping stones or stumbling blocks for a responsible downsizing strategy? Empirical tests in Taiwan

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Firms have used organizational downsizing strategies for years. But organizational downsizing not only cannot surely improves firm performance, but also harms thousands of employees and their families. A number of scholars investigating organizational change suggest that 'a responsible downsizing strategy' can mitigate or solve this issue. As the major stakeholder in downsizing, labor unions naturally negotiate with firms to protect employee rights and benefits. Their negotiation, therefore, may either enhance or mitigate the effect of responsible downsizing strategy on firm performance. This study used a sample of 154 downsized local firms and multinational corporations in Taiwan to examine the research construct, and invited focus groups to have a further validated explanation. The findings show that labor union negotiation may act as either stepping stones or stumbling blocks. The results indicate that firms employing labor union negotiation experience higher downsizing performance than non-unionized firms do. However, labor union interventions can also become stumbling blocks. Labor union negotiation neutralize the positive effect of employee-caring practices on downsizing performance, leading to a decline in downsizing performance when firms increase employee participation and justice consideration in the downsizing process. The research findings provide implications for further scholarly research and management practices in terms of organization change, stakeholder management and labor–management relationship.

Keywords: firm performance; labor union negotiation; multinational corporation; responsible downsizing strategy; stakeholder influence strategy

Introduction

Downsizing has been one of the major management strategies for firms to cope with environmental changes since the 1980s (Fisher and White 2000; Cascio 2002; Howard 2002; McKee-Ryan and Kinicki 2002; Landry 2004; Tsai and Yen 2008). Unfortunately, numerous studies have revealed that downsizing not only cannot surely improve firm performance, but also harm thousands of employees, their families and even caused social issues over the years (Cameron 1994; Naumann, Bies and Martin 1995; Lowe 1998; Naumann 1998; McKee-Ryan and Kinicki 2002; Rigby 2002; Chadwick, Hunter and Walston 2004). To mitigate or solve this issue, a number of scholars have proposed that a downsizing strategy must not be a strategy that only focuses on reducing costs, but that it should be employee oriented, with long-term payoff and a comprehensive structure (e.g. Cameron 1994; Hodgetts 1996; Freeman 1999; Appelbaum, Everard and Hung 1999; Cascio 2002). This type of 'responsible downsizing strategy' not only improves firm

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performance, but also minimizes negative impacts on employees, as supported in some empirical results (e.g. Cascio 2002; Chadwick et al. 2004).

Since downsizing may seriously harm employee rights and benefits, labor unions naturally become the major stakeholders of firms and negotiate with firms to protect the rights and benefits of employees and minimize their loss during and after downsizing (Huang and Tsai 2005; Tsai, Yeh, Wu and Huang 2005). However, labor union negotiation intervention may influence both firms' implementation of a responsible downsizing strategy and employee reaction to the strategy. Consequently, it affects the effectiveness of a responsible downsizing strategy to firm performance. This moderating affect may positively boost firm performance by incorporating more employee cooperation and mitigating employee resistance. However, it may also negatively reduce firm performance by increasing firms' more effort and expense. Therefore, labor unions may become both stepping stones and stumbling blocks to a responsible downsizing strategy.

The very limited number of empirical studies so far in the literature has proven the firm performance from adopting a responsible downsizing strategy which was advocated by Appelbaum et al. (1999), Freeman (1999) and Cascio (2002), etc. And the stakeholder influence strategy theory which was asserted by Frooman (1999) had not been introduced into the context of downsizing to examine the influence of strategy to firm performance. Thereby, the findings of this research may contribute to theory development in organizational change and stakeholder field, particularly for downsizing research. Results of the study can serve as an important reference for firms that intend to improve their performance by implementing a downsizing strategy. The results can also benefit labor unions to take appropriate actions for protecting employee rights and benefits in response to firms' downsizing strategies.

Literature and hypotheses

A responsible downsizing strategy

Organizational downsizing has been a common strategy in the business world since the 1980s, especially during economic decline (Fisher and White 2000; Mckinley, Zhao and Rust 2000; McKee-Ryan and Kinicki 2002; Landry 2004). Several scholars have defined organizational downsizing in various ways. Tsai and Yen (2008) compiled definitions from related literature and defined 'organizational downsizing' as the action firms take to improve organizational performance in response to environmental changes through cost reduction, organizational restructuring and especially workforce reduction as the major approach. Several downsizing strategies were used by firms, such as a 'Hierarchy of workforce reduction strategies' from Greenhalgh, Lawrence and Sutton (1988); 'Three strategies of downsizing based on organizations' degree of change' from Cameron, Freeman and Mishra (1993); 'Alternative strategy' advocated by McCune, Beaty and Montagno (1988) and 'Three approaches for *resource reduction*', raised by DeWitt (1998). However, whether downsizing strategies improve firm performance has been a subject of long debate.

