

Necessary and Sufficient Factors in Employee Downsizing?

A Qualitative Comparative Analysis of Layoffs in France and the United Kingdom, 2008-2013

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Abstract

Embedded in the literature on financialization and institutional approaches, this study is an examination of the causal factors of employee downsizing in two institutionally dissimilar settings, France and the United Kingdom, using the fuzzy sets variant of QCA (fsQCA). The findings show that the roughly equivalent use of large-scale layoffs in the two countries is coupled with strikingly different causal factors. Our argument suggests the importance of complex causation whereby employee downsizing reflects the growing influence of financial considerations in the governance of companies, but its diffusion across countries is shaped by different configurations of institutional arrangements.

Keywords

Complex Causation, Employee Downsizing, Financialization, Fuzzy Sets QCA, Institutional Investors, Institutions, Leverage, Ownership Structures

Introduction

This article examines causal factors behind large scale employee downsizing in two different settings, France and the United Kingdom, from 2008 to 2013. Our theoretically-informed comparative study contributes to important debates in two literature sets: those on financialization and comparative institutionalism. Financialization refers to the increased importance of financial considerations in the governance of companies which prioritizes the interests of investor-owners, which is shareholder value (van der Zwan, 2014). This greater prominence of finance is made possible by important structural developments in the global economy, most notably removal of controls on capital movements across borders and the growth in the financial assets of shareholder value driven funds. These developments have resulted in unprecedented amounts of capital chasing profitable investment opportunities (Engelen and Konings, 2010; see also Krippner, 2005). At firm-level, financialization highlights how the ascendancy of shareholder value entails an important reorganization of resource allocation aimed at keeping stock prices high and returning cash flows to shareholders.

In the context of investor and shareholder value, recourse to employee downsizing constitutes a popular strategy used by companies to generate resources that are then distributed to shareholders (Applebaum and Batt, 2014; Clark, 2013; Jacoby, 2005).

Our second contribution is to the literature on comparative institutional analysis. Institutional approaches constitute mid-range theory that aims to illustrate how conflict over resources and strategic choices are mediated by the institutional setting in which they take place (Hall, 1986; Thelen and Steinmo, 1992). Institutional arrangements matter because they enable, and constrain, different firm-level actors (managers, shareholders and workers) in their competing claims over the allocation of resources and, more broadly, over the governance of the firm (Campbell, 2004; Whitley, 1999). That is, institutions structure power relations inside companies that, in turn, strengthen the ability of different actors to advance their interests against others with different preferences (Gourevitch and Shinn, 2005; Hall, 1986; see also Goergen et al., 2013 for downsizing). Incorporating institutional analyses into the study of employment relations is insightful in order to account for the diffusion of financialization, a highly redistributive phenomenon, across different countries.

Our argument, in respect of employee downsizing, centres on the necessity of situating HR strategies within a corporate context that incorporates both the priorities of financialization within firms and the importance of institutional diversity across national business systems. To effectively address this challenge, we incorporate into our analysis theoretical insights developed across the social sciences that highlight the importance of complex causation in understanding outcomes, such as the implementation of large-scale employee layoffs (Mahoney, 2004; Ragin, 1987). From an ontological standpoint, our argument illustrates how the implementation of employee downsizing across national settings is not generated by the presence of one single cause applicable to all national business systems. Rather, downsizing occurs as the result of configurations of specific conditions that differ across national settings. The presence of institutional diversity, while not constituting an obstacle to the diffusion of shareholder value practices as correctly asserted by financialization approaches, provides revealing insights enabling us to assess which sets of conditions will be necessary and/or sufficient to generate a similar outcome, namely employee downsizing, across institutionally different economies (Braumoeller, 2003; Goyer, 2011: 106-128).

The diffusion of financial considerations across national settings is shaped by the extent to which institutional arrangements enable actors to implement, or resist, employee downsizing. In the institutionally constrained context of the French economy, the presence of several ‘conducive’ factors is required for large-scale layoffs to take place. In the institutionally permissive context of the UK economy, in contrast, the implementation of employee downsizing schemes will be easier as reflected by the presence of less demanding configurations of specific factors. Drawing from the literature on comparative corporate governance (Atanassov and Kim, 2009; Gospel and Pendleton, 2014; Gourevitch and Shinn, 2005; Roe, 2000), we develop our theoretical framework by examining the impact of three financialized variables on the implementation of large-scale downsizing schemes: financial leverage; categories of institutional investor; and ownership structures of companies.

This article is structured as follows. The first part looks at two theoretical perspectives that provide important contextual insights for the study of employee downsizing: financialization and institutional approaches. Part two integrates financialization and institutional approaches into our framework of complex causation. This integration leads to a complex and comprehensive understanding of the increased prominence of financial considerations in the governance of companies across different institutional settings. We also outline how Qualitative Comparative Analysis (QCA) as a research method best captures notions of complex causation. Part three presents the foundations of the QCA methodology. Part four reports on our data sample. Part five reveals our empirical findings and part six contains a discussion and conclusion on our findings and the contribution of our research to theory building.

