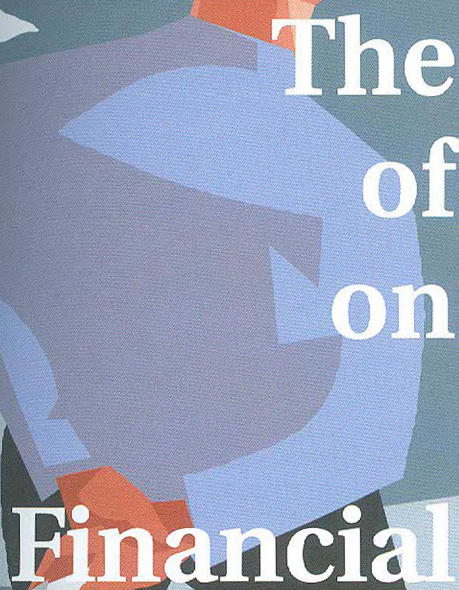
ABSTRACT

This study takes an interdisciplinary approach to explaining the influence of downsizing on financial performance. Previous research in this area suggests a degree of equivocality regarding this relationship. By offering market orientation as a mediating variable, this study offers insight into how downsizing can be best approached by organizations for the purpose of maximizing both market orientation and performance. The results suggest that merely reducing headcount may have a detrimental effect on an organization's ability to maintain market orientation and meet performance expectations. Alternatively, organizations that sought new strategic options were better able to sustain market orientation, resulting in better financial performance.

Key Words: *Downsizing, Market Orientation, Performance, Profitability*



The Influence of Downsizing on Market Orientation and Financial Performance

Rex McClure

INTRODUCTION

As a topic of academic research, downsizing has garnered a great deal of attention. In light of the current global economic situation, it is still a worthy research topic. Market orientation has also received considerable attention from scholars; however, these two topics have rarely been studied in conjunction. The relationship has been examined in a small group of articles which link downsizing and market orientation, as well as learning orientation (Farrell, 2003; Farrell and Mavondo, 2004). Farrell (2003) concluded that downsizing had a detrimental effect on key antecedents of market orientation. Farrell and Mavondo (2004) examined how downsizing affected learning orientation, finding that management's approach to downsizing played a moderating role.

In contrast, downsizing is a familiar topic in management literature, and the relationship between downsizing and financial performance has been studied extensively. When taken as a whole, it is difficult to offer a single, unified description of the relationship between downsizing and financial performance. In studies showing a significant effect on performance, frequently the outcome was determined by the approach taken to the event, differences in organizational culture, structure, or market dynamics (see Table 1). Generally, firms that sought to reduce headcount tended to under-perform those that sought new technologies and business practices. Moreover, downsizers tended to under-perform firms that had stable employment. Conversely, several studies found either no effect on performance, or a negative effect, stemming from downsizing.

Table 1: Literature Investigating the Downsizing-Financial Performance Relationship

Types of Firms Studied	Outcome Variables Studied	Author (s)	Effect of Downsizing
Fortune 100 firms that announce layoffs	Profit margin, ROA, ROE, asset efficiency, market-to- book ratio	DeMeuse et al., (2004)	Firms laying off 10% or more of th workforce under-performed
Firms with 50 or more employees in New Zealand	Profit margin, ROA, ROE, Sales per employee	Carswell,(2005)	Firms that follow a just procedure out-performed firms that did no
S&P 500 firms	ROA, Return on common stock	Cascio et al., (1997)	Asset downsizers outperformed employment downsizers
UK listed companies that announced lay offs	ROA, Sales per employee, operating income per employee, stock prices	Hillier et al., (2007)	ROA was not effected, but per em figures improved. Stock prices d
Fortune 500 firms comparing family/non-family control	ROA	Stavrou et al., (2007)	Family controlled firms are less li downsize and have higher ROA
Longitudinal study of 258 Korean firms	ROA, asset turnover, operating income per employee	Yu and Park, (2006)	Downsizers outperformed non-downsizers on all metrics
Fortune 500 firms	Cumulative abnormal returns to stock price, ROA	Chalos and Chen, (2002)	Revenue re-focusing improved performance, cost cutting had n
Publicly traded firms making layoff announcements	Change in stock price	Worrell et al., (1991)	Firms announcing restructuring performed positively, firms anno financial difficulties performed negatively
Fortune 100 firms making layoff announcements	ROA	Love and Nohria, (2005)	Overall, downsizing had no effec larger firms, proactive downsizer restructurers tended to perform
Large urban Hospitals	Cash margins	Chadwick et al., (2004)	Employee morale and advance n improved performance, work re degraded performance
Publicly traded firms announcing restructuring	Return on equity, operating margin	Holder-Webb et al., (2005)	Restructuring had no effect or a effect on performance
Publicly traded firms that reduced assets by 25%	Operating income as a percent of total assets and sales	Denis and Shome, (2005)	Reducing assets had a positive im on performance