Arthur (1992) suggested that the strategy typology developed by Michael Porter (1980) is arguably the most recognized and widely used by both business policy and industrial relations researchers. The two successful 'generic' business strategies include 'the cost leadership strategy' and 'the differentiation strategy'. The cost leadership strategy employs cost-down to lead firm actions, whereas the differentiation strategy emphasizes that firms differentiate themselves from other competitors by creating more value to customers. This type of strategy relates to the industrial relations system of a workforce. Scholars who have employed this strategy typology to an organizational downsizing context evaluate why downsizing strategies cannot ensure firm performance. They assert that firms adopting a cost-cut oriented downsizing strategy have failed to boost firm performance. Cameron (1994) indicated that across-the-board, quick-hit and grenade-type downsizing strategies (the cost leadership strategy) might worsen organizational malfunction, while well-prepared, surgical implementation and employee-involved organizational reform would mitigate organizational malfunction. Hodgetts (1996) reported that if a business leader implements organizational downsizing for a short-term profit (the cost leadership strategy), organizational downsizing may cause employees to lose trust in the company, resulting in employee preoccupation about their own future. This situation damages company's intelligence capital, reducing firm performance. However, firms in which leaders pay attention to employee's long-term development (the differentiation strategy) can still maintain a high-level of competitiveness in a difficult management environment. Rigby (2002) pointed out that firms which adopted cost reduction as a downsizing strategy reported only a 2% increase in share price, compared with other downsizing strategies, while firms with a reorientation strategy (the differentiation strategy) reported a 13% share price increase. Cascio (2002) proposed responsible restructuring strategies after analyzing 6418 cases in S&P top 500 companies which implemented downsizing during 1982–2000, and summarized common threads in successful downsizing cases: (1) reducing workforce as the last resort (the cost leadership strategy is the last choice); (2) continually investing in business development; (3) keeping the best employees and respecting other employees; (4) providing outplacement assistance to laid-off employees, such as training, consultation and job-seeking assistance; (5) continually innovating and fostering the capability to change business models and (6) paying attention to business strategies, markets and rapid changes in customers and economic environments. The above successful downsizing strategies are similar to the differentiation strategy. The differentiation strategy is obviously more effective than the cost leadership strategy in the context of organizational downsizing.

In line with Appelbaum, Simpson and Shapiro (1987), Cameron (1994) and Freeman (1999), this type of downsizing strategy argues that a downsizing strategy should serve as a comprehensive strategy, which comprises mindset, policies and action plans. This strategy implements and evaluates downsizing, based on the core concept of a caring firm that provides long-term payoff and treats employees as long-term assets by responsibly dealing with downsizing rather than irresponsibly taking short-term, cost-down actions. Numerous scholars and studies, such as Naumann et al. (1995), Beam (1997), Gowing, Kraft and Quick (1998), Shah (2000), McMaster (2002) and Chadwick et al. (2004), support the concept of an employee-oriented downsizing strategy that boosts firm performance. Therefore, we term this type of employee-oriented and comprehensive downsizing strategy as 'the responsible downsizing strategy'.

The above discussion includes four major aspects in a responsible downsizing strategy, organized as follows:

(1) Mindset for treating employees as long-term assets. Since employees are the source of innovation and renewal, top management treats employees more as valuable assets worthy of continuous long-term investment than as costs; therefore, downsizing is no longer a short-term, cost-cutting strategy.
(2) Appropriate strategy for organizational change. Organizations need to strategically consider the long-term payoff of downsizing, and carefully assess organizational capabilities (the ability to satisfy customer needs in particular)

before downsizing. Use an appropriate strategy for organizational change instead of simply adopting a cost-down strategy.

(3) Employee participation and a justice in lay-off process. This strategy informs employees of the downsizing plan in advance and gives them opportunity to participate in and adopt a fair process of selecting people to be laid off.

(4) Employee-caring practices. Firms must look after both employees who are laid off, and those who remain after downsizing. Firms need to implement appropriate employee-caring practices such as providing laid-off employees with severance pay equivalent to or above the statutory amount. Consultation service, job transfer training and a job hunting service should be available for laid-off employees.

Based on the above, we conclude that an employee-oriented downsizing strategy, *the responsible downsizing strategy*, is a differentiation strategy that can improve firm performance and cares employees. However, the limited number of inconclusive empirical studies makes it difficult to conduct deductive examination. We, therefore, execute direct empirical examination to prove this theory and to assist in its development.

Hypothesis 1: A responsible downsizing strategy will positively affect firm performance.

Labor union negotiation

Freeman (1984) defined a stakeholder as any group or individual who can affect or is affected by the achievement of an organization's objective. Extensive discussions and studies have found that stakeholders are not limited to shareholders and customers, but also include internal, external, key and secondary groups (Frederick, Post and St Davis 1992; Donaldson and Preston 1995). Firms also exist within a complex network of intertwining social relationships and do not deal with a single stakeholder, but with multiple stakeholders who are interdependent during the process of corporate downsizing (Rowley 1997; Huang and Tsai 2005).

Firms implement organizational downsizing in the interest of such stakeholders as shareholders, management team and creditor banks, but the downsizing strategy may jeopardize the interests of other stakeholders, such as employees and communities. In this scenario, employees become internal and key stakeholders to the downsizing strategy of firms, while labor unions roleplay the guardian of employees, fighting for and protecting rights and benefits on their behalf. Apart from facing key stakeholders, firms need to deal with many secondary and external stakeholders. The levels of power exerted by internal and external stakeholders on hindering downsizing vary, depending on their resource dependence, statutory rights, and the positions and roles within the social network. In response to different resistant forces, firms must identify the sources before taking appropriate response actions, based on the levels of power exerted. Similarly, labor unions, the most important internal stakeholder, also evaluate the power of external stakeholders and may even leverage resources to negotiate with firms to protect the rights and benefits of their members (Stringer and Brown 2008). Therefore, it will be necessary for labor unions to adopt strategies to maximize their power to influence firm downsizing (Ross and Bamber 2009).

