# The Role of Mutual Trust in Effective Downsizing Strategies

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*Several factors that explain differences in the downsizing strategies utilized in organizations are examined in this study of 91 organizations in the automotive industry. Specifically, mutual trust within a top management team is positively associated with a strategy based on organization redesign. Mutual trust between members of an organization and its key customers and suppliers is positively associated with a strategy based on systemic change. Moreover, these two strategies are positively associated with performance outcomes in the areas of cost reduction and quality improvement.* © 1994 by John Wiley & Sons, Inc.

## INTRODUCTION

> *I went through a plant closing when I was out there. That was one of the first plants we closed. Talk about an emotional event. Being a part of a plant closing that's been in business for 20, 30 years. Tough. People crying, I mean they don't believe it. Calling you at night. It was awful. I don't think some people really grasped that it was true until a couple of years after the plant was closed. We've closed plants before, or shut them down for a period of time and then reopened them, you know. That's not an official closure. So, in some cases it takes more than 'Hey it's over'. It takes a period of time before they finally say, 'Well, that's it'. It's one of those things that I never want to go through again. I think it puts an emphasis into what you do and how you do it, to take into consideration the big picture of what it takes to stay competitive, and what it takes to get quality cars and quality products. It's a motivating force, that's really what it is. It has changed me. There's no doubt.*
>
> *-Automotive Executive*

After a decade of downsizing, American companies continue to restructure (see Fig. 1). A 1991 study sponsored by the Association for Quality and Participation found that over 85% of the Fortune 1000 firms downsized between 1987 and 1991 and that more than 50% downsized in 1990 alone (Buch, 1992). In 1991, the Fortune 500 announced the layoffs of almost 300,000 employees. In that same time period smaller firms announced the layoffs of an additional 1,000,000 employees in their efforts to take out layers in the hierarchy and to streamline opera-

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| | 1992 | 1221 |
|---|---|---|
| **FORTUNE 500** | **178,952** | **287,742** |
| **OTHER COMPANIES** | **1,045,012** | **1,026,725** |
| **TOTAL LAYOFFS** | **1,223,964** | **1,314,467** |

Figure 1. Workforce reductions made or announced. Sources: *Wall Street Journal, New York Times, Time.*

tions (McDonnell, 1992). Even firms such as IBM have had to abandon their famous "no-layoff " policies due to mismanagement and increased competition (Hooper & Miller, 1992).

For many firms, this downsizing is the continuation of efforts that began in the early 1980s. Through this decade, firms reduced their ranks in an attempt to become more competitive. Today this trend continues as firms attempt to cut costs quickly in order to meet the demands of the global marketplace.

The U.S. automotive industry in particular has undergone downsizing because of continued economic uncertainty and ever-increasing global competition. The Big 3 automobile manufacturers in the United States (U.S.), General Motors, Ford, and Chrysler announced employment reductions of almost 110,000 people in the last 2 years. Their suppliers have also suffered. Through the entire decade of the 1980s, the $200 billion'auto parts industry lost 90,000 jobs, or 12% of the total, and hundreds of firms in this industry failed (Haglund, 1991).

This article discusses approaches to organizational downsizing, the typical outcomes from downsizing, and the frequent failure of downsizing efforts to achieve their intended outcomes. Previous research on downsizing is then reviewed in developing our research framework. Findings from our interviews with executives as well as results from our extensive survey of more than 90 organizations in the automotive industry are then presented. We conclude with a discussion of the implications of these findings for managers who are implementing or are considering undertaking downsizing efforts in their organizations.

## APPROACHES TO DOWNSIZING

Most companies continue to downsize through layoffs, despite many alternatives which are available other than just reducing headcount. McCune, Beatty, & Montagno (1988) in their research on midwest manufacturing firms, found that while almost 60% downsized, none of those firms indicated that they considered downsizing alternatives such as retraining, transfers, or demotions. A recent survey by the Right Associates consulting firm found that 70% of companies that downsized instituted a hiring freeze as a course of action. Less than 50% restricted overtime or retrained or redeployed their employees, and less than 25% switched to part time, shared jobs, or converted employees to consultants (Faltermayer, 1992). An even smaller number, fewer than 10%, utilized unpaid vacations, shortened work weeks, or reduced pay as layoff alternatives.

