ABSTRACT

This study investigates the strategic choice of founder CEOs and non-founder CEOs as organizations’ decision makers in implementing the phenomena of downsizing. The research shows that the likelihood of being downsized is higher among non-founder led firms than founder led firms. In fact non-founder CEOs, due to their high level of tendency to pursue personal goals are less growth oriented and downsizing seems to be less difficult for them to be implemented. On the other hand, founders’ high attachment to their founded firms makes downsizing more of an unwilling action unless they feel it is essential for enhancing the performance.

KEYWORDS: Downsizing, Founder CEOs, Non-founder CEOs, Strategic choice

INTRODUCTION

Downsizing as an organizational strategy is prevalent in modern business organizations. As such, this strategy attracts the attention of both scholars and practitioners. In the past couple of decades, considerable research has been conducted to examine various issues associated with organizational downsizing such as ideology of downsizing (e.g. Budros, 1999; Lamertz & Baum, 1998; Mentzer, 2005) antecedents (e.g. Bethel & Liebeskind, 1993; Budros, 1997, 2000, 2002, 2004; Hallock, 1998; Ahmadjian & Robinson, 2001, 2005; Baumol, Blinder & Wolff, 2003; Yawson, 2006; Krishnan, Hitt & Park, 2007; Hsieh & Davidson, 2008) as well as consequences and outcomes such as financial effects, impacts on victims (individuals who were downsized) and survivors, (Mellor, 1992; Armstrong-Stassen, 1994, 1998, 2002; Mishra & Mishra, 1994; Mone, 1994; Brockner et al., 1994, 1997; Wagar, 1998; Travaglione and cross, 2006; Brandes et al, 2008). Downsizing research has been expanded with the increased incidence of downsizing among large organizations and corporations and eventually the need to study more in this area has evolved. However not much attention has been paid to the CEOs’ related issues. Much of the existing literature about the effectiveness of CEOs has focused on the issues such as CEOs’ personal values (Ling et al., 2007) and personalities (Kimberly, 1979 and Miller & Droge, 1986). In addition scholars such as Daily and Dalton (1992), Begley (1995) and Willard, Krueger and Feeser (1992) focused on whether founder led firms tend to perform differently compared to non-founder led firms. In 2004, Fahlenbrach, in his research indicated that only 11 percent of the largest public U.S. firms are still headed by a founder and the difference between founder-CEOs and non-founder CEOs make differences in firm behavior, valuation and performance. The inconsistent results from previous studies shape the need for more research in this area of research.
In the current study, I aim to investigate organizational downsizing strategies and the role of founder-CEO in adopting these strategies. Further, I am willing to make a contribution to the differences existed between founder-led firms and non-founder led firms in terms of implementation of intensity and frequency of downsizing. In fact, studies around the topics of decision making processes, ownership and governance structure and founder led firm performances argued that non-founder led firms differs from founder led firms (Jayaraman et al., 2000a; Nelson, 2003) and extant evidence shows that “decision-making behavior, motivation, strategic choices, and performance of CEOs” are not the same between founder CEOs and non-founder CEOs. Moreover the choice of strategic direction, growth strategy, investment and financial policies are being affected by the two groups of founders (Jain & Tabak, 2008).

According to Berle and Means’ (1932 cited in Wasserman, 2003) study, this difference between founder and non-founder CEOs can be derived from the concept of “separation of ownership and control”. It is assumed that in large companies, founder CEOs and non-founder CEOs are considered separately as two different groups. It partially arises from the lack of skills and specific knowledge of founder CEOs and on the other hand the founder-CEOs attachment to their founded firms makes them to have a different contribution to the organizations compared to non-founders (Wasserman, 2003). Agency perspective discusses the phenomena in the way that managers own little of the company and as a result their motivation, interests and their adopted strategies may diverge from those of the founders (Jensen & Meckling, 1976). Moreover, the lifecycle theory argues that as founder led firm grows and evolves, managerial styles and capabilities must change (Boeker & Karichalil, 2002) but sometimes founders resist to change and in some cases they try to adopt a strategy in order to overcome the challenges arises from their lack of knowledge and managerial skills. In general, considering different attitudes one can conclude that one of the strategies that may be implemented by founders and managers is downsizing. This research aims to address the issue regarding to the fact that the two types of CEOs’ (founders and non-founders) actions may differ in terms of downsizing intensity and downsizing frequency. One group may do more than the other. In this research I am going to examine whether this difference between founder and non-founders is significant or not in terms of intensity and frequency.