The research by Tsai et al. (2005) introduced the stakeholder influence strategy of Frooman (1999) into the downsizing context and combined resource dependence theory and institution theory to develop four types of influence strategies. The first type is a direct withholding strategy. When firm dependence on employees is high, the legitimacy of firm decision is low, and a labor union may directly withhold a firm's downsizing strategy through such actions as launching a strike. The second type is a direct usage strategy, also known as a direct negotiation strategy. When the interdependence between labor and management is high and the legitimacy of firm downsizing is high, labor unions may directly negotiate with management and attempt to resolve the dispute on conditions favorable to employees. The third type is an indirect withholding strategy. When firm dependence on employees is low and the legitimacy of firm downsizing is low, a labor union is likely to use other stakeholders to indirectly withhold the firm's downsizing strategy. For example, labor unions may appeal to the government for help to stop the lay-off when the firm tries to lay off employees without notice. The fourth type is an indirect usage strategy, or indirect negotiation strategy. When firm dependence on employees is low, and legitimacy of firm downsizing is high, labor relations are restricted by firm authorities and may ask other stakeholders to negotiate with management to resolve the dispute on conditions favorable to employees.

Tsai et al. (2005) indicated that most labor unions chose the direct usage strategy given that firms were willing to negotiate with unions. Labor unions use this influence strategy to directly or indirectly negotiate with firms at the beginning, ultimately adopting direct negotiation. For negotiation deals, most labor unions request firms to ensure fairness during downsizing, to offer employees more favorable severance deals and outplacement services, such as consultation, training and job-hunting services, and to lower the number of persons laid off by resorting to other options. Employees of non-unionized firms cannot negotiate with firms for better deals. This shows that even though labor unions may not be able to stop firm downsizing, they are able to negotiate for better employee benefits.

The literature on labor union development in Taiwan supports why labor unions have previously adopted a negotiation strategy during downsizing. The development of labor unions in Taiwan consists of three stages. (1) Flower vase stage. Before 1980, the government controlled and established all labor unions. Unions had very limited power or resources to negotiate with related stakeholders for benefits for their members. (2) Independence stage. From 1986 to 2000, following the rapid growth of economic and democracy development, labor unions demanded independence (Fang 1992). After Martial Law was abolished in 1988, thousands of autonomic, independent labor unions were established and vigorously operated. They used internal and external resources to strive for their rights and interests. This stage raised numerous disputes abundant negotiations by both management and labor. (3) Institutionalization and diversification stage. With experience in solving disputes since 2000, most established labor unions are familiar with the negotiation mechanism in dealing with related stakeholders to protect rights and bargain for the welfare of union members. In response to globalization and the general trend for outward migration of industry, wielding flexibility in bargaining has become a common practice for labor unions (Lu, Chiu and Chen 2003). A mature, institutionalized society commonly uses negotiation as a strategy to deal with stakeholders. Negotiation is typically the ultimate means to reach a settlement. Therefore, we argue that labor union negotiation can affect the downsizing strategy and actions of a firm.

Responsible downsizing strategy and labor union negotiation

Based on the above literatures, this study proposed that unions' negotiation would affect the relationship between firms' responsible downsizing strategy and firm performance. Specifically, the four dimensions of a responsible downsizing strategy must consider the positive and negative influence of labor union negotiation on firm performance. The two dimensions of considering employees as long-term assets and employee-caring practices emphasize enhancing a firm's care of employees – the things labor unions fight for. Therefore, labor union negotiations may request that firm management exercise care in considering the decision to laid-off employees and invest more resources in employee career development. These interactions may mitigate employee resistance to the downsizing strategy, and even encourage remaining employees to work harder to create profits and reach firm business goals, thus improving firm performance. Thus, we hypothesize as follows:

Hypothesis 2.1: Firms with labor union negotiation and a mindset of treating employees as long-term assets will significantly increase firm performance more than non-union firms.

Hypothesis 2.2: Firms with labor union negotiation and employee-caring practices will significantly increase firm performance more than non-union firms.

This study argues that labor unions might be stumbling blocks to firm performance when firms implement a responsible downsizing strategy for organizational change strategy, employee participation and a just process. Labor unions have neither sufficient information nor the capability to make suitable judgment in the strategy for organizational change. Tenure of office for labor union officials may cause them to focus on short-term goals, whereas firm management focuses on long-term goals. Therefore, labor union negotiation may interrupt and negatively influence the pace and scope of an organizational change strategy. An interruption may mislead employees into lowering their support for corporate change strategy and implementation, slowing down the reform of corporate culture and negatively influencing firm performance. As for employee participation and a just process, labor union negotiation may force firms to spend more time and effort dealing with different opinions or disputes over implementing the downsizing process, such as setting criteria and selecting employees to lay off. Another concern is whether labor unions can fully represent and back up all employee opinions and interests during the downsizing period. If firms invite opinions from all employees in considering the most suitable downsizing practices, will the feedback from employees be consistent with those from labor unions? If not, who should the management listen to, labor unions or employees? In this perspective, labor union negotiation may cause higher costs and greater confusion to the downsizing process. Such interactions are more likely to create negative effects on firm performance. Thus, we propose two additional hypotheses as follows (Figure 1):

Hypothesis 2.3: The organizational change strategy of firms with labor union negotiation will significantly decrease firm performance compared to non-union firms.

Hypothesis 2.4: Employee participation and justice in lay-off process practices of firms with labor union negotiation will significantly decrease firm performance compared to non-union firms.