Marketing literature has studied the relationship between market orientation and performance extensively since the 1990's. Narver and Slater (1990) offered the first evidence of the positive influence of market orientation on profitability. Jaworski and Kohli (1993) arrived at a similar conclusion, finding that market orientation was a determinant of performance regardless of market turbulence, technological turbulence or competitive intensity. Additionally, the relationship between market orientation and performance has garnered enough attention to merit meta-analytic studies (e.g., Cano et al., 2004; Ellis, 2006; Langerak, 2003). These studies offer a broader insight into this relationship. Langerak (2003) examined 50 studies and found that in general terms the relationship was positive, but cited moderating variables (e.g., turbulence, competitive intensity and uncertainty) and cautioned against blanket statements. Cano et al. (2004) integrated the results of 53 studies, finding an overall positive effect and a stronger relationship for service ind manufacturing) and non-profit organizations (vs. fo Similarly, Ellis (2006) included the results from 56 offering contextual factors such as cultural distance USA, economic development and market size as mo Ellis also offered evidence that the approach taken performance measurement played a significant ro market orientation-performance relationship, find subjective measures had a stronger relationsh objective measures.

Although there is ample evidence suggesting a relationship between market orientation and performance, the relationship between downsizi performance is equivocal. This research proposes t the gap between these literature streams by offering that integrates these concepts. By investigating

market orientation plays, this study offers a model that incorporates a key organizational component to aid in our understanding of the downsizing-performance relationship. Further, this study hopes to demonstrate that downsizing has a place in the market orientation literature, and that the relationship between market orientation and downsizing is worthy of the attention of both academics and practitioners.

CONCEPTUAL FRAMEWORK

The first part of this section offers a review of the literature describing the downsizing process, the rationale behind it, and its consequences. Next, a brief review of the market orientation literature will be discussed, along with its impact on key organizational variables. Finally, an integrative model and hypotheses will be offered which depict a causal relationship linking downsizing, market orientation and financial performance.

Downsizing

As is the case with many organizational initiatives, there are abundant euphemisms for the concept of downsizing (e.g., consolidating, de-hiring, re-engineering, rightsizing, dumbsizing, etc.). Two terms, however, have been generally accepted in the literature which describes the two distinct types of organizational change associated with downsizing: convergence and reorientation (Freeman and Cameron, 1993; Tushman and Romanelli, 1985). These authors describe convergent downsizing as an activity which targets the reduction of operating costs. They argue it is achieved through reducing headcount and related employee benefit expenditures, closing facilities, lay-offs, the elimination of products or product lines, and out-sourcing of non-critical functions. Ultimately, the goal of convergent downsizing is to serve the same markets with the same goods and services, but to do so more efficiently. As an organizational initiative, it often occurs in increments over an extended period of time (Tushman and Romanelli, 1985).

Reorientation downsizing calls for redirecting the organization's strategic focus, markets served, products offered, processes, technologies used, etc. Implementing reorientation calls for an abrupt break with past strategies and involves the redesigning of organizational structure, work flows, and control systems. This type of organizational change is often accompanied by changes in top management, new technologies, and a general operational redesign (Freeman and Cameron, 1993). Whereas convergence calls on the organization to do the same things, albeit more efficiently, reorientation calls for a shift in the organization's strategic direction, product lines, and markets served. In this case headcount reduction and organizational size are not the main goals; changes in the organizations' size result from the reorientation process.

In their exploration of the rationale leading up to downsizing, several authors have offered explanations centering on either internal or external forces. Cascio (1993) argues that downsizing is motivated by an internal need to improve operating efficiencies. This view centers on the need to identify and eliminate redundancies and waste. Often these changes are motivated by mergers and acquisitions or the adoption of automated equipment. Organizations anticipate several positive results: faster decisions, improved lines of communication, lower overhead, and reduced bureaucracy to name a few.