Employee Downsizing in Advanced Capitalist Economies: Competing Theoretical Approaches

Financialization constitutes an important theoretical perspective that provides key insights for the investigation of employee downsizing, an increasingly prevalent phenomenon in contemporary capitalism (Clark, 2009; Thompson, 2011). The prominence of financial

considerations in the governance of companies has been made possible by important structural changes in the global economy: the liberalization of capital flows across borders and the growth in the financial assets of shareholder value driven funds – especially those based in the United Kingdom and in the United States (Engelen and Konings, 2010). As a result, an unprecedented amount of capital is moving across international financial markets in search for liquid and profitable investment opportunities. At the firm-level, financialization refers to the ascendancy of shareholder value as the guiding star for firm strategy that prioritizes the interests of shareholders at the expense of other actors in the corporation, most notably employees, thereby resulting in a major redistribution of wealth (van der Zwan, 2014; see also Gourevitch and Shinn, 2005; Jacoby, 2005). In liberal market economies, the unbridled pursuit of shareholder value means that new financial objectives, for example high stock prices and maximizing the release of cash flows to shareholders, are being pursued at the expense of other goals – and very often via the breach of implicit contracts with employees (Appelbaum, Baum and Clark, 2013; Appelbaum and Batt, 2014).

The implementation of employee downsizing is central in this redistributive process. Shareholder value driven objectives are often secured by the implementation of corporate policies that allocate resources away from employees – most notably dividend payouts, a focus on core competencies, share buybacks, and the introduction of a financial performance matrix such as return on equity (Brav et al., 2008; Kahan and Rock, 2007). Yet, the implementation of employee downsizing schemes does not contribute to the innovative capabilities of the firm as revenues generated from these layoffs are not reinvested. The (potential) productivity gains of ‘financialized’ firms are appropriated by shareholder value driven investors at the expense of retained profit for further investment in innovation (Appelbaum and Batt, 2014; Goergen et al., 2014; Jacoby, 2005). Therefore, as highlighted in this journal, incorporating financialization as a new structural development into the analysis of employment relations is paramount given the traditional focus of HRM approaches around concepts of high performance work systems that neglect the increased influence of finance, (Thompson, 2011: 361).

A conceptual challenge for the theorization of financialization, however, is to account for the diffusion of this new business model across institutionally dissimilar business systems. By

(correctly) emphasizing structural developments as crucial factors in newly prominent financial considerations, these approaches place less emphasis on the contingent character of their introduction in specific contexts. Because of its heavily redistributive character, the diffusion of financialization across countries is not a neutral process but one characterized by conflict where intricacies therein remain to be investigated (Gourevitch and Shinn, 2005; Goyer, 2011). For instance, two studies on downsizing in non-liberal market economies, Munoz-Bullon et al (2014) on Spain and Ahmadian and Robinson (2001) on Japan, illustrate the importance of institutional isomorphic pressures that encourage companies to implement employee downsizing whenever other 'leading' firms adopt this practice. That is, the introduction of employee downsizing as a shareholder value practice in these two economies raised issues of institutional legitimacy as companies felt comfortable in implementing employee downsizing schemes only as followers. As recently noted, therefore, an important challenge is to understand how the increased prominence of financialization translates into workplace outcomes across different business systems (Thompson and Cushen, 2015).

A second theoretical perspective for the study of employee downsizing is the literature on comparative institutional analysis. Institutional approaches are conceptualized as mid-level variables, as distinct from macro-structures, that act as mid-range theory (Hall, 1986; Thelen and Steinmo, 1992). Institutionally-based scholars do not advance the notion that only institutions matter for outcomes. Rather institutional analyses aim to account for how conflict over resources and strategic choices by actors are mediated by the institutional setting in which they take place (Campbell 2004; Whitley, 1999). Institutional analyses are also often built around a specific research design, namely how the presence of institutional differences account for observed variations in an outcome variable of interest (Dobbin, 1994). From a methodological perspective, therefore, institutional approaches aim to explain variations within a class of phenomenon based on the presence of institutional differences that, in turn, makes it difficult to conceptualize how and why exogenous structural developments occur (Krippner, 2005).

Institutional approaches are, however, better suited to explain the diffusion of financialization across national settings. The redistributive character of the financialization process serves as a reminder that the corporation remains a contested entity with different

actors making divergent claims regarding its governance (Campbell, 2004; Whitley, 1999). In this context, the transposition of the preferences of actors into outcomes, and their ability to defend their interests against other actors with opposing preferences, constitutes a process that is shaped by institutional arrangements which structure power relations (Dobbin, 1994; Hall, 1986). For instance, a decision to introduce employee downsizing schemes might take place at the firm-level but does not occur in an institutional vacuum. Institutional arrangements characterized by strong employment protection enable workers to better defend their interests, most notably by limiting the managerial prerogative to adjust employment levels via strategies of external flexibility (Goergen et al., 2013; OECD, 2013). The institutions governing job security shape managerial ability to determine who is recruited and laid off. In turn, institutional constraints placed on the managerial prerogative to use labour reduce their ability to redistribute resources to shareholders (Roe, 2000). As a result, differences in institutional arrangements across national settings provide employees with diverging capabilities to moderate the impact of structural changes in the global economy against other actors, most notably shareholders, with different preferences regarding the governance of the corporation.

The case selection of France and the United Kingdom is well suited for integrating the insights of financialization and institutional approaches. In terms of research design, these two countries constitute most dissimilar systems as they sit at opposite ends of the European institutional spectrum regarding employment protection. The United Kingdom is characterized by institutional arrangements that place few restrictions on the managerial prerogative to dismiss employees. Compared to other European countries, the United Kingdom maintains only weak employment protection as measured by the costs of hiring new employees, size of severance payments, notice period for the initiation of collective dismissal procedures, and the legal recourse of employees against collective dismissals (Goergen et al., 2013; OECD, 2013). The heightened managerial ability to reorganise the workplace is further supported by now embedded Thatcher-era legislation. Successive pieces of legislation have reduced trade union power by imposing secret ballots to support industrial action, placed restrictions on secondary picketing, and strongly diluted the constraining character of pre and post job-entry agreements for union membership (Davies and Freeland, 2007; Howell, 2005).