A few companies are looking to reduce their ranks through atypical measures. One alternative developed by Warner-Lambert was to create an in-house temporary secretarial department. Rather than losing valuable workers to competitors, they opted to keep them in-house to be used as vacation replacements ("Creative Downsizing", 1992). Asea Brown Boveri Company (ABB), in a recent downsizing effort, used a so-called 30-30-30 approach: 30% of their employees were laid off, 30% were transferred to other operating units, and 30% who were employed in marketing and promotions were moved to a separate, newly created company, offering services to ABB at competitive rates. Ten percent of the employees remained (Cohen, 1992).

One option seems to be rarely used: "Just say no." Dow Chemical has chosen to take the long-term perspective when considering whether to downsize. Top management has decided simply to refuse to downsize by means of layoffs and instead redeploys employees whose operations have been eliminated to other areas within Dow. President Frank Popoff explains that

> *When you lay off people, you lose all of the loyalty you've busted your butt to build. The quality of work you get from motivated people is literally light years from people who aren't well motivated* (Faltermayer, 1992, p. 84).

## OUTCOMES FROM DOWNSIZING

Research conducted by the Arthur D. Little Company and reported by Tomasko (1992) indicates that only one-fourth of firms that downsized have enjoyed improvement in productivity, cash flow, or shareholder ROI. That research shows that this is because firms have focused too much attention on eliminating unnecessary jobs and outplacing people and not enough attention on cutting or outplacing unnecessary work. The latter is referred to as resizing (Harari, 1992; Tomasko, 1992). A Towers Perrin survey asked 350 senior managers in 275 major companies (together accounting for 26% of US Gross National Product) whether they thought their cost-cutting programs or restructurings had achieved what they had hoped for. Half of them said "no" (Fisher, 1991). A recent Wyatt Company study (see Bennett, 1991) asked companies if they had achieved the performance goals they had set when starting a restructuring effort. Wyatt found that 89% of companies that restructured had a goal of reducing expenses, but only 46% of those companies indicated that restructuring had actually helped them to achieve that objective. Productivity increases were anticipated by 71% of those firms, yet only 22% indicated that they had met that goal. While 44% wanted to improve product quality, only 9% managed to do so. Other practitioners and researchers have also found that organizations typically come up short in achieving the financial and other performance objectives initially sought through downsizing efforts (Bennett, 1991; Peterson, Zellner, & Woodruff, 1992).

Not only are many companies failing to reap all of the intended benefits of downsizing, they are actually realizing significant costs as well. A recent study found that the most frequently reported negative effects from downsizing were (1) decreased motivation and morale, (2) cynicism toward employee involvement efforts, and (3) reduced participation in employee involvement programs (Buch, 1992).

With so many firms falling short of their performance goals of reduced expenses, increased productivity and improved product quality, what factors account for those firms that manage to meet their goals? We investigated this question in a study of *organizations* faced with the need to downsize. We sought to determine what factors predicted the success of some firms' downsizing efforts and the failure of others.