Hence downsizing is a widespread management technique and strategy for restructuring organizations and boosting firm’s performance, studying different sides of it is of high importance. In fact as a strategically action of organizations’ decision makers, downsizing is considered to be an action more than a tool for cost reduction. In fact it could be done within declining organizations and growing one with the aim to decrease the overheads, simplify bureaucracy, facilitate and accelerate decision making and raise productivity (Cascio, 1993).

Founder and non-founder CEOs as organizations’ decision makers will make the choice for implementing downsizing. In fact downsizing is relied on the decision of power holders, on the other hand, managers as the agents of the organization may act more harshly in layoffs. They may be more interest oriented than growth oriented. So first I make a contribution to the definitions of downsizing as a strategic choice which could also be influenced by agent perspectives and then I am willing to find out the differences between founder and non-founder CEOs decision making in terms of downsizing and I suppose that the process of decision making will be affected by the changes in the firm size and firm age. By collecting data on 300 firms in pre-packed software industry I will examine whether our implemented hypotheses will be accepted or rejected.

LITERATURE REVIEW
Research shows that rapid changes in economy in terms of social and technological improvements cause downsizing or selective resource reduction to be an inevitable action as firms grow (De Witt, 1998). De Witt (1998) defined three main approaches of downsizing which are defined in the follow.

Retrenchment maintains the firms’ scope while maintaining or even increasing its output. It includes centralization and specialization of production, alteration of supplier relationships, and rearrangement of managerial responsibilities. This approach develops entry barriers and defends the firm’s competitive position and reduces outgoing money or expenditures or redirects focus in an attempt to become more financially solvent. In fact retrenchment is to downsize in one market that is proving unprofitable and build up the company in a more profitable market. If one market has become obsolete due to modernization or technology, then a company may decide to change with the times to remain profitable (Dewitt, 1998).

Downscaling refers to permanent cuts in human and physical resources to maintain product line and market scope. It usually keeps the variety of the outcomes.

Downscoping makes some reductions in the variety of firms’ activities. In this case managers selectively reduce the firm boundaries so the overall output may decrease. According to De Witt (1998) Downscoping usually combines physical and human resource reductions while simplifying the organizational processes.

In terms of reduction in human resources or in other words employee downsizing, researchers such as Datta, Guthrie, Basuil & Pandey (2010) defined employee downsizing as a planned set of organizational policies which tries to improve organization’s performance through a process of reduction in employees. Cascio (1993, p.96) defined it as “an intentional elimination of positions or jobs”. Freeman and Cameron (1993) focused on downsizing as a set of practices which is undertaken in managerial courses of actions in an organization with the aim of improving efficiency, productivity and competitiveness; the focus in this definition is on the strategies which are conducted by managers and may affect the size of the firm’s work force. Generally speaking, the core concepts in downsizing refer first to the organization’s goal of improving performance and second to the manager’s decision making ability. So it can be considered that managerial decision making process play a crucial and inevitable role in the employee downsizing. As a result, the definition pulls our attention towards the point that power-holder decisions can vary from person to person and from one type of decision makers to another type.