France, in contrast, is characterized by restrictive institutional arrangements over the regulation of job security for both open-ended contracts and atypical employment. Employment protection for open-ended contracts is comparatively strong by European standards when strength is measured by the size of severance payments, notice period for the initiation of collective dismissal procedures, and the legal recourse available to employees in cases of collective dismissal (Gumbrell-McCormick and Hyman, 2006; OECD, 2013). The French economy also exhibits extremely strict regulatory enforcement in the area of atypical employment, namely fixed-term contracts and part-time jobs (Venn, 2009). The use of part-time contracts and fixed-term contracts is limited to specific situations, mainly the replacement of an employee who is absent and for unexpected increases in activities.

The selection of France and the United Kingdom provide informative settings to investigate the insights associated with integrating financialization and institutional approaches – the former focusing on the emergence of structural changes in the global economy that heightened financial considerations in the governance of the firm; the latter illuminating how these new pressures spread across national settings. Financialization approaches depart from the methodological framing of institutional approaches that explain observed variations in outcomes via the use of institutional differences. The expectation of financialization approaches is that the use of employee downsizing will be prominent in the governance of French and UK companies, i.e. two institutionally dissimilar business systems. From the perspective of institutional approaches, by contrast, the diffusion of financial considerations in the form of employee downsizing, a highly redistributive process, is likely to be more contested in France than in the United Kingdom given the presence of institutional differences in the use of layoffs (Goergen et al., 2013; Gourevitch and Shinn, 2005).

Theory and Propositions: A Qualitative Comparative Analysis of Employee Downsizing in France and the United Kingdom

Our investigation focuses on the causal factors of large-scale layoffs in France and the United Kingdom between 2008 and 2013. From an ontological standpoint, our argument is embedded in the literature on complex causation whereby important events are not generated by the presence of one cause alone; but occur as the result of different configurations of specific

conditions (Hall, 2003; Ragin, 1987; Thelen and Mahoney, 2015). Sensitivity to complex and historical specificities is unlikely to be achieved by single explanations that seek to identify the direct effects of a particular independent variable on employee downsizing (Mahoney, 2004). Stand-alone explanations invariably fail to capture processes of causal complexity – especially in the context of diffusion across different business systems (Hall, 2003).

Our investigation is based on the use of the Qualitative Comparative Analysis (QCA), the technique developed by Ragin (2000) to capture instances of causal complexity.¹ Built on the logic of Boolean algebra, a key strength of QCA is its combination of the strengths of both case-oriented research and quantitative research to capture how economic and social outcomes are generated by a configuration of factors, that is, complex causation (Schneider and Wagemann, 2012). The analysis of causal complexity via the QCA method differs from statistical techniques as the impact of hypothesised independent variables on the dependent variable is not additive, but rather cumulative and interdependent (Mahoney, 2004; Ragin, 1987). The QCA technique captures two forms of causal complexity: conjunctural causation and equifinality.

Conjunctural causation refers to how interactions among different factors generate a specific outcome that would not occur without the presence of all of these interacting factors ($x_1+x_2+\dots+x_N \rightarrow y$). In other words, individual hypothesized independent variables are necessary but not sufficient to produce a specific outcome (Mahoney, 2004; Ragin, 2000). Necessary but not sufficient conditions for downsizing illustrate that some specific outcomes are relatively more difficult to achieve since the occurrence of the value of interest on the dependent variable is contingent upon the presence of all hypothesised independent variables (Hall, 2003).

Equifinality, in contrast, captures the presence of different but functionally equivalent, and thus non-competing paths that secure a similar outcome (x_1 or x_2 or... $x_N \rightarrow y$) (Ragin, 1987; Mahoney, 2004). In other words, hypothesized independent variables are sufficient but not necessary to produce a specific outcome. Sufficient but not necessary conditions for downsizing illustrate that some specific outcomes are relatively easier to achieve given the

¹ A growing number of scholars are being drawn to QCA as a methodology to capture processes of complex causation in diverse areas of employment relations such as customer abuse in service sectors (Korczynski and Evans, 2013); job security regulations in Europe (Emmenegger, 2011) and relative pay differences (Greckhamer, 2011).

presence of several alternative paths to the occurrence of a similar outcome (Braumoeller, 2003). Functionally equivalent paths reflect the presence of a greater range of possible courses of actions by which shareholder value practices spread across business systems.

The use of complexity provides a comprehensive understanding of important phenomenon in social sciences. Theoretically, our application of complex causation allows us to illustrate how institutional arrangements shape the diffusion of financialization considerations across national business systems. Social science research increasingly relies on the notion of causal complexity to explain important outcomes, but invariably fails to conceptualize the specific types of complexity required to generate a specific outcome in terms of the uneven distribution of necessary/sufficient conditions across settings (Mahoney, 2008). By building on this observation, we argue that settings characterized by extensive institutional constraints, such as those in France, will require the presence of a greater number of ‘supporting’ factors for downsizing to occur. The incorporation of financial considerations in the governance of French companies is characterized by the presence of conjunctural causation whereby several factors interact together in order to overcome institutional barriers; and by the presence of a highly limited number, and constraining, set of scenarios of substitutability, thereby illustrating that employee downsizing is difficult to implement in France. In settings characterized by institutional permissiveness, such as the UK, our expectation is that the implementation of employee downsizing will result from significantly less demanding sets of factors. Therefore, our argument emphasizes how the presence of institutional diversity in employment protection in France and the UK points to different types of managerial challenge when financial considerations, such as the implementation of large-scale layoffs, are introduced into the strategic governance of companies. That is, different types of complex causation (necessary/sufficient conditions) will be needed to generate employee downsizing across institutionally dissimilar national business systems.