McKinley et al., (1995) offer a variety of influences, both internal and external, that lead to downsizing. In their view, there are three primary forces that guide the decision to downsize: i) constraining, ii) cloning and iii) learning. Constraining forces compel management to take actions that will reshape, and ideally improve, their organization. This view argues that top management engages in downsizing to legitimate their role in the organization. Cloning forces are those that pressure decision makers to mimic the most prominent and successful members of the industry. Learning forces can be traced to the practices taught at business schools and professional organizations, i.e., outsourcing reduces overhead.

Taking a strategic view, Bruton et al., (1996) suggest that downsizing decisions result from environmental change. They argue that the organization's internal environment may be in a state of misalignment with its external environment. When this is the case, the organization will seek to correct internal dynamics (structures and/or cultures) to improve its position in the external environment. This conceptualization suggests that downsizing is a reactive response, as opposed to the proactive models offered by McKinley et al., (1995).

Organizations engage in downsizing with the intent to improve financial performance; however, a wide range of results have been noted. Gandolfi (2008) offered a summary of the literature describing the consequences of downsizing and concluded that downsizers generally under-performed other firms. Depending on the size of the event, the manner in which the organization approaches it, or the metric used to judge its success, downsizing can have a variety of impacts on financial performance (see Table I). In most cases, simply reducing headcount had a negative effect on performance, but restructuring assets tended to have fewer negative effects and in some cases positive effects. Considering that downsizing can lead to myriad consequences for the organization, clearly straightforward mechanistic shifts in the organization are not the only factors that determine performance.

To understand the effect of downsizing on the organization more fully, consideration to the individuals must also be given. Several authors have studied the behavioral and cultural consequences of downsizing on the members of the

organization. Cameron et al., (1987) identified a number of dysfunctional effects such decreasing levels of trust, morale, communication and innovation; as well as increasing levels conflict, scapegoating and threat-rigidity reactions. Other behavioral consequences are lower levels of training and monitoring, increased turnover and absenteeism, and degraded organizational commitment (Allen et al., 2001; Cascio, 1993; Hallier and Lyon, 1996; Lewin and Johnston, 2000). Additionally, Cascio (1993) suggests that the poor financial performance experienced by some organizations may be linked to certain behavioral consequences of downsizing. To more fully develop the link between downsizing and performance this study offers market orientation, a concept embodying both cultural and behavioral aspects, as a mediator.

Market Orientation

Following the seminal articles by Kohli and Jaworski (1990) and Narver and Slater (1990), market orientation has become a topic frequently addressed in the marketing literature. These authors offer differing, yet related, definitions of market orientation which embody a combination of internal and external factors, and behavioral and cultural factors as well. Kohli and Jaworski (1990) conceptualized market orientation as a set of behaviors, defining it as:

"...the organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it.

Narver and Slater (1990) considered it to be embedded in the organization's culture and offered a definition which described it as:

"...the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business."

Narver and Slater further explain that market orientation has three components which facilitate the creation of superior customer value: customer orientation, competitor orientation and interfunctional coordination.

Narver and Slater (1990) offered the first study that investigated the relationship between market orientation and organizational performance. Subsequently, a number of studies have investigated this relationship, enough studies to facilitate meta-analysis (Cano et al., 2004; Ellis, 2006; Langerak, 2003). Langerak (2003) found that a majority of studies (68.3%) reported a significant positive effect, but also noted that the evidence is equivocal and number of mediating and moderating influences also affected the relationship. Ellis (2006) found a significant relationship, but concluded that a relatively small percentage of organizational performance (less than 7 percent) can be explained by market orientation. In sum, none of the meta-analyses found the relationship to be monotonic and direct; rather, they all suggested that a number of intervening factors exist.

This research intends to bring an additional dimension to the market orientation-performance relationship by introducing convergent and reorientation downsizing. The next section will offer a model that ties together downsizing, market orientation and performance. This model represents an incremental step in understanding the variable and equivocal relationship between downsizing and performance.

Integrative Model

Closer examination of convergent and reorientation downsizing reveals that different tactics are used by each strategy. Recalling that convergent downsizing is essentially a cost-cutting activity aimed at improving internal efficiency, the main tactics used are layoffs, out-sourcing and eliminating product lines. Additionally, this method usually occurs incrementally and over an extended period of time (Tushman and Romanelli, 1985). As this process unfolds, there are fewer and fewer people available to accomplish the necessary tasks of running an organization. This results in a variety of "survivor syndromes" permeating the organization: lowered morale, loss of trust and a general sense of powerlessness (Allen et al., 2001; Appelbaum et al., 1987; Mishra et al., 1998). Moreover, convergent downsizing is often accompanied by weaker intraorganizational and interorganizational relationships, as well as lower levels of communication (Appelbaum et al., 1999).