Methods

Sample and procedure

Our sample consisted of firms that implemented downsizing in Taiwan. We reached qualified firms through two approaches, including 690 firms that participated in a downsizing survey carried out by the Council of Labor Affairs in Taiwan as well as 104

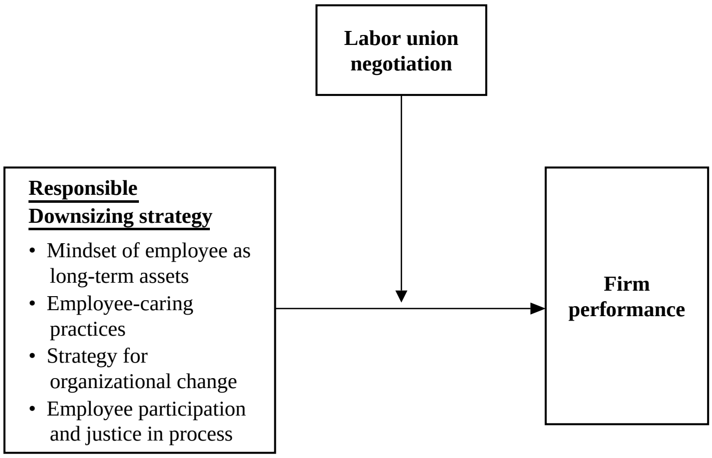

Figure 1. Research framework.

multinational corporations in Taiwan that were paid to participate in a downsizing survey carried out by a leading consultant company.

The survey questionnaires were sent to firms that had formally implemented a downsizing strategy. We required two informants for each firm to ensure validity of the survey (Simons, Pelled and Smith 1999) and to avoid common method bias (Podsakoff, MacKenzie, Lee and Podsakoff 2003). We asked HRM department heads to assess the measures of responsible downsizing strategy and labor union negotiation and top management executives to evaluate post-downsizing firm performance. We made follow-up telephone calls three weeks after the first mailing and re-sent a copy of the questionnaire to non-response firms. One hundred and fifty-four qualified surveys were returned, resulting in a response rate of 19.39%. Since a low response rate leads to non-response bias, we carried out a *t*-test for the key variables between the 108 early respondents (those who responded before the follow-up call) and 46 late respondents (those who responded after the second mailing) (Rogelberg and Stanton 2007). The ratings on the attitudinal variables are similar between early respondents and late respondents (Rogelberg et al. 2003). Results revealed no differences in responses between early respondents and late respondents ($0.73 \le t \le -1.04$, n.s.). Despite these results, we could not ascertain whether these two groups differed on unmeasured variables that also correlated with the variables in the study.

Table 1 presents the sample characteristics. The sample covered a number of sectors, 48.7% of firms were within the manufacturing industry, 57.8% were local enterprises, 34.4% included 101–500 employees, 40.9% laid off 5–15% of their employees, 60.4% were not unionized and 39.6% experienced union negotiation against downsizing.

Measurement

Dependent variable: firm performance

Since firms, including those in the same industry, hold different expectations for the percentage of profitability from their post-downsizing performance, new measurement categories should be adopted instead of items such as profitability, sales volume or prices in the stock market. We selected items to ask executives to assess the average firm

Table 1. Sample characteristics $n = 154$.

Features of firm	*Category*	*Number of firms*	*Percentage (%)*	*Remarks*
Ownership type	Local private firm	75	48.7	Local firms: 89 (57.8%)
	Local public firm	14	9.1	Foreign-funded firms: 65 (42.2%)
	Foreign-funded firm	46	29.9	
	Joint venture with foreign investment	19	12.3	
Industry	High-tech	37	24	Electronics, information technology and telecommunications
	Manufacturing	75	48.7	
	Service	42	27.3	
Annual revenue (NT dollars)	<50 million	8	5.2	
	50–300 million	26	16.9	
	300 million–1 billion	27	17.5	
	1–5 billion	42	27.3	
	Over 5 billion	51	33.1	
Number of employees	<50 people	20	13	
	51–100 people	22	14.3	
	101–500 people	53	34.4	
	501–1000 people	25	16.2	
	Over 1000 people	34	22.1	
Firm's stage life cycle during downsizing	Start-up	7	4.5	
	High growth	28	18.2	
	Mature	100	64.9	
	Declining	19	12.3	
Orientation of corporate culture	Job orientated	34	22.1	
	Employee oriented	12	7.8	
	Job and employee mixed oriented	108	70.1	
Union	Yes	61	39.6	
	No	93	60.4	
Percentage of employees laid off	<5%	60	39.0	Massive layoff
	5–15%	63	40.9	
	15–50%	28	18.2	
	Over 50%	3	1.9	

Note: According to Tomasko's (1990) definition, when the percentage of employees is being laid off reaches 5–15%, it is considered a massive lay-off.

performance within 3 years after downsizing in terms of (1) the extent their firms had improved in cost structure, (2) the extent their firms had increased in asset utilization, (3) the extent their firms had expanded in revenue opportunities, (4) the extent their firms had promoted in customer value of products and services and (5) the extent their firms had improved in employee productivity. Each item was assessed using a 7-point Likert scale (ranking 1 as 'strongly disagree' to 7 as 'strongly agree').

Independent variable: responsible downsizing strategy

Despite numerous studies and discussions regarding a responsible downsizing strategy, few studies include well-developed scales. According to the definitions of a responsible downsizing strategy (more details can be found in the literature section), we followed the deductive scale design approach (Churchill 1979; MacKenzie 2003) to formulate 12 items (see Table 2). We asked HRM department heads to rate the extent to which their firms had implemented responsible downsizing during their downsizing period on a 7-point Likert scale (ranking 1 as 'strongly disagree' to 7 as 'strongly agree').

Moderated variable: labor union negotiation

According to a study by Tsai et al. (2005), most labor unions in Taiwan commonly negotiate with firms while downsizing. Tsai, Yeh and Wu's (2009) study on the labor union negotiation strategy indicated that 69.7% of labor union in Taiwan used the negotiation strategy while 12.5% considered to use the negotiation strategy and 17.8% refused to adopt the negotiation strategy. We asked HRM department heads to determine whether their company was non-unionized or encountered union negotiation during the downsizing process. Non-unionized firms were coded as 0, while firms that negotiate with their unions were coded as 1.