We develop our conceptual framework empirically by testing the causal effect of three financialized variables from the literature on comparative corporate governance that are central to employee downsizing: financial leverage; categories of investors; and ownership structures of companies (see Atanassov and Kim, 2009; Brav et al., 2008; Gospel and Pendleton, 2014; Gourevitch and Shinn, 2005; Roe, 2000).

***Debt/Financial Leverage**

An important variable in empirical studies of employee downsizing is leverage (Cascio, 1993; Datta et al., 2010). While the level of debt is not necessarily an indicator of poor performance, it does raise two issues with implications for the undertaking of employee downsizing across national business systems. The first one relates to the governance of the firm. High indebtedness could lead to a loss of control to creditors and/or increase the risks of bankruptcy (Bruslerie and Latrous, 2012). As a result, high debt generates strong incentives for corporate insiders, controlling shareholders and managers alike, to confront employees in order to extract concessions for avoiding the occurrence of these two scenarios (Bronars and Deere, 1991). In situations of high indebtedness, the bargaining power of employees might be reduced. Empirical studies across a range of institutionally dissimilar national business systems, characterized by varying regulations of employment termination, have documented that the implementation of large-scale layoffs is undertaken by companies with more extensive debt loads as compared to other domestic firms (Atanassov and Kim, 2009). In particular, strong employment protection is less effective in preventing large-scale layoffs in situations of high leverage (Atanassov and Kim, 2009).

The second issue associated with debt is the changed funding strategy of banks in many advanced capitalist economies, including France and the UK, that, in turn, impact on their ability to provide debt finance and roll over existing debt (Hardie, Howarth, Maxfield, and Verdun, 2013). An important, and traditional, function of banks is to serve an intermediary between household savers and non-financial corporations, which is to issue loans that are financed by relatively stable customer deposits. As a result of a series of changes that took place since the mid/late 1990s, by contrast, commercial banks have developed new series of business activities that involves repacking pools of loans into tradable instruments, i.e. securitization. Moreover, these new banking activities are no longer exclusively financed by customer deposits, but entails recourse to borrowing from investors and other banks. Thus, banks increasingly faced a funding gap whereby customer deposits do not cover their lending activities. Prior to the advent of the 2008 financial crisis, the funding gap of commercial banks in France and the United Kingdom was significantly important, the two highest among the G5

countries, and exceed the ten percent figure (Hardie, Howarth, Maxfield, and Verdun, 2013).² Moreover, this funding gap of banks was financed by relatively short-term sources from wholesale markets: French banks covered their funding gap via issue of short-term debt securities (Howarth, 2013) while UK banks exhibited strong reliance on borrowing from short-term driven inter-bank and commercial paper markets (Hardie, Howarth, Maxfield, and Verdun, 2013). The fragility of the funding activities of banks, in turn, has led to a severe tightening of their lending activities between 2008 and 2013 due to the cost and availability of funding, i.e. the credit crunch, as large commercial banks in the two countries scrambled to lower their reliance on external sources of funding (The Economist, 2013; Hardie, Howarth, Maxfield, and Verdun, 2013: 9). Non-financial companies with high leverage might face difficulties to refinance themselves given the financing constraints faced by commercial banks.

We investigate the impact of leverage on the undertaking of employee downsizing in France and the United Kingdom in the overall context of the credit crunch, whilst their respective regulation of employment dismissals is still characterized by significant institutional differences. Greater financial leverage enhances the bargaining position of management because the credible threat of bankruptcy or significant plant closures makes it easier to extract concessions from employees. This is likely to be an important factor in France given the presence of extensive institutional constraints that make it difficult to implement employee downsizing as an offensive strategic tool aimed at enhancing shareholder value. Thus, our expectation is that high financial leverage will constitute a necessary condition for the introduction of employee downsizing programmes in France (proposition 1).

By contrast, the United Kingdom exhibits comparatively weak employment protection where the governance of companies is shaped by the presence of institutional arrangements that heighten managerial ability to introduce downsizing in both favourable and adverse macroeconomic conditions (OECD, 2013). Thus, our expectation is that high financial leverage/debt, which increases the bargaining power of management vis-à-vis their employees, will not be needed and, therefore, will *not* constitute a necessary condition for the introduction of employee downsizing programs in the United Kingdom (proposition 2).

² The funding gap of banks is calculated as assets and loans/assets.

***Categories of Investors and Employee Downsizing**

Financialized investors are important actors in contemporary capitalism which bring with them negative consequences for employment stability (Jacoby; 2005; van der Zwan, 2014: 114-119). However, employee downsizing cannot be simply captured by the rise in practices emblematic of shareholder value in the strategic governance of the firm; it is, rather, contingent on specific categories of investors. Different categories of shareholder value driven investors – hedge funds, private equity, mutual funds, pension funds and sovereign wealth funds -- constitute sub-groups with different incentives. In turn these sub-groups are governed by particular internally defined rules -- that impact differentially on employment relations (Gospel and Pendleton, 2014:1-26).