Reorientation downsizing, on the other hand, creates a different temperament within the organization. Aimed at creating break from past strategies and redirecting the organization toward strategies that better match the environment, reorientation is often a single event with organizationwide input (Freeman and Cameron, 1993; Appelbaum et al., 1999). Successful reorientation efforts are often associated with a greater use of communication, reliance on existing interorganizational relationships, emphasis on flexibility and adaptability, and an external orientation (Freeman and Cameron, 1993). Because reorientation is a swift break from the past, with a focus on the future, the tenor of the organization after reorientation is one of unity of purpose and cooperation (Appelbaum et al., 1999).

A review of the respective literature streams reveals that several of the terms used as descriptors of the consequences of downsizing have also been used as antecedents of market orientation. Chiefly, trust, communication, organization commitment and conflict have been widely discussed as organizational factors that impact market orientation (e.g. Farrell, 2003; Farrelly and Questor, 2003; Jaworski and Kohli, 1993; Narver and Slater, 1990; Pulendran et al., 2000). These factors have also been discussed as consequences of downsizing (Allen et al., 2001; Appelbaum et al., 1999;

Armstrong-Stassen, 2002; Cameron, 1994; Cascio, 1993; Lee, 1992; Mishra and Mishra, 1994; Susskind, 2004). By putting together these constructs as mediators—consequences of downsizing and antecedents of market orientation—one can understand how downsizing influences market orientation. In the case of reorientation, communication is used extensively, relationships are emphasized, and the organization places importance on responding to opportunities in the external environment. Thus, it stands to reason that reorientation downsizing has the potential to strengthen market orientation.

Convergent downsizing is expected to have the opposite effect. In the aftermath of a convergent event, key organizational characteristics that have been associated with market orientation undergo a precipitous decline. With the exception of the "rumor mill", meaningful communication is nearly halted (Appelbaum et al., 1999; Cascio, 1993). Trust, particularly in the organizational as a whole and its management, tend to suffer in convergent downsizing (Armstrong-Stassen, 2002; Lee, 1992). Moreover, evidence suggests that conflict tends to escalate in convergence (Susskind, 2004). Conversely, conflict has been shown to negatively impact market orientation, whereas trust and communication positively impact it (Jaworski and Kohli, 1993). Thus, it is reasonable to postulate that convergent downsizing will tend to hamper market orientation.

As previously mentioned, the relationship between market orientation and performance has been well studied, with the bulk of the evidence suggesting a positive correlation between the two. The meta-analyses offered by Langerak (2003), Cano (2004) and Ellis (2006) draw similar conclusions, finding that the majority of studies supported a positive relationship, but also note the effect of contextual mediators and moderators. Bringing together the influence of downsizing on market orientation and the influence of market orientation on performance, it is possible to build a single model describing the relationship among these constructs (see Figure 1). This model offers market orientation as a mediator between downsizing and performance, suggesting that the approach taken can either positively or negatively affects an organization's ability to maintain market orientation, which in turn influences financial performance. The following hypotheses describe this model:

H1a. Market orientation mediates the relationship between convergent downsizing and financial performance where the greater degree to which an organization engages in convergent downsizing the lesser degree it will be market-oriented; and

H1b. Market orientation mediates the relationship between convergent downsizing and financial performance where the greater degree to which an organization engages in convergent downsizing the lower its financial performance will be.

H2a. Market orientation mediates the relationship between reorientation downsizing and financial performance where the greater degree to which and organization engages in reorientation downsizing the greater degree it will be market-oriented; and

H2b. Market orientation mediates the relationship between reorientation downsizing and financial performance where the greater degree to which and organization engages in reorientation downsizing the higher its financial performance will be.