## PREVIOUS RESEARCH ON DOWNSIZING

Our study grew out of a four-year longitudinal study on downsizing in the U. S: automotive industry by Cameron, Freeman, and Mishra (1991, 1993). They identified three types of downsizing strategies utilized by *organizations.* The most common type of strategy, labeled the *workforce reduction strategy, is* aimed at eliminating headcount **in an *organization*-** typically through attrition, *financial* incentives, and/or involuntary layoffs. This type of strategy was used by all of the organizations in that study. The second strategy, labeled the *organization redesign strategy, is* broader in scope and is directed at organizational change. Typical **exam**ples include eliminating departments, redesigning tasks and jobs, eliminating functions or departments, and removing layers in the hierarchy. This type of strategy was used by half of the sample organizations. The third strategy, the *systemic change strategy, is* aimed at changing the culture of an organization by fostering a philosophy of continuous improvement, involving important internal and external stakeholders, and broadly redefining individuals' responsibilities at all levels in an organization's hierarchy. Less than a third of the organizations in the study used this last type of strategy at all, and even fewer organizations regularly used it (Cameron et al., 1993). These authors found that when headcount reduction was used exclusively, organizational performance suffered. However, when redesign and systemic change strategies were used, performance was enhanced. Most importantly, the highest levels of performance were attained when all three types of strategies were utilized, however only 10 percent of the organizations actually applied all three strategies.

In another typology of downsizing, Freeman & Cameron (1993) labeled approaches to downsizing as having either a *convergent orientation,* in which concern for efficiency (i.e., doing things right) dominates and the organization's mission remains unchanged, or a *reorientation* approach, in which a new mission is pursued, and effectiveness (i.e., doing the right things) is the goal. The typical type of strategy pursued under a convergent orientation is that of workforce reduction, whereas reorientation typically involves the organization redesign and systemic change strategies. Westerman and Sherden (1991) argue that the fundamental flaw in traditional (workforce reduction) downsizing strategies is that they focus on making superficial changes rather than addressing the sources of inefficiency throughout the organization. These authors call for a more comprehensive approach that involves resource allocation, operations strategies, and work flow redesign to create an organization that is not only lean, but that provides high value. Messmer (1992) labels this alternative as "rightsizing," which applies the principles of Total Quality Management (TQM) and continuous improvement to staffing.

In their extensive review of the research literature on organizational downsizing, Kozlowski, Chao, Smith, & Hedlund (in press) adopt a similar perspective, typing organizations as either *reactive or proactive.* Reactive firms are more likely to institute across-the-board cuts in order to perform the same functions with fewer personnel. With time constraints and short-term interests in cost savings, those actions could lead to reductions that are implemented rapidly and dictated by poorly articulated criteria (Gibson 1984; Kolcum 1988). The proactive firm, in contrast, is described as one that identifies specific levels, departments, or functions to be downsized and assumes more careful planning and evaluation (Kozlowski et al., in press). They propose that three key characteristics affect whether downsizing is more likely to conform to either a reactive or proactive form: (1) the strategic leadership of the firm, (2) FIRM system sophistication, and (3) organizational culture. They also note that "there is a clear need for organizational scholars to identify the bounds of the phenomena of interest and to develop consensus on key factors, processes, and outcomes" (p. 47).

## RESEARCH RATIONALE

Our empirical study builds on the findings of Cameron et al. (1991; 1993) by trying to identify why only a few organizations typically utilize organization redesign and systemic change strategies for downsizing even though they are more likely to enhance organizational effectiveness. The aim of this research is to also address the concerns and recommended directions for future research outlined by Kozlowski et al. (in press).

Two types of data were collected as part of our study. *Interviews* with top managers were first conducted in order to gather in-depth information about the factors that potentially enhance the use of organization redesign and systemic change strategies. An *extensive mail survey* of a larger sample of managers then followed. The survey allowed us to corroborate the findings from the interview, and to examine systematically the relationship among the three downsizing strategies, organizational performance, and the factor(s) that promote those strategies. Findings from both the interviews and the survey are presented because the insights from each reinforce the other.

## Interviews of Executives

Interviews with 33 executives from the North American automotive industry were conducted in late 1990 and early 1991. All of the executives were either major business unit heads or CEOs of medium to large organizations operating in this industry. Each of the individuals interviewed had been given mandates by their corporate parents or major customers to reduce costs significantly or face the likely cessation of their operations. The focus of these interviews was on how top managers approach downsizing when faced with a crisis that threatens their organization's survival.