Datta et al. (2010, p. 292)’s comprehensive study demonstrates that four types of researches have been conducted in terms of organizational influence on employee downsizing. “First group examines the effects of firms attributes (including firm performance) on employee downsizing. Second one assesses the influence of firm strategy (e.g., M&As, firm diversification) on downsizing. The third group examines how governance structures (board characteristics, ownership, compensation structures, CEO characteristics) help determine the incidence and level of downsizing; and the last group investigates the implications of firms’ HR policies for downsizing events”. Among these four groups, the influence of firm strategy and governance will be the focus of this research. In fact downsizing is a strategic choice of decision makers, so it is essential to find out how this strategic choice differs from person to person. Chandler (1962, p.13) defined strategy as: “the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Decisions to expand the volume of activities, to set up distant plants
and offices, to move into new economic functions, or to become diversified along many lines of business, involve the defining of new basic goals”. By this definition, Chandler highlighted the importance of strategic choice or strategic decision making as a critical variable in a theory of organizations (Child, 1972). Child (1972) indicates that organizational structure needs to be adjusted to its context otherwise the opportunities will be lost and its maintenance will become difficult, threatening and to somewhat impossible. In some cases the strategic choice is required due to the contingencies appear in organization’s external environment for matching internal capabilities to external conditions (Donaldson, 1985). Child (1972) defines strategic choice as the process by which decision makers and power-holders inside the organizations decide upon courses of strategic action. In fact, the strategic choices of decision makers show the inequalities of power within organizations and it causes a differential access to decision-making on structural design. Further, Child (1972, p.1) stated that strategic choice not only refers to the establishment of structural forms, but it also influences “the manipulation of environmental features and the choice of relevant performance standards”. In fact environmental conditions and organizational size will together impose on the structure of organizational decision-making (Child, 1972). Downsizing which occurs based on the power holder decision has been referred by scholars (Cascio, 1993; Freeman & Cameron, 1993) as a popular management technique for restructuring the firms. In this article the basic idea comes from the strategic choice of power holders specified here as founder CEOs and non-founder CEOs in the strategic choice of downsizing. Sometimes the reason comes from the existence of environmental contingencies (Budros, 1997) and sometime the driving force of downsizing may come from the various attitudes of decision makers. Pugh et al. (1963) note that “size, technology and ownership” could enforce restrictions on the structural choices of decision makers without incurring unacceptable performance costs. Various attitudes of decision makers is also discussed in agency perspective which focuses on ownership and self-interest of managers. This perspective is defined as a contract under which one or more parties (the principal(s)) employ another person (the agent) to execute some service on their behalf and contains assigning some decision making authority to the agent (Jensen & Meckling, 1976). Principals aim to separate their “ownership and control” and tend to see that agents are trying to meet the expectations of them. However the importance of incentives and self-interest may provide both parties with some conflicts in such a way that agents may probably act differently compared to what is pleasant for principals (Jensen and Meckling, 1976). In fact agency perspective emphasizes on the fact that much of organizational life is based on self-interest (Eisenhardt, 1989), so agents will make decisions based on their interest and ignore the principals’ expectations. Interestingly Jensen and Meckling (1976) explored in their study that the ownership structure of the corporations specified as the equity ownership by managers can cause managers’ interests to be aligned with those of owners. To sum up, agency theory emphasize on the fact that managers own little of the company and as a result their motivation, interests and their adopted strategies may differ from those of the founders. This reason should be considered as one of the principals that managers behave differently and make different choices compared to owners while considering downsizing.

THEORETICAL DEVELOPMENT

A frequently stated conclusion in entrepreneurship literature is drawn by comparison between founder-managed high-growth firms and a group of similar but “professionally” managed firms. It is considered as the fact that “rapidly growing firms quickly outgrow the founders’ managerial capacity” (Willard et al., 1992, p. 181). Buchele (1967) and Clifford and Cavenaugh (1985) reached a similar conclusion. Buchele (1967 in Willard et al., 1992) calls it “leadership crisis” or “delegation crisis”. This crisis occurs when the firm reaches the size that requires a “full team” of executives. In other words, it means that the founder needs to change the habits and learn new
skills which seem to be almost impossible and not paying attention to this phenomena may cause that firm goes out of control. Clifford and Cavennaugh (1985), on the other hand, state that this occurs sometimes due to the reason that the founder-owner tends to do it all himself so the growth potential will remain inside the boundaries of founder’s capacity and energy. Delayed or faulty decision making in this step may deteriorate the firm performance. Other researchers like Churchill and Lewis (1983) and McCarthy et al. (1991) also pointed out that increase in the firms’ size changes the rules for founders and the founders’ contribution to the firm.