Table 2. Results of CFA.

Dimensions and items	*Std. loading*	*t*-value
Mindset of employee as long-term assets ($\alpha = 0.77$)		
We treat employees as valuable assets worthy of continuous investment	0.61	7.59
Our downsizing was part of an entire system change (including: culture and core values)	0.69	8.78
Our downsizing strategy is defined as a long-term strategy rather than a short-term strategy	0.87	8.16
Employee-caring practices ($\alpha = 0.73$)		
We treat those employees who we intend to keep very well	0.65	8.18
We provided outplacement services such as training, consultation, job-seeking services, and so on.	0.78	10.26
The severance package we offered to laid-off employees exceeded the legal requirements	0.65	8.16
Strategy for organization change ($\alpha = 0.83$)		
Our downsizing was accompanied with organizational restructuring	0.81	11.51
Our downsizing was accompanied with business process re-engineering	0.90	13.42
Before downsizing, we carefully evaluated employee competencies and organizational development	0.68	9.01
Employee participation and justice in lay-off process ($\alpha = 0.77$)		
We informed laid-off employees in advance to laying them off	0.71	9.11
We discussed downsizing with our employees and sought their participation	0.72	9.21
Our downsizing process was implemented in a justifiable manner	0.74	9.56
Firm performance ($\alpha = 0.92$)		
The extent to which firms improved in cost structure	0.83	12.35
The extent to which firms increased in asset utilization	0.76	10.62
The extent to which firms expanded in revenue opportunities	0.85	12.79
The extent to which firms promoted customer value of products and services	0.87	13.19
The extent to which firms improved employee productivity	0.84	12.53

Notes: Goodness of fit: $\chi^2 = 247.78$ ($df = 108$, $p < 0.01$), CFI = 0.90, NNFI = 0.88, RMSEA = 0.09 and SRMR = 0.07. Comparability of the original language (i.e. Chinese) and the current version of the scale was ensured through back translation by bilingual professionals (Brislin 1980).

Control variables

The empirical studies by Budros (1999) and Filatotchev, Buck and Zhukov (2000) indicated that firm size affects its downsizing strategy. Studies also suggested that firm ownership (foreign-funded, joint venture, local, government-owned or privately funded) might influence management strategy and union intervention (Filatotchev et al. 2000; Cascio 2002). As a result, we controlled firm size (measured by number of employee numbers) and ownership type (measured by private local, public local, foreign capital, and local and foreign join venture) for firm performance. In addition, we included variables that may influence firm performance, such as orientation of corporate culture (measured by categorical choices of job orientated, employee oriented and job and employee mixed oriented), stage life cycle during downsizing (measured by categorical choices of startup, high growth, matured and declining stage) and industry (measured by high tech, manufacturing and service).

Scale evaluation

We invited 8 executives, 7 HRM practitioners and 10 academic scholars to ensure the practicality and appropriateness of the items. Finally, a pilot test was implemented to 44 respondents, including executives, and HRM department heads from various industries, before conducting a formal questionnaire survey.

Analytical approach

The study used Cronbach's α coefficient to examine internal consistency of the measures, and conducted confirmatory factor analysis (CFA) to evaluate construct validity and model fitness of the scale. To test the hypotheses, the study used correlation coefficient analysis to examine the correlation among variables to exclude irrelevant variables. Afterwards, we conducted hierarchical moderated regression analysis to examine the interactive effects of labor union negotiation and responsible downsizing strategy on firm performance. Variables involved with interaction terms were centered to reduce multicollinearity before creating the product terms (Aiken and West 1991).

For qualitative validity of the results, we conducted focus group interviews with three major stakeholder groups (presidents of labor unions, human resource managers and top management executives of firms) whose positions suggest authority, capacity and motivation to provide insights into downsizing and union issues (Delery and Shaw 2001). Sherer and Leblebici (2001) suggested that a qualitative research method is a complementary approach to further validate and interpret quantitative results of complex interpersonal behaviors, and is able to mitigate pitfalls of a narrow view that typically occur in a structured survey and objective statistics.

Results

CFA was applied to assess the construct validity. We first conducted a 5-factor model (i.e. four dimensions of downsizing strategy and firm performance). As Table 2 reports, the CFA results indicated that each indicator exhibited significant and substantive loading on its respective latent variable ($p < 0.001$, all $t > 13.19$). Second, we conducted several alternative measurement models to assess the discriminant validity. The CFA results in Table 3 show that the 5-factor model fits the data much better than the 1-factor model ($\Delta\chi^2 = 468.94$, $\Delta df = 10$, $p < 0.001$) or 2-factor model ($\Delta\chi^2 = 183.54$, $\Delta df = 5$,

Table 3. Comparisons of alternative measurement models.

Models	χ^2	*df*	$\Delta\chi^2$ (Δdf)	*CFI*	*NNFI*	*SRMR*	*RMSEA*
One-factor model	716.72	118	468.94 (10)	0.58	0.52	0.14	0.21
Two-factor model[a]	431.32	117	183.54 (5)	0.78	0.74	0.10	0.14
Four-factor model[b]	399.95	112	152.17 (4)	0.80	0.76	0.13	0.14
Five-factor model	247.78	108	–	0.90	0.88	0.07	0.09

Notes: CFI, comparative fit index; NNFI, non-normed fit index; SRMR, standardized root-mean-square residual; RMSEA, root-mean-square error of approximation.
[a] Four dimensions of downsizing strategy were combined.
[b] Firm performance and 'employee participation and justice process' were combined.