The first four executives we interviewed discussed at length the need for trust in their efforts to create successful change in their organizations. More specifically, they stated that mutual trust with a variety of stakeholders was necessary if they were to utilize organization redesign and systemic change downsizing strategies, noting also that distrust had prevented them from utilizing these strategies in the past. Given the strong consensus of these executives that trust was a critical factor affecting their efforts to downsize and manage organizational change, we reviewed the research literature on trust in organizations.

This research literature provided numerous relevant examples for our study. Trust has been discussed as a critical leadership characteristic for dealing effectively with a crisis (Webber, 1987; Kirkpatrick & Locke, 1991). Management researchers have contended that resistance to change is often due to a lack of trust within an organization, particularly between managers and employees (Kotter & Schlesinger, 1979; Beer, 1987). Other scholars have argued that trust is important to organizational change and performance (Davis & Lawrence, 1977; Ouchi, 1981; Kanter, 1989). Several researchers have even proposed that trust is a central factor enhancing organizations' long-term success and survival, especially as environments become increasingly uncertain and competitive (Waterman, 1987; Peters, 1987; Gambetta, 1988). Heenan (1991) has observed that America's workers are withdrawing their commitment from the enterprise due to continued downsizing, and he contends that if corporate America is to regain the loyalty of its employees, it must reestablish the value of trust and caring. Empirical research, however, has yet to investigate systematically the role of trust in organizational downsizing, change, or performance.

In interviewing the remaining executives, we explicitly asked them if trust was an important factor as they downsized their organizations. Almost all of them indicated that trust was indeed a critical factor. Specifically, they stated that *mutual trust,* not only among members of their top management teams, but also among their employees and between their organizations and key external stakeholders, is critical for developing and implementing strategies involving organization redesign and systemic change. The following observations by the executives we interviewed highlight the importance they attached to mutual trust in their efforts to improve their organizations. The first set of representative quotes excerpted from these interviews highlights mutual trust in terms of these stakeholders. The second set of quotes relates mutual trust to each of the three downsizing strategies.

The importance of mutual trust among one set of stakeholders, namely members of a manager's top management team, was discussed by most of the executives, especially in the context of developing and implementing strategies.

> *I would hope there is a very strong feeling of trust amongst all of us. If there is an issue, I hope they feel open enough to be able to tell me what's bothering them. Or what they don't agree with or what needs to be changed. When we go out of my office, we've gotten to be a team. In my office, behind closed doors, no holds barred. Anything is sacred or is free. You can talk about any issues, you can rant and rave; you can do whatever you want. But when we walk out we've got to be together. I think there's a great deal of trust.*

Mutual trust between a top management team and another set of stakeholders, the organization's employees, was another common theme in the interviews.

> *The top management team was not trusted (by the employees) in this plant when I arrived. That's why I've changed nearly all the key people. (The new team) is totally committed to what the key performance indicators are in the organization. They lead that charge. They focus on it continually.*

The interviewed managers also discussed mutual trust at length with respect to a final set of stakeholders. They argued that developing mutual trust between their organizations and their customers and suppliers was also important in downsizing effectively.

*We're trying to change our relationship with our suppliers-have them as part of the process. "You know about us and we want to know about you. We want you to be a part of our initiative. We want you to tell us how you are going to control cost. What's the process you use?" Rather than just get rid of the supplier and try to find another part that's better, try to work with that supplier and develop a relationship with that supplier. We're talking about saving money. I mean it's phenomenal when you get into it as to how much redundancy we have in our systems because we don't trust one another. A lot of our costs are because we've got redundancy. Because we don't have a relationship.*

The interviewed managers also explicitly related mutual trust to each of the three types of downsizing strategies. First, many managers argued that downsizing through a workforce reduction strategy was incompatible with building trust. As one manager stated:

*It's only by example that trust is promoted. You have to try to foster a low turnover rate and try to make the best out of the people you've got. You've got to find what they can do and channel them into those positions rather than saying, "Well, you can't do this" and eventually terminating them because of that. You can't build trust with high turnover.*

Second, most executives noted that mutual trust was also important in redesigning jobs and tasks, and eliminating functions in an organization-both elements of the downsizing strategy based on organization redesign.