Financialized investors -- hedge funds and private equity funds – constitute the most disruptive categories of investors for employment relations. Due to internal rules on trading and managerial remuneration schemes, these investors are driven by performance goals, not by diversification concerns, as fund managers are incentivized to secure the maximum possible absolute returns, not just achieve targeted mandated minimum returns (Goyer, 2006). Fund manager compensation derives from the amount of assets under management (1-2%) and, to a substantial extent, from incentive fees (usually 20% of profits) once a defined hurdle rate of return has been achieved. These more aggressive investor-owners are also characterized by short-term horizons especially hedge funds, as highlighted by their higher turnover rates of equity holding, and are more likely to target undervalued foreign companies whose market capitalization may increase following the implementation of corporate restructuring policies (Brav et al. 2008). For these investors, shareholder activism is *ex ante*: they select companies on the basis that their involvement as equity owners will trigger changes in corporate policies (Kahan and Rock, 2007).

Mutual funds, on the other hand, constitute an intermediary category of investor-owner whose economic incentives are very similar to those of ‘aggressive’ hedge funds, but whose mode of shareholder activism, if occurring at all, is *ex post* (Brav et al., 2008). Mutual fund managers are encouraged to surpass financial benchmarks (relative performance) as a result of variable pay incentives and greater liquidity concerns from savers whose investments are redeemable at any time. Finally, pension funds and sovereign wealth funds constitute long-term investor-owners with low turnover rates of portfolio stocks and whose investment

strategies and mode of governance are the least disruptive to employment relations (Goyer, 2011: 51-70). Their long-term investment strategy results in risk diversification through investment in a large number of companies – although pension funds are outsourcing part of the management of their assets to more active investors. Moreover, financial incentives for fund managers are less imperative indicating that the size of the pool is limited by the current cohort of retirees.

In summary, investment funds exhibit variations in incentive sets for fund manager remuneration, length of investment horizons, and the extent to which the investment strategy is driven by performance concerns versus risk diversification. Our expectation is that the presence of pension funds and sovereign wealth funds, that is, investment funds which themselves are less financialized, will *not* constitute either a necessary or a sufficient condition in both France and the United Kingdom for the implementation of layoff schemes (Proposition 3). The mere presence of hedge funds and private equity investors, on the other hand, is insufficient to accurately predict outcomes across business systems. In France, aggressive rentier investor-owners face significant institutional constraints regarding their ability to secure the implementation of large scale downsizing. Our expectation is that the sole presence of hedge funds, mutual funds and private equity investors will *not* constitute a sufficient condition in itself for the introduction of employee downsizing programs in the institutionally constraining context of France (Proposition 4).

***Ownership Structure of Companies**

The ownership structure of listed companies has been identified as a central variable in the literature on comparative corporate governance in relation to the ability of managers to meet the demands of investors and implement shareholder value practices, such as employee downsizing, is shaped by the ownership structure of listed companies (Gourevitch and Shinn, 2005; Roe, 2000). In liberal market economies, the ownership structure of listed companies is dispersed with shares being widely distributed. Non-liberal market economies, by contrast, are characterized by the presence of controlling shareholders with a large equity stake that enable them to shape the strategic direction of the firm. Variations in ownership structures matter for the implementation of shareholder value practices because the presence of a concentrated equity owner substantially reduces the effectiveness of shareholder activism by investors (Brav

et al., 2008; Kahan and Rock, 2007). Put simply, institutional investors, who acquire only 5-20% of the equity stake of listed companies as minority shareholders, can be outvoted by the large controlling owner.

Building on this literature, we investigate whether, and how, the presence of ownership diffusion will be a favourable factor for the implementation of employee downsizing schemes. The ability of hedge funds and private equity funds to promote and secure employee downsizing is strengthened in the context of ownership diffusion because there is no insider owner with a concentrated equity stake that could outvote them. In the presence of ownership concentration, in contrast, a large insider can always outvote aggressive shareholder activism. In the institutionally permissive context of the United Kingdom, we expect the presence of ownership diffusion to enable short-term investors to secure the implementation of employee downsizing. Thus, our expectation is that employee downsizing in the United Kingdom will not occur in the presence of ownership concentration (Proposition 5). In the French case, in contrast, the joint presence of financialized investors and ownership diffusion will not constitute a sufficient path by which employee downsizing occurs (Proposition 6). Leverage still matters in France (Proposition 1).

Methods

We adopt the fuzzy sets variant of QCA (fsQCA) because it enables our variables to be captured through graded, but non-dichotomous, membership within a scale of 0 (full non membership) to 1 (full membership) (Ragin, 2000; Schneider and Wagemann, 2012). Dependent and independent variables are not always best measured in a dichotomous form, but are characterized by differences both in degrees and kinds. Hedge funds and sovereign wealth funds constitute categories of institutional investors that are located at each extreme of the spectrum regarding the extent to which they are potentially disruptive to employment relations but other categories of shareholders, such as mutual funds, are not. Therefore it is appropriate to code variables along a spectrum rather than in a dichotomous manner.

The use of the QCA set-theoretic method is associated with the coding of variables to the (relative) extent to which they fit into a ‘set’ or not with a defined concept of interest – employee downsizing in this article. This coding process is called calibration. In the earlier

example, we investigate the extent to which institutional investors have incorporated the priorities of financialization because we hypothesize that a heightened focus on shareholder value results in higher recourse to employee downsizing. Therefore, hedge funds are calibrated with a fuzzy-set membership of 1 compared to 0.8, 0.6, 0.3, and 0.2 for private equity funds, mutual funds, pension funds, and sovereign wealth funds respectively (see Table 1). This indicates that hedge funds and mutual funds, for instance, are both in the set of shareholders who are strongly driven by financialization concerns (a qualitative attribute), but hedge funds are more active in pressuring portfolio firms to implement downsizing schemes as compared to mutual funds (a quantitative difference). Sovereign wealth funds, on the other hand, are mostly out of this set.

