Chapter II
Downsizing and Building Organizational Memory:
A Paradoxical Relationship between "Brain–Drain" and "Brain–Gain"

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ABSTRACT

Recent business practices over the past decade have been tainted with corporate restructuring strategies such as downsizing, reorganizations, and job redesigns. With the hopes of increasing efficiency, gaining productivity, and reducing costs, many companies have participated in such efforts. However, one must consider the irony behind this shrewd, if not tactfully harsh, business practice. While organizations continue to decrease their workforce in an effort to regain acceptable profit margins, cut back on "waste" and become "leaner", they also stress the importance of sharing knowledge among employees and building organizational memory. How can a company effectively share knowledge and build organizational memory when its employee base is shrinking? This is an interesting question that has stirred much debate over recent years, both in the public and private sector. As such, this book chapter attempts to explore the paradoxical relationship between downsizing (brain-drain) and building organizational memory (brain-gain).

INTRODUCTION

Unfortunately, downsizing is a way of life in today's global business economy. Through methods that include mergers, acquisitions, corporate restructuring, and outsourcing, downsizing is considered normal and is often expected when company profits are below normal. Despite its popularity, many studies such as Cascio (1993) claim that downsizing does more harm than good. This harm is not just limited to measurable factors like productivity or profitability, but also to less

easily measurable factors such as organizational memory. In fact, previous research supports the notion that organizations which can effectively create, share, and transfer knowledge at the individual, group, and organizational levels are more effective than those that cannot (Kogut & Zander, 1992). The effective sharing of knowledge leads to organizational learning which, in turn, is a precursor to building organizational memories (Balasubramanian, 1995). Here, it seems we have a paradigm that exists. Are downsizing and building organizational memory simultaneously compatible with one other? Can an organization eliminate employees and still effectively commit itself to build organizational memory? These are the types of questions that this book chapter will explore, but first, for the sake of the reader, let's examine the layout and structure of this chapter.

To begin, the relevance of organizational downsizing and how it is used as a modern business strategy will be discussed. Secondly, this chapter will discuss the concept of organizational memory – specifically how the term came about, its history, and why it is important. Third, this chapter will examine the concepts of single-loop and double-loop learning, as discussed in the works of Argyris and Schon (1996), and how collective learning can harness a framework for building organizational memories. Finally, this chapter will tie together the two main topics of this paper, downsizing and organizational memory, by proposing relevant areas for future research as well as the practitioner benefits of this book chapter.

DOWNSIZING AS A BUSINESS STRATEGY

To begin, it is first important to understand what downsizing is. It is best defined by Freeman and Cameron (1993) as an intentional reduction in personnel intended to improve the effectiveness of the firm. Historically, downsizing has always been associated with firms that were on the decline. However, in respect to current scholarly usage, it is important to make the distinction between organizational downsizing and organizational decline. According to McKinley, Zhao, and Rust (2000), "downsizing is an intentional proactive management strategy, whereas decline is an environmental or organizational phenomenon that occurs involuntarily and results in erosion of an organization's resource base" (p. 227). In today's modern business era, though, downsizing is viewed from a positive perspective. In other words, it is not necessary for a firm to be on the decline before reducing its employee base. In fact, business consultants, stockholders, and senior management alike view corporate downsizing as a legitimate business tool to reorganize a corporation, thus allowing the company to regain its ability to be more productive and efficient.

Perhaps a common interpretation of organizational downsizing is the economic perspective which is based on the principle that firms are driven towards efficiency (McKinley et al., 2000). Inherent in this theory is the belief that firms downsize for the purposes of reducing costs while improving efficiency and productivity. At the same time, managerial actions and their outcomes are highly related. According to those who support this notion, downsizing is used as a tool to increase future economic performance. There has been a great deal of scholarly research focusing on the post-downsizing results associated with this economic view.

For example, Cascio (1993) claims that downsizing does more harm than good. In an example, Cascio points out that in a Fortune 100 company a bookkeeper making $9 per hour was let go due to downsizing, only to be rehired back as a consultant making $42. Why, you may ask? Senior management realized that without this employee they lost precious organizational memory that was vital to the company's success. As a result, the company rehired this employee at $33 per hour more to reacquire the learned expertise that the

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