*We need honesty and trust in management and not to play favorites with people, try not to play favorites with organizations or functions. That's hard to do. Because we've all got a history or background or home.*

Q.."

Third, mutual trust was also discussed in terms of developing a philosophy of continuous improvement and involving important internal and external stakeholders, both part of a systemic change downsizing strategy. As one person stated:

*We have taken people from every area of the plant, every department, including personnel and administration, engineering and then all the different manufacturing areas-the conscientious people that others look up to and trust. People you can go up to and talk about improvements. They are on a committee. It's called an equity committee. And, the purpose of this committee is to receive suggestions from the floor on improvements. Analyze them on the basis of return on investment and then see that they're implemented.*

## SURVEY RESEARCH

Following these interviews, we sought to determine if a systematic relationship existed between mutual trust (in terms of the three sets of stakeholders) and the three downsizing strategies. We first wanted to confirm that the three strategies were related to organizational performance in the same manner found by Cameron et al. (1991, 1993). To accomplish this, survey questionnaires were mailed to a larger sample of organizations in the automotive industry.

The North American automotive industry served as an ideal laboratory for our study because of (a) its highly competitive and dynamic environment, (b) its history of frequent downsizings, and (c) its importance to the North American economy. At the time of the survey, excess capacity in both U.S. and Canadian automotive organizations exacerbated by the success of Japanese "transplant" operations and their suppliers and by slack consumer demand amidst economic recession resulted in significant financial losses for firms in this industry. The three largest firms (Chrysler, Ford, and GM) lost more than seven billion dollars in 1991, after losing several billion in 1990 (Ingrassia & White, 1992; Standish, 1992). Not surprisingly, automotive manufacturers and their suppliers were under tremendous pressures to reduce costs significantly during this period. Historically, the typical approach to reducing costs in this industry has been massive reductions in employment (Haglund, 1991; Cameron et al., 1993). With one in seven jobs tied to the automotive industry in the United States alone and with employees in this industry paying one in eight U.S. tax dollars (Detroit's Big Chance, 1992), downsizing in this industry is a critical issue for investigation.

## Survey Sample

In total, 91 business units representing 43 firms in the North American automotive industry participated in our survey. The firms participating represented all major segments of the industry and included those involved in the manufacture of automotive plastics, glass and related components, electronic components, engines and related components, sheet metal components, seating systems, and automotive assembly. One firm, a major automotive manufacturer, had participated in the previous study by Cameron et al. (1991; 1993). The remaining 42 firms were randomly selected automotive suppliers. Suppliers were purposely surveyed because the downsizing by automotive manufacturers was expected to have a significant impact on their suppliers (McMillan, 1990; Womack, Jones, & Roos, 1990; Haglund, 1991). Business units ranged in annual revenues from roughly one hundred million to about one billion dollars, with an average of $200 million. All 91 business units had reduced employment in one or more of their operations in 1991.

## Survey Procedure

Surveys were completed by top management team members in each of the 91 businesses. Top management team members were those managers who directly reported to the top manager of a business unit, plus the unit's top manager; they constitute the respondents referred to below. Each unit's top manager was told that participation in the study was entirely voluntary and that only aggregate data would be released to the firms participating in the study. In order to ensure complete confidentiality, a separate postage-paid return envelope addressed to the principal researcher was provided with each individual questionnaire.

## Survey Response

Top management team members from each of the 91 business units responded to the survey. Of the 792 surveys mailed out, 511 were returned for a response rate of 65 percent. On average respondents were 46 years old and had been with the business unit 10 years. Their average tenure within their management teams was seven years, and their average work experience in the auto industry amounted to 20 years. Most possessed at least a bachelor's degree.