$p < 0.001$), or the 4-factor model ($\Delta\chi^2 = 152.17$, $\Delta df = 4$, $p < 0.001$), indicating that each variable is convergent and distinct.

Table 4 summarizes the descriptive statistics and correlations. All of the study variables were significantly intercorrelated. Cronbach's α ranged from 0.92 to 0.73, suggesting good internal consistency (Hair, Anderson, Tatham and Black 1998).

Results of hierarchical moderated regression confirmed Hypotheses 1, 2.2 and 2.4. Table 5 reveals that, after controlling for firm size and firm ownership type, the responsible downsizing strategy has positive influence on firm performance ($\beta = 0.42$, $p < 0.01$; Model 1), hence Hypothesis 1 was supported. Hypotheses 2.1–2.4 predicted that four individual dimensions of the responsible downsizing strategy and labor union negotiation had interactive effects on firm performance. We first regressed four individual dimensions of the responsible downsizing strategy in step 1 (Model 2.1) and the model explained 28% variance of performance. In step 2, we regressed with four additional interactive items (Model 2.2) and the model explained 34% variance of performance, with a significantly increased 7% explained variance in firm performance ($\Delta F = 4.28$, $p < 0.01$). The variance inflation factor ($1.10 \leq \text{VIF} \leq 2.02$) suggested little multicollinearity. More specifically, employee-caring practices ($\beta = -0.26$, $p < 0.05$) and employee participation and justice in lay-off process ($\beta = -0.19$, $p < 0.05$) significantly interacted with union negotiation, lending support for Hypotheses 2.2 and 2.4. However, 'the mindset of treating employees as long-term assets' ($\beta = -0.01$, n.s.) and 'the strategy for organizational change' ($\beta = 0.07$, n.s.) demonstrated no significant interactive effects with union negotiation. Hypotheses 2.1 and 2.3 were not supported.

To interpret the nature of interaction, we rearranged the total regression equation into simple regressions and plotted the values of the interaction pattern according to the rule provided by Aiken and West (1991). The plots of the significant interactions are illustrated in Figures 2 and 3.

Hypothesis 2.2 predicted union negotiation as an 'enhancer' interaction that would strengthen the downsizing-performance link (Podsakoff, MacKenzie and Fetter 1993). The pattern in Figure 2, however, reveals a 'substitute' rather than an 'enhancer' type of interaction that we had predicted. As a substitute, union negotiation weakened the effects of 'employee-caring practices' implemented on firm performance. Unionized firms exhibited higher downsizing performance than non-unionized firms did (intercept at 4.99–5.47 vs. 3.96–5.39). In summary, union negotiation may substitute a firm's role in employee-caring practices to reach higher post-downsizing performance in a firm.

Hypothesis 2.4 predicted that the relationship between 'employee participation and justice in lay-off process' and firm performance would be weaker for firms with union negotiation than those without it. Consistent with Hypothesis 2.4, the pattern in Figure 3

Table 4. Means, standard deviations and correlations $n = 154$.

Variables	*Mean*	*s.d.*	*1*	*2*	*3*	*4*	*5*	*6*	*7*
1. Responsible downsizing strategy	5.13	0.82	(0.75)						
2. Long-term mindset	5.76	0.97	0.65	(0.77)					
3. Strategy for organizational change	5.09	1.01	0.80	0.46	(0.83)				
4. Employee participation and justice in lay-off process	4.56	1.17	0.74	0.19	0.46	(0.77)			
5. Employee-caring practices	5.10	1.19	0.83	0.40	0.55	0.51	(0.73)		
6. Firm performance	4.88	1.20	0.44	0.33	0.36	0.23	0.43	(0.92)	
7. Union's negotiation	0.40	0.49	0.04	0.03	0.00	0.00	−0.05	0.21	–

Notes: Standardized correlation coefficients ≥ 0.19 in the table were significant at $p < 0.05$ at least. Cronbach's α was presented in the diagonal.

Table 5. Results of hierarchical moderated regression analysis $n = 154$.

	Firm performance		
	Model 1	*Model 2.1*	*Model 2.2*
Step 1: main effect			
Control variables			
Firm size	0.16*	0.04	0.05
Public local[a]	0.05	0.01	0.02
Foreign capital[a]	0.13	0.09	0.12
Local and foreign joint venture[a]	−0.10	-0.14^{+}	-0.12^{+}
Manufacturing[b]	0.20*	0.17^{+}	0.17^{+}
Service[b]	0.03	0.01	−0.02
Start-up stage[c]	0.06	0.03	0.03
High-growth stage[c]	0.05	0.07	0.05
Declining stage[c]	−0.07	−0.07	−0.05
Employee oriented[d]	−0.01	0.01	−0.01
Job and employee mixed oriented[d]	0.21*	0.21*	0.21
Independent and moderated variables			
Overall responsible downsizing strategy	0.42***		
Long-term mindset (A)		0.25^{+}	0.44^{+}
Employee-caring practices (B)		0.14*	0.16*
Strategy for organization change (C)		0.17	0.11
Employee participation and justice in process (D)		−0.01	0.07
Labor union's negotiation[e]		0.19*	0.18*
Step 2: interactive effect			
(A) × Labor union's negotiation[e]			−0.01
(B) × Labor union's negotiation[e]			−0.26*
(C) × Labor union's negotiation[e]			0.07
(D) × Labor union's negotiation[e]			−0.19*
F	5.19***	4.62***	4.91***
ΔF			4.28**
R^2	0.25	0.28	0.34
ΔR^2			0.07

Note: $^{+}p < 0.10$, $*p < 0.05$, $**p < 0.01$, $***p < 0.001$; Standardized coefficients are reported.
[a] Dummy variables for ownership type; contrast group is private local ownership.
[b] Dummy variables for industry; contrast group is high-tech industry.
[c] Dummy variables for firm's stage of life cycle; contrast group is mature stage.
[d] Dummy variables for orientation for corporate culture: contrast group is job orientated.
[e] Dummy variables for unions negotiation; contrast group is non-union.

demonstrates that union negotiation reversed the positive effect of 'employee participation and a just process' downsizing strategy on firm performance into a negative effect.