Hypothesized Mediating Influence Market Orientation on the Downsizing-Performance Relationship

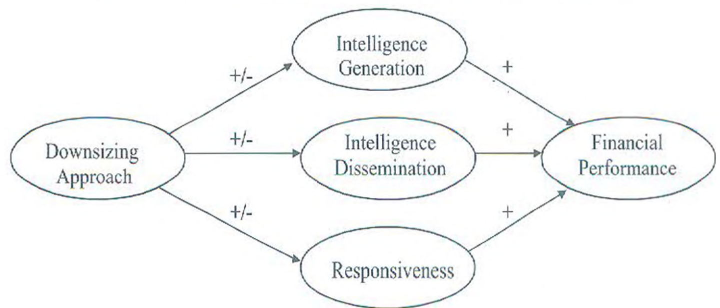


Figure 1

ETHODOLOGY

The questionnaire for this study was developed from scales established by previous studies. Convergent and reorientation downsizing were measured using scales developed by Mishra and Mishra (1994). Items pertaining to convergence focused on reduction in headcount, while those pertaining reorientation focused on organizational change (see Appendix for a full listing of scale items). Market orientation was measured using a modified version of the MARKOR scale developed by Jaworski and Kohli (1993). This scale was modified by deleting the negatively worded items, as previous research on scale reliability suggests that this type of wording can confound factor structure and reduce reliability (e.g., DiStefano and Motl, 2006; Ibrahim, 2001). These three constructs were measured using seven-point Likert scales anchored by "strongly disagree" and "strongly agree". Performance was subjectively measured using a five item scale which asked subjects to describe their organization's performance relative to expectations. These were also seven-point scales anchored by "much below expectations" and "much above expectations".

Because the purpose of this study was to observe how organizations function relative to the degree they downsize, respondents were draw from functional, middle management roles in marketing and marketing related departments (sales, advertising, market research, public relations, product development, etc.). Ideally, it was more desirable to draw upon a sample of practitioners whose jobs had changed as a result of downsizing rather than those who were involved in the decision to downsize. Further, respondents were limited to large, publicly traded organizations because these organizations exist under greater scrutiny and are more likely to engage in various forms of organizational redesign (Stavrou et al., 2007).

Data were collected using an online questionnaire. Potential respondents were contacted via email, which directed them to a website dedicated to the collection of data for this study. In total, 972 emails were sent to practitioners who names and emails were purchased from a firm specializing in online research. Respondents received $24 in compensation for their participation in this study.

RESULTS

A total of 302 completed responses were received; however, 38 responses were deleted because of missing data, yielding an effective response rate of 27.2 percent. To assess non-response bi data were collected from 20 non-respondents on k variables; no significant differences were found betwe respondents and non-respondents. Of those included in t analysis, 55.8% were male, 41.6% were female and 2.6 preferred not to answer. Table 2 has summary statistics for t data and scale reliabilities; Table 3 shows the correlatio among the latent constructs. One of the items measurin performance was deleted because its inclusion would hav seriously deteriorated the reliability of the scale.

Table 2: Scale Summary Statistics

Construct	No. of Items	Mean	Variance	Cronbach's Alpha	Sample Item
Convergence	4	4.09	4.91	0.788	We eliminated positions through redundancies
Reorientation	3	4.83	3.77	0.822	This organization developed a continuous improvement philosophy
Intelligence Generation	3	5.37	2.64	0.700	In this organization, we do a lot of in-house research
Intelligence Dissemination	4	4.94	3.13	0.834	We have interdepartmental meetings at least once a quarter to discuss market markets trends and Developments
Responsiveness	5	4.96	2.48	0.860	The activities of different departments are well coordinated
Performance	4	5.03	2.00	0.947	How would you describe your return on assets

Table 3: Correlations among the Constructs

	Conv DS	Reor DS	Intell Gen	Intell Diss	Resp	Fin Perf
Conv DS	1.000					
Reor DS	0.103	1.000				
Intell Gen	0.154	0.301	1.000			
Intell Diss	-0.039	0.309	0.835	1.000		
Resp	-0.062	0.255	0.758	0.946	1.000	
Fin Perf	-0.262	0.041	0.267	0.320	0.354	1.000

In order to determine the mediating role of market orientation, two sub models were examined; one with convergent downsizing as the exogenous variable and one with reorientation as the exogenous variable. A two-step process was used to assess the models. First the measurement model was assessed using confirmatory factor analysis, and then the structural model was assessed. Because the data we non-normal, both univariately and multivariately, the "robus option in EQS was used for all models and the fit indices we generated using robust estimation. Table 4 shows the results structural modeling.