Sixteen items were used to assess the degree of mutual trust that existed within a given top management team. The same set of items was repeated to assess the degree of mutual trust between top management team members and other employees in a given business unit, between that business unit and its key customers, and between the business unit and its key suppliers (see Appendix). These items capture the four fundamental dimensions of trust that have been suggested by other research on trust, namely, openness, competence, caring, and reliability (Mishra, 1992). Questions were included to assess the extent to which each of the three downsizing strategies was utilized in 1991. Several items adapted from Cameron et al. (1993) were used to measure each of the three downsizing strategies of workforce reduction, organization redesign, and systemic change (see Appendix).

## Survey Results

### *Relationship between the Three Downsizing Strategies and Organizational Performance*

Tables I and II report the relationships of the three downsizing strategies with organizational performance. Three different performance measures related to cost reduction and six different performance measures related to quality improvement were assessed by the top management team members. Respondents were asked to rate, on a seven-point Likert scale, the extent to which their business units had improved performance in 1991 based on these measures. Cost reduction was measured

Table I. Relationship between Cost Reduction Performance and the Three Downsizing Strategies.

| | Cost Reduction Performance Measure | | |
|---|---|---|---|
| Independent Variables | Reduced Material Expenses | Improved Machine Efficiency | Improved Labor Productivity |
| Workforce reduction | N.S. | Negative | Negative |
| Organization redesign | Positive | Positive | Positive |
| Systemic change | N.S. | Positive | Positive |

N.S. = No significant relationship.

by (1) reduced material expenses, (2) improved machine efficiency, and (3) improved labor productivity. Quality improvement was measured first in terms of reduced scrap or defects and then in terms of fewer errors or defects as compared to five standards: (1) the industry average; and (2) the business unit's best domestic competitor, (3) best foreign competitor, (4) customers' expectations, and (5) own goals. Regression analyses were performed to examine the relationships.

Table I reports the relationships between the cost reduction performance and the use of the three downsizing strategies. Table II reports the relationships between the quality improvement performance and the use of these downsizing strategies. The pattern of results shows that utilizing a workforce reduction strategy is negatively related both to cost reduction and to quality improvement performance. The results also show that use of the organization redesign and systemic change strategies is positively related to organizational performance in terms of both cost reduction and quality improvement.

### *Relationship between mutual Trust and the Three Downsizing Strategies*

The regression results reported in Table III provide some interesting insights into the relationship between mutual trust and downsizing. The level of mutual trust within a top management team is negatively related to the workforce reduction strategy but positively related to the organization redesign strategy. In contrast to our interviews with executives, the degree of mutual trust between a top management team and employees of a business unit is positively related to the workforce reduction strategy. The third aspect of mutual trust, that between a business unit and its customers and suppliers, is negatively related to the workforce reduction strategy and positively related to the systemic change strategy.

Table II. Relationship between Quality Improvement Performance and the Three Downsizing Strategies.

| Independent Variables: | Quality Improvement Performance Measure | | | | | |
|---|---|---|---|---|---|---|
| | | FEWER DEFECTS THAN: | | | | |
| | Reduced Scrap or Defects | Industry Average | Best Domestic Competitor | Best Foreign Competitor | Customers Expect | Own Goals |
| Workforce reduction | Negative | Negative | Negative | Negative | Negative | Negative |
| Organization redesign | Positive | N.S. | Positive | Positive | Positive | Positive |
| Systemic change | Positive | Positive | Positive | N.S. | N.S. | N.S. |

N.S. = No significant relationship.

Table III. Relationship between the Three Downsizing Strategies and Mutual Trust.

| | Dependent Variable | | |
|---|---|---|---|
| Independent Variable | Workforce Reduction | Organization Redesign | Systemic Change |
| Mutual trust within top management team | Negative | Positive | N.S. |
| Mutual trust between top management team and employees | Positive | N.S. | N.S. |
| Mutual trust between business unit and customers and suppliers | Negative | N.S. | Positive |

N.S. = No significant relationship.