Focus group interviews

Although our results demonstrated significant interactions of union negotiation and a responsible downsizing strategy, the interaction patterns were inconsistent with our prediction. What were the causes of these effects? This research conducted focus group interviews, a qualitative research method, and compared the results with the statistics to seek for insights.

Three focus groups were presidents of labor unions, human resource managers and executives of firms, and they had been the most important stakeholders in downsizing implementation. Each focus group involved six to eight senior personnel. The interview principles proposed by Krueger and Casey (2000) were adopted as guidelines to discuss

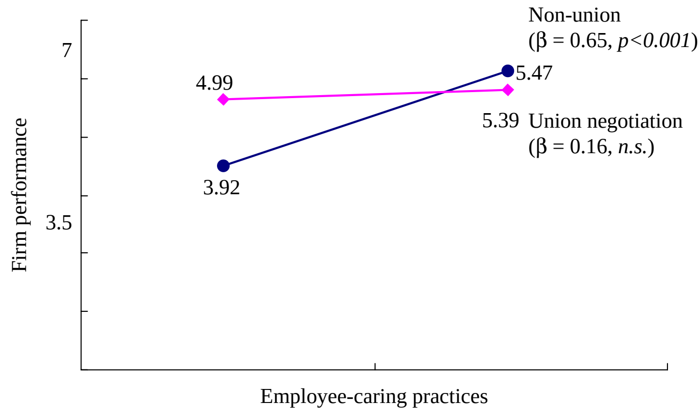

Figure 2. Interactive effects of labor union negotiation and employee-caring practices on firm performance.

the topics and to reach an agreed conclusion. When these three focus groups had different or even conflicting viewpoints, the conclusions will go through a triangulation comparison.

The triangulation comparison showed that all three focus groups agreed with the statistical analyses results but presented different opinions on the causes. Their viewpoints are summarized in Table 6.

(1) Why does union negotiation have a negative moderated effect on responsible downsizing strategy to firm performance?

All of the stakeholder groups believed that compared with non-unionized firms, unionized firms benefited in operational performance during normal times because unions regularly monitored business operation. As a result, there was not much room for performance improvement during downsizing even with an enhanced degree of responsible downsizing strategy. Because unionized firms had a relatively higher cost of corporate downsizing (such as higher severance pay) and a more troublesome downsizing process (resulting from resistance from the union to protect employees), it was more difficult for them to improve firm

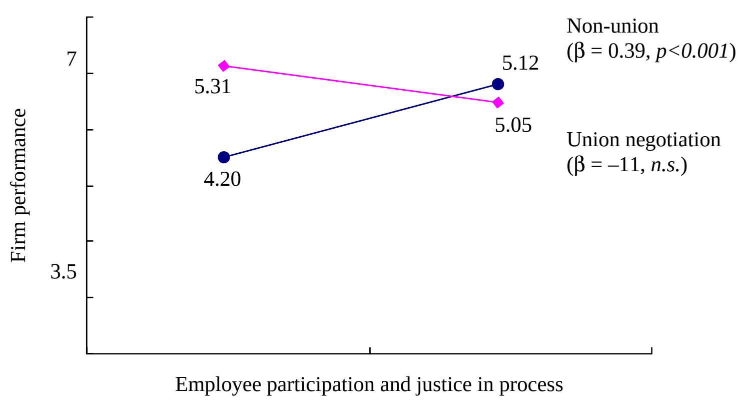

Figure 3. Interactive effects of union negotiation and employee participation and justice in lay-off process on firm performance.

Table 6. Stakeholders' viewpoints of why unions caused moderated effect.

Stakeholders / *Reasons for moderate effect*	*Presidents of labor unions*	*Human resource managers*	*Top management executives*
1. The responsible downsizing strategy			
Union monitors firm's operational performance in normal times, it may help firm performance	yes	yes	yes
Unionized firm caused higher downsizing cost	yes	yes	yes
Unionized firm caused downsizing process to be more troublesome	yes	yes	yes
Unionized firm has greater difficulty in improving the quality of workforce	yes		
Without labor union intervention, non-unionized firm enjoyed better administrative efficiency		yes	yes
Without labor union intervention, non-unionized firm was more likely to maximize labor productivity		yes	yes
2. Negative moderate effect on 'Employee participation and justice in lay-off process'			
Employees of unionized firms had more autonomy and fair treatment	yes		
Participation of unionized employees caused negative moderate effect by difficulties for consolidating many different opinions	yes	yes	yes
Unfair stance of a union caused injustice in the process of selecting lay-off employees	yes	yes	yes
Unionized employees were more likely to receive incorrect information about real company status		yes	yes
3. Negative moderate effect on 'Employee-caring practices'			
Unionized employees had low willingness to quit the job, so employee-caring practices are not able to have a significant encouragement to employees	yes		
Labor union interventions for protecting employees made it more difficult for firms to improve the performance of remaining employees	yes	yes	yes
It was more difficult for a unionized firm to lower labor cost	yes	yes	yes
4. Why can labor unions not cause a moderated effect in terms of 'the mindset of employee as long-term assets' and 'the strategy for organization change'?			
Union did not intend to and was not able to intervene in the internal mindset of top management	yes	yes	yes
Union did not intend to and was not able to intervene in the decision making about change strategy from top management	yes	yes	yes

performance. On the contrary, non-unionized firms had more room for performance improvement because they were free from the supervision and intervention of unions.