Table 4: Results of CFA and SEM

Type of Downsizing	CFA	Structural Model Fit	Standardized Path Coefficients
Convergent	S-B x^2 = 386.29, 160 df	Hypothesized modelfailed	
	NNFI = 0.901	to converge	N/A
	CFI = 0.917		
	IFI = 0.918		
	RMSEA = 0.073	Best fit model	
		S-B x^2 = 391.07, 165	
		df	DS → ID -0.137*
		NNFI = 0.904	DS → Perf -0.238***
		CFI = 0.917	IG → ID 0.832***
		IFI = 0.918	ID → Resp 0.942***
		RMSEA = 0.072	Resp → Perf 0.336***
Reorientation	S-B x^2 = 323.03, 142 df	Hypothesized model§	
	NNFI = 0.918	S-B x^2 = 547.19, 146	DS → IG 0.829***
	CFI = 0.932	df	DS → ID 1.000***
	IFI = 0.932	NNFI = 0.823	DS → Resp 0.933***
	RMSEA = 0.070	CFI = 0.849	IG → Perf 0.044
		IFI = 0.851	ID → Perf -0.149
		RMSEA = 0.102	Resp → Perf 0.454
		Best fit model	DS → IG 0.323***
		S-B x^2 = 326.34, 148	IG → ID 0.830***
		df	ID → Resp 0.939***
		NNFI = 0.922	Resp → Perf 0.349***
		CFI = 0.933	
		IFI = 0.933	
		RMSEA = 0.068	

*Note 1 : * $p < 0.05$; ** $p < 0.01$, *** $p < 0.001$*
Note 2: This model converged with a warning that the disturbance value for Intelligence Dissemination was linearly dependent on another parameter.

The results did not confirm the mediating role of market orientation as offered by the hypotheses above. As hypothesized, both models were inadequate. When convergent downsizing was the exogenous variable the model failed to converge, and in the case of reorientation the model converged but with a condition code suggesting highly correlated disturbances. Further testing and re-specification of each model revealed a set of relationships which offered both acceptable fit and insight into the connections among the constructs under investigation. Figure 2 depicts the "best fit" models generated for each downsizing approach. Common among these models was a linear series of causal paths linking intelligence generation to dissemination, dissemination to responsiveness, and responsiveness to performance. Unique to each model was the way convergent and reorientation downsizing interacted with the other variables. These findings and other relationships worth noting will be discussed below.