According to the above cited literature, it is indicated that, founder-owners starts a new business and as time goes by their business face various stages and gradually grow. The growth of the company makes it more complex and the complexity of the firm makes founder-owners unable to adapt to the situation. Willard et al. (1992) mentioned that inability of founders whose skills match the entrepreneurial challenge in developing administrative skills makes them useless while the firms grow. Jayaraman et al. (2000b) also note that the role of founders is mostly highlighted in smaller firms than larger ones. So there should be a huge difference between the abilities and characteristics of founders compared to non-founders. Arriving at this point, a huge number of organizations employ managers to implement founder’s responsibilities in a more professional way.

Begley (1995) in his research makes a general distinction between founder and non-founder CEOs and explains that founders as the individuals who start a new business rather than buying and managing an existing one (previously founded businesses), start a new venture without having customers; so unlike the non-founders whose business may already reached a size to provide adequate income founders seem to be more growth-oriented. Evidence could be shown by considering the number of M&A activities and takeover decisions associated with risk preferences by founders which is dramatically higher among founders than non-founders (Amihud & Lev, 1981; May, 1995; Fahlenbrach, 2004). Begley (1995) and Chandler and Jansen (1992) also came to the same conclusion and state that characteristics such as the willingness to undertake risks, to grow and to achieve the goals are higher among founder than non-founder CEOs. Further, Begley (1995), Miner (1990) and Gartner (1989) indicated that entrepreneurs or founders are interested in innovative efforts while focusing remarkably on long-term growth while managers firstly aim to pursue personal goals rather than being growth-oriented.

Research in the area of downsizing (specifically those which discuss the antecedents) also considers the agency theory. In fact managers tend to be involved in activities which expand their interests while these activities may cause some costs for shareholders (Eisenhardt, 1989; Fama & Jensen, 1983; cited in Datta et al. 2010). The study of Brookman, Change and Rennie (2007) also shows that there is a positive relationship between CEO equity portfolio incentives and layoffs. In addition, in order to expand their interests managers tend to do intense layoffs with the aim of increasing efficiency and decreasing the costs (Datta et al., 2010). So we assume that non-founders are more likely to do intense layoffs.

In addition non-founders are less risk takers compared to founders (Fahlenbrach, 2004). So while the firm arrives at a size which makes the organization more complex, in order to maximize their personal interests and decrease the costs, non-founders decide to downsize. Another contribution to the topic of founder status and downsizing is that founder’s attachment to the organization will be much higher than that of non-founder CEO. In fact the firm seems to be like a child that has been grown in the hands of the founder. So intense layoff for him looks like losing what he has brought up. So due to the high level of attachment to the founded firm and his growth-oriented personality, founders firstly, do not seem to do layoffs, in case of doing layoff, there are not likely to do it frequently and intensely.
One of the other interesting ideas in the area of downsizing literature focuses on the issue that corporations become “addicted” to downsizing (Spitzer & Tobia, 1994). It means that organizations might go for downsizing alternatingly. One reason could be related to the fact that competitive environment makes firms to experience restructuring more. In fact in order to cut costs corporations tend to downsize. In this research by considering the mentioned points I suppose that non-founders are more likely to do dramatic layoffs as firms grow and they have a higher tendency to do it frequently (because of being addicted to that). So the following hypotheses could be derived from our theoretical development:

P1a: Founder status is negatively related to the likelihood of layoffs such that founder-led firms will have lower likelihood of layoffs than non-founder led firms.
P1b: Founder status is negatively related to the level of layoff frequency such that founder-led firms have lower frequency of layoffs than non-founder led firms.
P1c: Founder status is negatively related to the level of layoff intensity such that founder-led firms have lower intensity of layoffs than non-founder led firms.

Downsizing cannot be characterized as a unique trait for non-founders because founders also downsize to improve productivity and efficiency and finally improve the firms’ performance. One of the situations in which firms experience layoffs is related to the time after implementation of mergers and acquisitions (Amihud & Lev, 1981; May, 1995; Fahlenbrach, 2004). It seems rational in the way that when an organization grows the inefficiency of personnel increases and some jobs can be integrated so the likelihood of layoff increases. Budros (1997, 2002) and Krishnan, Hitt & Park (2007) state that external M&As had a positive impact on downsizing adoption rate. In addition, other studies also argue that the likelihood of significant employee layoffs would be higher among huge firms (Kang & Shivdasani, 1997; Perry and Shivdasani, 2005). Wagar (1997)’s study also indicates that firm size is positively correlated with moderate employee’s downsizing. So I can conclude that, the probability of implementing downsizing is higher in bigger firms and those which go for doing downsizing will downsize more frequently and more intensely. Eventually I propose the following hypotheses:

P2a: Firm size negatively moderates the relationship between founder status and likelihood of layoffs.
P2b: Firm size negatively moderates the relationship between founder status and layoff frequency.
P2c: Firm size negatively moderates the relationship between founder status and layoff intensity.