(2) Why does union negotiation impede firm performance when firms increase employee participation and justice in lay-off process?

All of the stakeholder groups believed that union negotiation would affect the justice of the downsizing process because it might affect the fairness of selecting employees to lay off when initiated by employees or when taking an unfair stance (such as officers of labor union favoring certain employees). Blocking the chance for effective employee participation and fair downsizing implementation process made it difficult to improve firm performance. On the contrary, non-unionized firms were more likely to improve firm performance when they were free from union intervention.

(3) Why does union negotiation neutralize the effect of employee-caring practices on firm performance?

All of the stakeholder groups believed that union negotiation made it more difficult for firms to lower labor cost (because they had to offer more favorable practices, such as offering more munificent severance packages and services to lay off employees) and improve performance of remaining employees (because labor unions would intervene in the new job arrangement or in incentives for employees). As a result, union negotiation wielded a negative effect on firm performance about employee-caring practices.

(4) Why is there no significant effect between the impact made by union negotiation and non-unionized firms on the dimensions of 'the mindset of treating employees as long-term assets' and 'the strategy for organization change?'

All of the stakeholder groups believed that the main concern of a labor union was the rights and interests of employees. However, it lay within the power of top management to decide on the strategy for organization change after carefully assessing firms' capabilities. Labor unions also did not intend to and were not able to intervene in the internal mindset of top management. As long as the firm strategy did not affect the rights and benefits of employees, labor unions have no intention, and were not able to intervene. This explains why union negotiation did not have a significant moderated effect on 'the mindset of treating employees as long-term assets' and 'the strategy for organizational change'.

Conclusion

Our research findings suggest the following (1) a responsible downsizing strategy can boost firm performance, especially for non-unionized firms. This finding provides deductive empirical support to the theory of an employee-oriented downsizing strategy. (2) Labor union negotiation plays a critical role in influencing the effects of firms' responsible downsizing strategy on firm performance. The role that labor union negotiation plays during a responsible downsizing process seems more than a dichotomy of either a stepping stone or a stumbling block. They could be both stepping stones in some areas and stumbling blocks in other areas. Our results demonstrate that firms with labor unions have higher downsizing performance than those of non-unionized firms. However, results reveal that unions act as stumbling blocks to downsizing when their negotiation neutralizes or even prevails in the overall effects of a responsible downsizing strategy and employee-caring practices. Union intervention impedes downsizing performance while firms increase employee participation in the downsizing process. These findings highlight the potential conflict of interest between employees and labor unions, which are empowered by firms.

Implications for theory and future research

One of the implications of this study is that a responsible downsizing strategy will produce different effectiveness in firms with different characteristics (such as unionization in this study). This implies the necessity for more empirical examinations that introduce different variables for developing a responsible downsizing strategy as a solid theory. The other implication is that labor union negotiation is an important variable that future studies should consider to examine the impacts of organizational change or downsizing strategies on firm performance. This is because labor unions are a significant stakeholder and their negotiation, which offers a moderating effect to downsizing, definitely affects the strategies and actions of firms. This research also identified an important issue in labor relations worthy of further investigation: under what circumstances does labor union negotiation offer a significant and positive moderating effect? Finally, we suggest future research can measure union negotiation as a numeric variable while we believe by doing so it will be more accurate to know the deeper influence of this negotiation strategy.

Implications to HRM practitioners

The practical implication of this research to HRM practitioners is that both labor and management need to show more concern for the significance of labor union roles in downsizing. Even though management believes that labor unions are a buffer during downsizing, labor unions negotiate with firms to improve employee job security and benefits. Unions assume the role of guardian or champion of employee rights. Since labor union members elect their leaders, labor unions have no other choice but to intervene. Therefore, unionized firms may have to bear the burden of increased costs and extra efforts for communication, which may decrease downsizing efficiency. Consequently, these firms do not reach a performance as high as non-unionized firms do. Firms do not favor the presence of labor unions, but are required by law to accept them as a necessary mechanism. As a result, firms planning to implement downsizing to improve firm performance must dedicate more effort to communicate and negotiate with labor unions to minimize the undesirable effects that labor unions may cause. In contrast, labor unions must pay attention to this predicament. Although the overall business environment is experiencing significant changes in technology, regulations and labor markets, firms are under tremendous pressure to cut costs to sustain operation. When firms fail to improve performance through downsizing, profits will fall, leading to fragile protection of employee jobs and benefits. Labor unions may not be necessary or beneficial to employees, so employees may choose to quit union membership. As labor unions decline and employees attempt to survive by adopting functional and strategic restructuring, they may face an even more difficult situation if their actions backfire (Reder 1995; Veddar and Gallway 2002; Rose 2007).

Limitations of the study

This research sample was collected from Taiwan; therefore, the result includes limitations to generalize to developed countries or even other Asian countries. Regional differences occur throughout the world in political, economic and social perspectives; therefore, labor–management relationships and the functions and power of labor unions in different areas may vary. For example, labor unions in Korea, one of the 'four Asian tigers', wield greater negotiation power than labor unions in Taiwan. Therefore, more studies in different contexts will help confirm the effectiveness of a responsible downsizing strategy and to moderate the effect of labor union negotiation to downsizing. This can make a substantial contribution to the practice and theory development of labor–management relationships and organizational change.

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