Best Fits Models of the Downsizing-Market Orientation-Performance Relationship

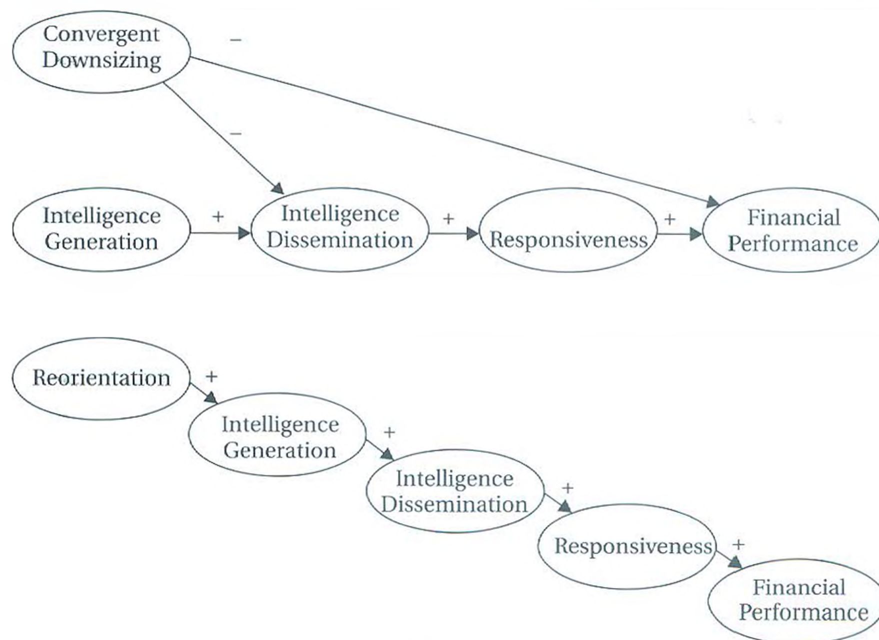


Figure 2

DISCUSSIONS

By taking an exploratory approach to model re-specification, this study offered insights into both the nature of market orientation itself, and how it interacted with downsizing and performance. For marketing scholars, it is worth noting that market orientation was shown to be a sequential process in the context of this study. Common sense suggests that market intelligence must first be generated, and then disseminated, before an appropriate response can be initiated. The data supported this idea, and also suggested that responsiveness was the key driver of financial performance. Moreover, the data offered no support for the role of intelligence generation and dissemination as direct influences on performance. In the case of reorientation downsizing, the results suggested that reorientation had a direct and positive influence on intelligence generation, which in turn had a positive influence on dissemination and responsiveness. Reorientation is, in essence, a market-oriented strategy where the organization responds to changes in its marketplace by realigning its internal activities. By the same token, it was not surprising that a weak relationship was found between convergent downsizing and market orientation. The essence of convergence is an inward focus, where the strategy of the organization does not consider changes in the marketplace. Convergence focuses primarily improving internal efficiencies, without regard to fundamental driver of the inefficiencies; namely, products and services which are less competitive. The data suggested that an inward focus did not improve performance, but deteriorated it significantly. Moreover, the results suggested that convergence was disruptive to intelligence dissemination. This finding parallels the argument that downsizing can result in restricted communication, where information sharing was lessened due to fear and mistrust (Cameron, Kim and Whetten 1987).

Further, this study served to replicate previous research the market orientation-performance relationship. Altho this relationship has been well documented, this st augmented this line of literature by placing it in the conte downsizing. Within this context, the evidence suggested market orientation played a clear role in performa whereas downsizing played a role contingent on the appro taken. This study found no evidence which suggested th reorientation strategy had a direct influence on performa However, there was evidence to suggest that reorienta started a series of organizational actions which ultima improved performance. Thus, this research not replicates previous research, it adds credence relationship by testing it in the context of other poss drivers of performance.

For management scholars, this study offers a diffe perspective on the downsizing-performance relationship previously mentioned, this relationship has been stu extensively, but no definitive answers have been offered offering two approaches to downsizing and including ma orientation as an intervening variable, it may be possib explain a portion of the variability in this line of researc the case of reorientation, no direct path was found linking performance. It was, however, found to be an anteceder market orientation. This finding is consistent with prev research that found reorientation called for an exte orientation, extensive use of communication and emphasis on adaptability (Freeman and Cameron, 19 Further, effective and high quality communication has b shown to be a positive predictor of post-downsizing performance (Cameron, 1994). Together, the findings of study support these prior studies and the inclusion of ma orientation as a mediator.

Results for convergence were also consistent with previous research. Recall that this approach focuses on improving operational efficiency while continuing to serve the same markets with the same products (Freeman and Cameron, 1993; Tushman and Romanelli, 1985). This approach to downsizing suggests that the organization looks no further than its own walls to improve performance; hence, external focus would be expected to either stay the same or decline. A negative relationship between convergence and intelligence generation was found in this study, which suggests that organizations tend to shift focus away from events in the external environment as they try to improve operational efficiency. Moreover, the results also support previous research suggesting that reducing headcount tends to degrade performance rather than improve it (Cascio et al., 1997; DeMeuse et al., 2004; Worrell et al., 1991).

IMPLICATIONS FOR PRACTITIONERS

For an organization finding itself in a position which calls for altering its structure, this study offers a path toward improved performance. This research offered no evidence to suggest that downsizing had a direct, positive impact on financial performance. Further, the results suggested that convergent downsizing had a negative impact on performance—opposite of its intended effect. A key finding of this study is that the process of reorientation can be beneficial for an organization. Although this study offered no evidence of a direct impact on performance, reorientation did have a direct effect on market-sensing activities within an organization.

This finding suggests that reorientation, if done with consideration for the elements of market orientation, can improve performance. Any attempt to alter an organization's structure should be done with a great deal of attention paid to maintaining the key elements that drive success (Nutt, 2004). To that end, an organization embarking on reorientation should make every effort to maintain, or build, its market-sensing structures. It should encourage and reward those individuals that bring market information to light, and ensure that information is shared. Moreover, an organization should also ensure that it is able to respond to changes in its environment. To ensure that it retains the ability to innovate, it should maintain a level of organizational slack, as slack has been linked to both performance and innovation (c.f. Daniel et al., 2004). This is particularly important, as it is a common practice to combine convergent and reorientation approaches; which could leave the organization without enough slack to innovate.

If an organization is considering headcount reduction, this study offers some caveats. First, this study found a strong link between lower financial performance and convergent downsizing. This suggests that simply shrinking an organization will not likely result in improved performance. Additionally, reducing headcount also tended to reduce information sharing within an organization, which in turn tended to stifle market-driven responses.

