Study examines effects of corporate downsizing on managerial diversity

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A new study finds that corporate downsizing reduces managerial diversity, especially when layoff decisions consider workers' position or tenure. But when layoffs are based on performance evaluations, managerial diversity remains intact—at least when it comes to white women and blacks.

"It seems that the more individualized process of evaluating each worker on his or her merits—rather than using blanket criteria such as position or tenure—creates awareness and accountability among executives and motivates them to think deeply and creatively about who they should keep during downsizing," said study author Alexandra Kalev, an Associate Professor of Sociology and Anthropology at Tel Aviv University. "This outcome of performance-based downsizing is not only good for managerial diversity, but also for the future of the company because the best performers are kept."

Titled, "How You Downsize Is Who You Downsize: Biased Formalization, Accountability, and Managerial Diversity," the study, which appears in the February issue of the *American Sociological Review*, focuses on white and black employees and considers data on 327 private U.S-based companies that downsized between 1980 and 2002. The companies, from manufacturing, service, and retail industries, had at least 50 workers prior to layoffs.

"In an average downsizing organization where layoff decisions considered workers' position, the shares of white women and blacks in management declined by almost 25 and 20 percent, respectively," said Kalev. "Downsizing by tenure reduced the share of white women in management by more than 20 percent. Notably, two-thirds of companies in my sample used position or tenure as criteria for layoff decisions."

Making matters worse for white female and black managers is that position-based downsizing, the most harmful type of downsizing for those groups, became increasingly prevalent over the course of the study period, Kalev said. In the early 1980s, downsizing companies made position-based layoffs less than 30 percent of the time. By 2002, however, downsizing companies made position-based layoffs more than 50 percent of the time.

In addition, Kalev found that companies increasingly used external lawyers to guide them through the downsizing process, which also didn't bode well for managerial diversity.

"There is a difference between the effect of an attorney who is part of the company and one that the company hires to handle a special task," Kalev said. "While in house attorneys helped minimize damage to managerial diversity during downsizing, outsourced legal experts did not."

This was true even when position or tenure were used in downsizing decisions. "I was surprised by the finding that an internal legal counsel made such a big difference in the results of downsizing," Kalev said. "I discovered that an in house attorney raised awareness of diversity issues among executives and this motivated them to use tools such as repositioning and retraining to maintain managerial diversity."

In terms of the importance of her research, Kalev said, "This study is a wake-up call. Downsizing is increasingly done in ways that hit managerial diversity the hardest, while downsizing practices that help protect diversity have become less and less common. If these trends continue, women and minorities will become increasingly rare in management jobs."

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