## DISCUSSION

Our results corroborate the findings of previous research by Cameron et al. (1991, 1993) that a workforce reduction strategy is negatively related to organizational performance, whereas the organization redesign and systemic change strategies are positively related. Our findings extend this previous research in that we were able to show that specific aspects of cost reduction and quality improvement performance are systematically related to each of the three downsizing strategies.

When companies downsize, their aim is not to shrink the workforce *per se,* but rather to improve productivity, cut costs, and increase earnings for the long term. Yet the performance track record of firms engaged in downsizing through headcount reduction is disappointing (Koratz, 1991; Lesly & Light, 1992). Our results show that although emphasizing headcount reduction is counterproductive, focusing on redesigning jobs, tasks, and functions as well as creating systemic change enhance several aspects of performance. These results should lead companies to rethink layoffs and other efforts aimed primarily at reducing headcount (e.g., attrition, financial incentives to quit or retire) as their chief cost reduction strategy.

Perhaps more important, our results show that mutual trust can enhance organizational performance through its positive relationship with both the organization redesign and systemic change strategies. The relationship between mutual trust and organizational performance, however, is not entirely straightforward. It appears that mutual trust within a top management team is most important for the more internally focused strategy of organization redesign, and that mutual trust between a business unit and its customers and suppliers is most important for the more externally focused and broadest downsizing strategy, the systemic change strategy. Its effect on performance via the workforce reduction strategy is more ambiguous. Mutual trust within the top management team and between a business unit and its customers and suppliers is negatively related to the workforce reduction strategy. However, mutual trust between top managers and their employees is positively related to this strategy.

Anecdotal evidence from our interviews provides one possible explanation for this last finding. One of the executives stated that mutual trust between employees and top management in his organization encouraged employees to volunteer to be laid off temporarily during business downturns because they trusted top management to rehire them when circumstances improved. The organization's top managers, in turn, trusted the employees to help identify those operations which were critical and could not afford layoffs and to keep their promise not to work for the firm's competitors while they were laid off. Although our findings show that a workforce reduction strategy used alone in downsizing is negatively related to organizational performance, Cameron et al. (1991) found that the most successful firms are those which utilize all three downsizing strategies in concert (1991). Our results suggest then that mutual trust among all three stakeholders (top management team members, employees, and customers, and suppliers) would be optimal for organizational performance.

It is critical to create a culture of mutual trust before embarking on a downsizing program. If top management team members trust one another, if they trust their employees and are trusted by them, and if the business unit has developed mutual trust with its customers and suppliers, then all parties will be more willing to participate effectively in the effort to downsize. In fact, one CEO, faced with declining sales, was able to avoid layoffs by allowing his employees to develop the downsizing alternatives. This decision reflected the CEO's trust in his employees to make decisions in the best interests of the company. The employees responded by first temporarily reducing their own salaries. Then, all of the managers began filling in for vacationing employees or when incoming orders required extra manpower. The CEO remarked on the many benefits of this approach, including increased morale, product improvements, and even more knowledgeable managers. But the best benefit in his assessment was the fact that the organization had pulled together during a crisis without losing a single valuable person (Aaron, 1992).

Our own interviews also contained specific examples of the benefits of creating a culture of mutual trust prior to downsizing. These examples reflect the four key trust dimensions of openness, competence, caring, and reliability (Mishra, 1992). Mutual trust requires that each dimension be present in a relationship, whether within an organization or across organizations. The following quotes from our interviews illustrate the salience of each dimension.