INSERT TABLE 1 HERE

The fsQCA method relies on the use of breakpoints, that is, coding differences along a spectrum, in the assignment of fuzzy-sets membership to each single case variable (see Table 1). We used the “continuous” fuzzy-set scale (Ragin, 2008) to calibrate all our variables (except for leverage), based on the theoretical arguments described below. The three major breakpoints along this scale range from being fully in the set (1), undefined as being in or out of the set (0.5), and being fully out of the set (0). For leverage, we use the direct method of calibration, which is a built-in function of the fsQCA software to calibrate interval-scale data (Ragin, 2008; Schneider and Wagemann, 2012). Once the database sheet is uploaded onto the fsQCA software, and leverage is calibrated, the software is used to process the data and generate the causal paths for necessity and sufficiency. Consistency and coverage thresholds are then defined to assess the significance of the results.

The calibration process operationalizes these variables into fuzzy-set membership scores and is detailed in Table 1. First, all cases of workforce reductions are included in our database for the sampled firms during the period under review. Substantial employee downsizing was classified as workforce reductions of 5% or more per annum, which is also in line with previous studies (Ahmadjian and Robbins, 2005; Munoz-Bullon and Sanchez-Bueno, 2014). Our calibration framework thus distinguishes between substantial downsizing cases (where the outcome variable is coded as ‘1’) and other random reductions in the number of staff. Second, leverage was operationalized as the average of total debts over total capital for our two

countries (Bessler et al., 2011). Single country coding of leverage is problematic given the presence of differences in the importance of bank financing among countries (Atanassov and Kim, 2009). Thus, we computed leverage by calculating the average of the total debt to total capital percentages of all sampled companies (56 for France and 57 for the United Kingdom) for the period under review divided by the number of years, that is, 6 years. Final leverage figures are 48% for France and 40% for the UK, hence an average of 44%. The qualitative breakpoints to code leverage using the direct method of calibration were defined around the average for both countries: cases with leverage percentages of 44% upwards were assigned a fuzzy-set membership of 1, cases at half this percentage, that is, 22%, were assigned a fuzzy-set membership value of 0.5 whilst cases with a leverage of 1% were completely out of the set with a membership of 0 (see Table 1).

Third, the calibration for ownership structure was taken from Gourevitch and Shinn (2005) and identifies specific thresholds for ownership diffusion (less than 5%) and the presence of an insider owner who can shape the strategy of the company (more than 20%) (see Table 1). Fourth, the calibration for investors is based on three criteria that highlight the extent to which they have incorporated shareholder value concerns at the expense of employee interests: financial incentives of fund managers, investment horizons and trading turnover of funds, and the extent to which their investment strategy is driven by performance concerns versus risk diversification (Gospel and Pendleton, 2014; Kahan and Rock, 2007).

Data and Samples

Our sample comprises the largest stock market capitalisation in each country, the SBF120 for France and the FTSE 100 for the UK, as large firms are more likely to be targeted by shareholder value-driven investors (Brav et al., 2008). We selected companies that are/were members of either of these two indexes for at least two consecutive years from 2008 to 2013. We excluded financial companies, such as banks and insurance companies, since their leverage ratio and accounting practices are not comparable to non-financial companies (Atanassov and Kim, 2009). We also excluded companies with a dual class of shares that, effectively, provide (potential) equity-owners with only non-voting shares. Subsidiaries of foreign companies listed in London or Paris were also excluded. Our final sample is composed of 57 UK companies and

56 French firms. Company information was collected for the period 2008-2013 to assess the impact of the great financial crisis on the undertaking of employee downsizing in different institutional settings. The dependent variable (employee layoffs) is operationalized as a five percent or more reduction in the number of employees from the previous year (Ahmadjian and Robbins, 2005; Munoz-Bullon and Sanchez-Bueno, 2014). This information was collected from DataStream (2015).

Our three independent variables are measured in the following manner. Drawing from Atanassov and Kim (2009), we used total debts over total capital as a measurement of leverage. The amount of debt carried by companies provides insights on the incentives of corporate executives to secure concessions from employees. This information was also collected from DataStream (2015). Data on ownership structure and the presence of institutional investors was collected as follows. First, data on French companies were collected from annual company reports; from Dafsaliens (2008-2013), an annual publication on the ownership structure of listed companies; and from the database of the French Financial Supervisory Authority (AMF) which publishes on a daily basis the arrival and exit of major shareholders exceeding current disclosure requirements (3%) in listed companies. Second, data on UK companies were collected from annual reports and from the database of the Financial Times (FT 500, 2015) which provides a full list of past and current shareholders exceeding the disclosure requirements (3%).

Findings

We highlight the importance of two key QCA concepts before the presentation of our results: consistency and coverage scores (Ragin, 2000). Consistency scores measure the degree to which a combination of causal conditions generates the phenomenon of interest on the dependent variable. That is, will the presence of a combination of conditions lead to the occurrence of the dependent variable? Coverage scores, in contrast, measure the extent to which a causal combination of conditions contributes to the occurrence of the outcome of interest on its own. That is, how much of the occurrence of the dependent variable is generated by the presence of the combination of conditions on the independent variable? High

consistency and coverage scores reflect the causal importance of independent variables for generating an outcome (Schneider and Wagemann, 2012).

