HIGH-INVolVEMENT MANAGEMENT AND WORKFORCE REDUCTION: COMPETITIVE ADVANTAGE OR DISADVANTAGE?

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Although interest in the workplace trends of downsizing and high-involvement work practices continues to grow, research examining the intersection between them has been limited. In this study, we examine (1) how layoffs moderate the relationship between high-involvement work practices and productivity, and (2) how continued investments in these work practices throughout layoff periods maintain workforce productivity. Findings indicate a negative relationship between high-involvement work practices and productivity in workplaces with higher layoff rates. However, workplaces that continue investments in high-involvement work practices are able to avoid productivity losses, as compared to workplaces that discontinue such investments.

The current business environment of rapid change and innovation has forced many organizations to evaluate how human resources (HR) contribute to their effectiveness. In the resource-based view of the firm, investment in high-performance or high-involvement work practices are thought to develop distinct capabilities in employees, leading to superior firm performance (Barney, 1991; Barney & Wright, 1998; Lawler, 1992; Pfeffer, 1998). High-involvement workplaces use “a system of management practices giving their employees skills, information, motivation, and latitude and resulting in a workforce that is a source of competitive advantage” (Guthrie, 2001: 161). However, firm-specific employee capabilities can only be sustained if they fit the opportunities available in an environment and consistently generate value higher than the costs associated with maintaining the capabilities (Lepak & Snell, 1999). Wright, Dunford, and Snell (2001) argued that research should examine how high-involvement workplaces manage internal resources, including employees and HR systems, and thereby sustain a competitive advantage over time.

A key issue with respect to the management of internal resources is the use of layoffs within high-involvement workplaces. Layoffs began as a strategy exclusively for cost cutting, but they have also become part of a management strategy for adjusting workforce competencies (McKinley, Zhao, & Rust, 2000; Osterman, 2000). Unlike other workforce reduction strategies (e.g., natural attrition), layoffs increase a firm’s flexibility over the transition process; firms can quickly and efficiently remove employees whose skills no longer fit the firms’ strategies or add to their market values. Yet the purported benefits of layoffs, such as increased efficiency and profitability, have received mixed empirical support, often explained by the impact of layoffs on surviving employees (Cappelli, 2000a; Cascio, 1993, 2002; McKinley, Sanchez, & Schick, 1995).

Layoffs can be perceived as a violation of the psychological contract between an organization and its employees, resulting in decreased trust and greater stress in the workplace (De Meuse, Bergmann, Vanderheiden, & Koraff, 2004; Mishra & Spreitzer, 1998). Consequently, layoffs are associated with decreased commitment and productivity from surviving employees (Appelbaum, Everard, & Hung, 1999; Brockner 1992; Niehoff, Moorman, Blakely, & Fuller, 2001). Such negative effects may be more costly for high-involvement workplaces, as these workplaces rely expressly on employee involvement and motivation. To date, however, little attention has been paid to layoffs within workplaces investing in high-involvement work practices. Thus, our first objec-

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