In terms of firm age, the study done by Ahmadjian and Robinson (2001) shows that firm age is positively associated with downsizing. Another investigation shows that the firm performance decline as firms gets older (De Kok, Fris & Brouwer, 2006). Hansen (1992) studied the relationship between firm age and innovation and found out that there is an inverse relationship between them.

By studying the five stages of organizational life cycle labeled as: Birth phase, Growth phase, Maturity phase, Revival phase and Decline phase it can be also drawn that in the first four stages organizations are growth oriented, however the complexity also grows and efficiency declines. In the last phase organization suffers from the lack of innovation and poor efficiency (Miller & Friesen, 1984) so as firm gets older it is more likely to downsize to overcome the difficulties and enhance performance. So from this point of view I interpret that, hence as firms get older the level of innovation declines, in order to decreasing the costs and increasing the
efficiency, firms decide to downsize. In fact by layoff, those employees will survive which can provide the organization with effective performance and innovation. So by considering the mentioned points following propositions are proposed.

P3a: Firm age negatively moderates the relationship between founder status and likelihood of layoffs.
P3b: Firm age negatively moderates the relationship between founder status and layoff frequency.
P3c: Firm age negatively moderates the relationship between founder status and layoff intensity.

**Model**

DISCUSSION AND CONCLUSIONS

Extant literature in the area of downsizing helped us to address one of the most interesting and critical questions in this field which was remain unanswered. In fact in this research I found out that in some cases rapidly growing firms quickly outgrow the founders’ managerial capacity (Willard et al., 1992; Buchele, 1967; Clifford & Cavenaugh, 1985). It causes the founders to employ agents who have professionally managerial skills. Agency theory showed that agents due the reason of focusing on their individual interests may make strategic choices which are not along founders’ strategic choices and may cause some costs for shareholders (Jensen & Meckling, 1976; Eisenhardt, 1989; Fama & Jensen, 1983) and they may decide to downsize. In fact their personal interest may be the driving force for downsizing in order to minimize costs and maximize their interests. So they will be harsher in implementing employee downsizing. On the other hand, founders play the role of a father for their company. They found the firm, expand it and try to hopefully develop it. They have a growth oriented personality unlike the non-founder CEOs who buy and manage an existing firm which is previously founded and achieved an average size. In other words, the attachment of founder CEOs is much higher than that of non-founder CEOs to the firm.
Further I found out that due to the lower level of risk tolerance by managers (Fahlenbrach, 2004), as soon as they feel that the company has become complex, they may decide to downsize. Furthermore, I found literature that downsizers become addicted to layoffs and they do downsizing frequently (Spitzer & Tobia, 1994). One reason should be related to the fact that the downsizers try to control the costs while they frequently check the efficiency (Datta et al., 2010).

However, downsizing is not specified to non-founder led firms. In fact founders may downsize in critically financial peaks, after mergers and acquisitions and other situations (Amihud & Lev, 1981; May, 1995; Fahlenbrach, 2004). The literature on the downsizing also showed that size matters. In fact like merger and acquisition which will consequently cause layoffs (Amihud & Lev, 1981; May, 1995; Fahlenbrach, 2004), the increase in the size of organization may be accompanied by employees’ downsizing due to the fact that larger organizations do not perform as efficient as smaller ones do (Budros, 1997, 2002; Krishnan, Hitt & Park, 2007). Age of the organization is also considered as a moderator of organizational downsizing. In fact older ones do not perform as high as younger ones (De Kok, Fris & Brouwer, 2006) and the level of innovation is lower among old organizations compared to young ones (Hansen, 1992).

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