Our empirical results support our argument that the spread of employee downsizing to France is indeed occurring but is also characterized by an extensive and highly specific process of complex causation, whereas in the United Kingdom, the introduction of employee downsizing is more easily implemented. First, employee downsizing is roughly equivalent in the two countries despite the presence of substantial institutional differences. Our sample is composed of 57 UK companies and 56 French firms. In the United Kingdom, 66 instances of substantial employee downsizing (five percent or more in yearly reduction) took place from 2008 to 2013. The corresponding figure for France was 57.

Second, high leverage is identified as a necessary condition in the undertaking of employee downsizing in France with a consistency of 0.92, thus exceeding the advisable threshold of 0.90 for tests of necessity (Schneider and Wagemann, 2012). The coverage value of 0.57 indicates high relevance. In other words, large scale layoffs in France occur only in the restrictive context of high leverage for the period under investigation. This is in sharp contrast to the United Kingdom and the United States where downsizing is often used as a tool to boost share price irrespective of macroeconomic conditions (Farber and Hallock, 2009). This outcome suggests the importance of the constraining institutional arrangements of employment protection in France and is consistent with proposition 1.

Third, the presence of three variables -- high leverage, highly aggressive investors and ownership diffusion -- constitutes a sufficient path to trigger employee downsizing in France. The consistency score for this combination of conditions is 0.78, which is above the minimum threshold of 75% prescribed by Schneider and Wagemann (2012) for tests of sufficiency. In other words, in 78 percent of the cases where this combination of conditions was present, employee downsizing was high. This solution path also had a coverage value of 0.40 which is in line with previous studies (Greckhamer, 2011; Korczynski and Evans, 2013), meaning that 40% of total instances of downsizing occurred precisely because of this combination of conditions. In other words, the occurrence of employee downsizing in France reflects the presence of a perfect storm of a combination of conditions whereby the absence of any of these

factors would remove the sufficient character of this path to employee downsizing. This result is consistent with propositions 1, 3, 4, and 6.

Fourth, the United Kingdom illustrates the presence of significantly less demanding conditions for the implementation of employee downsizing. No necessary conditions were identified for downsizing. With regard to sufficient pathways for downsizing, the most powerful combination of conditions is ownership diffusion combined with the presence of highly aggressive short-term oriented investors, with a consistency value of 0.75 and a coverage value of 0.65. Empirical results for the United Kingdom are consistent with propositions 2, 3 and 5. These outcomes suggest the greater ability of highly financialized investors (hedge funds and private equity funds) to secure a favourable outcome in the presence of ownership diffusion, that is, in the context whereby no shareholder owns a controlling equity stake. In particular, hedge funds and private equity funds seek to secure significant employee downsizing programs even in the absence of high leverage.

Discussion and Conclusion

An important theoretical contribution of this article is that the implementation of employee downsizing schemes is appropriately explained by the integration of two theoretical approaches: structurally-based financialization and mid-range institutional perspectives. Structurally oriented financialization approaches significantly contribute to our understanding of employee downsizing by incorporating important developments in the global economy. Financialization approaches have successfully develop a conceptualization of finance beyond its traditional intermediary function. Financialization is not about the provision of funding whether stock market finance (Engelen and Konings, 2010) or bank loans (Hardie, Howarth, Maxfield, and Verdun, 2013) as reflected in the selection of our three financialized firm-level variables. Our focus on listed companies illustrates that the rise of shareholder value driven financialized investors, and the growing ownership diffusion of shares, do not bring additional funds to companies because these transactions occurred in the form of secondary trading for already existing securities (Kahan and Rock, 2007; Brav et al., 2008). Leverage, on the other hand, has become more problematic in the context of the credit crunch whereby banks are more

reluctant to roll over existing debts and/or provide new loans (Hardie, Howarth, Maxfield, and Verdun, 2013).

Indeed, financialization approaches illustrate how the governance of companies is increasingly more about the distribution of resources in society. The widespread, and roughly equivalent use of large-scale layoffs in France and the United Kingdom highlights the importance of structural changes in the global economy despite the presence of institutional diversity. So while institutional arrangements governing employee dismissals beyond liberal market economies have formally remained stable (OECD, 2013), their influence over outcomes has diminished, even in the institutionally constraining setting of France, as a result of how new structural developments that influence strategic bargaining among different actors at firm-level. Yet, this new financial environment does not constitute a stable growth trajectory as resources generated by large-scale layoffs are not reinvested in the company in contrast to institutionalized compromises under Fordism between managers and employees (Clark, 2011; Appelbaum and Batt, 2014).

In terms of mid-range institutional approaches, our investigation highlights the importance of institutions in structuring the diffusion of new practices beyond liberal market economies while also taking issue with a tendency in the literature that reify institutional frameworks. Moving beyond a deterministic understanding of institutions, whereby outcomes are simply ‘read off’ from the constellation of prevailing institutional arrangements, we highlight two novel contributions that illustrate how similar institutions can lead to different outcomes while, at the same time, retaining the theoretical importance of institutional approaches as mid-range theory. First, the causal influence of (individual) institutional arrangements is contingent upon the specific characteristics of the complex causation settings in which they are embedded. Similar institutions can lead to different outcomes since they can generate the outcome of interest on the dependent variable as part of a specific intersection of necessary but not sufficient conditions or via different but functionally equivalent paths (sufficient but not necessary). For instance, private equity and hedge funds in the United Kingdom are able to secure employee downsizing in the presence of ownership diffusion and, moreover, without needing high leverage as a causal factor. In France, in contrast, employee

downsizing occurs in the more restrictive context of financialized investors, ownership diffusion and high leverage.