For managers considering downsizing as a course of action, this study offers some insights into the "best practices" for organizations considering restructuring as a strategic option. First, reducing headcount as the sole intent of a downsizing effort may be ill advised. This procedure was more closely linked to poor financial performance and should be considered as a last resort. A more advisable approach would be to redefine products, markets and/or organizational structure. Moreover, this approach should be done with a keen eye toward maintaining both an awareness of the organization's external environment and the internal communication channels. Failure to maintain an external orientation and internal communication may limit an organization's ability to take action on opportunities.

LIMITATIONS AND FUTURE RESEARCH

Because very few studies have investigated downsizing, market orientation and performance in a single model, this study has taken a fairly liberal and exploratory approach toward statistical analysis. In as much, this study should viewed as a theory building exercise, with the goal of presenting a new set of relationships worthy of further study (Trim and Lee, 2004). Considering the relative widespread use of downsizing and its intended effects on the organization, it is highly advisable that the set of relationships studied herein be replicated, cross-sectionally and longitudinally, to better define the best practices and approaches to downsizing.

A primary limitation to this research was the relatively low fit of the models. Closer examination of the data revealed two possible causes for this. First, exploratory factor analysis showed the market orientation construct, which was treated as three separate constructs in this study, was actually two constructs; intelligence generation was one, dissemination and responsiveness combined to form the other. Market orientation has traditionally been discussed and measured as three constructs; however, treating it as a three constructs weakened the measurement model and was suspected as a cause for some of the problems encountered in examining the hypothesized models. On the other hand, the best fit models very closely match the fit of the confirmatory factor models, suggesting that these models offer an adequate description of the underlying structure within the data.

In this study financial performance as measured subjectively, using respondents' perceptions rather than published financial reports. The result of this type of measure was that performance was subjectively measured against expectations, not industry averages. Harris (2001) argues that subjective measures do not adequately or accurately capture organizational performance, thus, studies based on objective measures will report a different pattern of results than those based on objective measures. Meta analytic studies support Harris' contention, showing that objective measures have significantly higher correlations with market orientation than objective measures (Cano, 2004; Ellis, 2006). However, even though objective measures produce lower correlations, the relationship with market orientation is still significant. Clearly, a better approach will be to scale every respondent's objective performance against published industry statistics. This

approach not only will allow better measurement of the outcomes of downsizing, it will also allow a comparison between expected results and actual performance.

This research studied a direct relationship between downsizing and market orientation; however, the literature suggests that several mediating variables may exist. Cameron et al. (1987) offered a list of consequences of downsizing—a list that matches closely with Kohli and Jaworski's (1 antecedents of market orientation. The model present this study could be expanded to include communic conflict, organizational commitment and centraliz mediators. Investigating this type of model will a understanding exactly how downsizing impacts m orientation, and how certain pitfalls of downsizing m avoided.

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APPENDIX

SCALE ITEMS

Convergent Downsizing:

- We reduced employment by not filling created by attrition
- We reduced employment through early retirements, buy-outs or other incentives
- We reduced employment through redundancies
- We reduced employment through transfers to other business units in our organization

Reorientation Downsizing:

- This organization developed a continuous improvement philosophy
- This organization implemented changes in employee performance appraisal systems
- This organization implemented changes in reward and recognition systems

Market Orientation:

- In this organization, we meet with customers at least once a year to find out what products or services they will need in the future. (IG)
- In this organization, we do a lot of in-house market research. (IG)
- We survey end users at least once a year to assess the quality of our products and services. (IG)
- We periodically review the likely effect of changes in our business environment (e.g. regulation) on customers. (IG)
- We have interdepartmental meetings at least once a quarter to discuss market trends and developments. (ID)
- Marketing personnel in our organization spend time discussing customers' future needs with other functional departments. (ID)
- When something important happens to a major customer of market, the whole department or organization knows about it within a short period. (ID)
- Data on customer satisfaction are disseminated at all levels in this organization on a regular basis. (ID)
- We periodically review our product development efforts to ensure that they are in line with what customers want. (Resp)
- Several departments get together periodically to plan a response to changes taking place in our business environment. (Resp)
- If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately. (Resp)
- The activities of the different departments in this business are well coordinated. (Resp)
- When we find that customers would like us to modify a product or service, the departments involved make concerted efforts to do so. (Resp)

Performance:

Please tell us how well your company is performing financially.

	Much below expectations ... Much above expectations
Operating profits	1......2......3......4......5
Profit to sales ratio	1......2......3......4......5
Cash flow from operations	1......2......3......4......5
Return on investment	1......2.....3.......4......5
Return on assets*	1......2......3......4......5

*Indicates an item deleted.