### The *Openness* Dimension of Trust

*Fear prevents people from sharing information. You (as a manager) have to beopen and honest with the information you have in order to prevent others from withholding information they have. I try never to sell a story that isn't true. I try to make information available to everybody as quickly as I know it and as accurately as I can tell it.*

### The *Competence* Dimension of Trust

***(Building trust is important) when you've got to make things happen. People need to trust your ability to do things. I think that they trust me as a plant manager, but I don't believe we started out that way. It's just that I've told them some things, and some of those things have happened so they think I can influence them.***

### The *Caring* Dimension of Trust

***As I pointed out, the things that the company has put in place for the treatment of our people I think has improved the trust. I think things that were just done in the last labor agreement with the job security issue for our hourly people and for the union issue have just further enhanced trust.***

### The *Reliability* Dimension of Trust

*I had a boss once that said what you do speaks so much louder than what you say. That has always stuck in the back of my mind. I believe that. They (the employees) watch very closely what you do. You cannot underestimate that.*

Finally, a culture of mutual trust exemplified by openness, competence, caring, and reliability cannot be created overnight. As one of our executives noted, *"I think long-term relationships are about the only way you build trust."* The danger is that with increasing competitive pressures, companies will seek a quick fix rather than create a culture of trust that is critical for truly successful downsizing, and hence, long-term success.

## CONCLUSION

Firms will undoubtedly continue to downsize extensively for the rest of the 1990s. Temple, Barker & Sloane Strategic Planning Assoc. predicts that 1 in 3 companies will downsize or restructure every year for the next five years, up from 1 in 10 during the 1980s (Lublin, 1991). Perhaps this is because previous downsizing efforts have been poorly planned or executed. As one of the executives we interviewed noted, *"Previous attempts at belt-tightening have only delayed the cost, not eliminated it."*

Coincident with these downsizing efforts, and perhaps because of it, employees' trust in top management has declined considerably (Fisher, 1991). Within the automotive industry, supplier firms' trust in manufacturers has waned as the manufacturers have sought to reduce their supply base in an effort to reduce costs and improve product and service quality (Treece, 1992). It is not unreasonable to expect the same deterioration of trust to occur as manufacturers exert similar pressures on their suppliers in a variety of other industries (Emswhiller, 1991). The pervasiveness of downsizing and the lack of trust in organizations require managers to build mutual trust among a variety of stakeholders in order to improve the performance of their companies. Building trust is a long-term process, however, it is essential for effective downsizing in the long run.

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## APPENDIX

### Items Used to Assess Level of Mutual Trust (Seven-Point Likert Scale, 1 = Strongly Disagree to 7 = Strongly Agree)

I trust that my fellow management team members.. .

1. are completely honest with me
2. place our organization's interests above their own
3. will keep the promises they make
4. are competent in performing their jobs
5. express their true feelings about important issues
6. care about my well-being
7. can contribute to the success of our organization
8. can be relied upon
9. take actions that are consistent with their words

10. share important information with me
11. care about the future of our organization
12. can help solve important problemsin our organization
13. have consistent expectations of me
14. would make personal sacrifices for our organization
15. would acknowledge their own mistakes
16. can help our organization survive through the 1990s

These questions were repeated in assessing mutual trust with respect to employees, customers, and suppliers. Top management team members were asked to rate how much they trusted (and were trusted by) their employees, and how much members of their organization trusted (and were trusted by) their major customers and suppliers.

**Items Used to Assess Extent of Downsizing Strategies**
**(Seven-Point** Likert Scaled, 1 **= Not at all to 7 = Great Extent)**

"To what extent are the following actions in use during 1991?"

**Workforce Reduction**

1. Not filled openings created by attrition
2. Reduced employment through early retirements, buyouts or other incentives
3. Reduced employment through layoffs
4. Reduced employment through transfers to other business units in your firm

**Organization Redesign**

1. Utilized cross-functional teams
2. Reanalyzed and redesigned jobs and tasks
3. Eliminated unnecessary jobs or tasks
4. Eliminated management levels
5. Eliminated functions or departments

**Systemic Change**

1. Developed a continuous improvement philosophy
2. Helped improve the efficiency of suppliers' operations
3. Encouraged risk-taking
4. Implemented changes in employee performance appraisal systems
5. Implemented changes in reward and recognition systems

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