Our second contribution on mid-range institutional approaches illustrates how the use of employee downsizing spreads across different settings via the presence of different types of complex causation. Our argument builds upon a number of studies, especially in economic sociology, that illustrate the importance of the local context (institutional bricolage, institutional legitimacy) for the diffusion of practices beyond their original setting (Campbell, 2004). The innovative aspect of our contribution to this debate suggests that different configurations of institutional arrangements will require different types of complex causation for a common outcome to occur across dissimilar business systems (Goyer, 2011: 106-128). That is, diversity in institutional arrangements accounts for the uneven distribution of necessary/sufficient conditions between cases. By comparing an institutionally constraining setting with a more permissive one, our findings illustrate that more exhaustive sets of factors will be needed in the former in order to generate a functionally equivalent outcome. For instance, the spread of financialization to France, a non-liberal market economy, took place as a result of a confluence of two exhaustive factors: leverage as a necessary condition (proposition 1) and the joint presence of high leverage, financialized investors, and ownership diffusion as a sufficient condition (propositions 1, 3, 4 and 6). In the United Kingdom, by contrast, the implementation of downsizing operates independently of leverage (proposition 2) and, moreover, the less exhaustive configuration of short-term investors and ownership diffusion is sufficient to trigger employee downsizing (proposition 5).

The managerial implications of our study illustrate that while downsizing pressures associated with financialization are likely to be present beyond liberal market economies, their undertaking is contingent upon a confluence of two or more favourable factors. Managerial strategies based on the use of large-scale layoffs, such as a focus on core competencies and post-acquisition re-structuring, need to incorporate factors that are often part of the background environment in liberal market economies. For instance, permissive institutional arrangements for employee dismissals and the overall preponderance of patterns of ownership diffusion constitute ‘constant’ variables that are not usually taken into account by managers in liberal market economies in the implementation of employee layoffs (Brav et al., 2008). It is clear, however, that the extent and depth of these pressures measured across our three criteria is less

evident in France than convergence arguments focussed on the global diffusion of shareholder capitalism might suggest.

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Table 1. Variables and the fsQCA Calibration

Variable (and label)	Definition for calibration	Role in theoretical model	Percentage of downsizing	Calibration gradations	Scale & Breakpoints
Downsizing (downs)	According to Munoz-Bullon and Sanchez-Bueno (2014), and Ahmadjian and Robbins (2005), a 5% reduction in staff within one year represents a major reduction in the workforce. This goes beyond random fluctuations in the number of employees, or incremental adjustments in the employment level.	Outcome variable	0%	0	"Continuous" fuzzy set scale (Ragin, 2008) 0: Fully out of the set 0.1 - 0.4: Mostly out of the set 0.5: Cross-over; neither in nor out of the set 0.6 - 0.9: Mostly in the set 1: Fully in the set
			1%	0.1	
			2%	0.2	
			3%	0.3	
			4%	0.4	
			4.5%	0.5	
			5%	1	
Variable (and label)	Definition for calibration	Role in theoretical model	Types of institutional investors	Calibration gradations	
Category of Institutional Investors (investor)	Investment funds exhibit variations in financial incentives for manager remuneration, length of investment horizons, and the extent to which the investment strategy is driven by performance concerns versus risk diversification (Brav et al. 2008; Gospel and Pendleton, 2014).	The extent to which institutional investors focus on shareholder value maximisation strategies heighten their preferences for the implementation of employee downsizing schemes.	No investor present	0	
			Sovereign Wealth Fund	0.2	
			Pension Fund	0.3	
			Mutual Fund	0.6	
			Private Equity	0.8	
			Hedge Fund	1	

Variable (and label)	Definition for calibration	Role in theoretical model	Types of ownership structure	Calibration gradations	Scale & Breakpoints
Ownership Structure - France (ownstruc1) - UK (ownstruc2)	Firms across national business are characterised by differences in ownership structures, thereby reflecting the influence of insider-owners over firm strategy (Gourevitch and Shinn, 2005; Roe, 2000).	The ownership structure of the firm shapes the extent to which institutional investors can influence management regarding the implementation of employee downsizing schemes.	Fully Concentrated	0	"Continuous" fuzzy set scale (Ragin, 2008) 0: Fully out of the set
			Medium Concentration	0.6	0.1 - 0.4: Mostly out of the set 0.5: Cross-over; neither in nor out of the set
			Diffused	1	0.6 - 0.9: Mostly in the set 1: Fully in the set
Variable (and label)	Definition for calibration	Role in theoretical model	Percentage of leverage	Calibration gradations	Scale & Breakpoints
Leverage - France (levcal1) - UK (levcal2)	According to Atanassov and Kim (2009), firm-level debt volume influences the undertaking of restructuring decisions as highly leveraged firms are more likely to implement employee downsizing schemes. Martin and Baker (2011) calculated leverage as the percentage of total debt to capital.	High debt increases the risk of default in times of financial difficulties, thus increasing the probability of restructuring activities like layoffs to pay back debts.	0-100%	1% - 0 22% - 0.5 44% - 1	Direct method of calibration (Ragin, 2008) 0: Fully out of the set 0.5: Cross-over; neither in nor out of the set 1: Fully in the set