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REENGINEERING (DOWNSIZING), CORPORATE SECURITY, AND LOSS PREVENTION

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Abstract
This study reports findings from a survey of international security executives of major corporations which examined the effects of corporate reengineering (downsizing) on corporate loss prevention initiatives, loss prevention budgets, attitudes of employees regarding loss prevention guidelines and downsizing, actual incidents of criminal losses to corporations, and general morale of corporate employees. Findings suggest that downsizing is a common practice within the sample of corporations and some of the perceived effects of downsizing on crime prevention budgets and initiatives by corporate security executives are negative.

Key words: downsizing, re-engineering, security, crime prevention

Introduction

Although the problem is not unique to the United States, America has been experiencing unprecedented job losses due to a phenomenon known as reengineering or downsizing, as corporations lay off employees in ever increasing large numbers in order to reduce operating costs and increase profits.(2) This process has been well researched with regard to the effects of corporate reengineering on downsized employees, employees which remain with corporations after downsizing, communities, regular citizens, and American society generally. Yet, the
relationship between corporate reengineering and crime, crime prevention, and corporate security has not been adequately addressed in the literature.

This study is unique in that it explores these relationships within an international organization of security practitioners, suppliers of security services, and chief executive officers of companies which supply consultive security services to businesses. The main objective is to clarify effects of corporate reengineering on corporate loss prevention initiatives, loss prevention budgets, attitudes of employees regarding loss prevention guidelines and downsizing, actual incidents of criminal losses to corporations, and general morale of corporate employees. The paper begins with a definition of reengineering, an examination of how prevalent it is, a discussion of how it is justified by corporations, and a review of the positive and negative effects of downsizing on downsized employees, employees which remain with corporations after downsizing, communities, regular citizens, and American society generally.

Reengineering Defined

Reengineering is a term that brings forth images of organizational or bureaucratic change; for example, when one hears that a corporation is in the process of reengineering, one might think that the corporation is being altered in some technical way that is solely relevant for the structure of the corporation. The meaning of term is actually much broader, and the implications of corporate reengineering extend well beyond corporate structure.

Reengineering is a process that results in often large numbers of employees being given a permanent, irrevocable goodbye, either at one time or over an extended period of time. Numerous euphemisms have been developed by corporate managers for occasions when corporations are reengineered; employees are either downsized, laid off, separated, severed, or unassigned. The process of organizing and re-organizing workers is also commonly referred to as rightsizing, process innovation, horizontal organization structure, and turning the organization on its side.

We refer throughout this work to the process of reengineering as 'downsizing,' taken to mean when a corporation fires employees in an effort to become smaller, more efficient, and more profitable. Even though the word downsize did not widely appear in the English language until the 1970s, it was not applied specifically to humans or entered into the college edition of the
American Heritage dictionary until 1982. Prior to this period, downsizing referred solely to the shrinking size of cars.(5)

Although many of the terms above suggest some sterile, uninvolved process, corporate downsizing is in fact generally viewed negatively by citizens both inside and outside of the corporate structure. Light has been shed on the 'ugly truth' of 'corporate executions,' where individual workers lose their jobs because of 'corporate greed.'(6) Downsizing results in a simultaneous triumph of capital and a betrayal of work, which must be understood in the context of the 'Judas economy' of American capitalism.(7) Downsizing allows corporations to get fat and mean while workers get squeezed.(8) Corporate downsizing is also referred to as a heroic defeat(9) which results from a highly political issue, supported by both Republicans and Democrats in the United States.(10) In part because of the negative outcomes of corporate downsizing, there has been rebellion against capitalism generally in Europe,(11) although downsizing has occurred in some European countries.(12)

Downsizing is currently a popular topic in both the mainstream and academic literature. In addition to all the studies which document the benefits and harms associated with corporate downsizing, many are cashing in on downsizing's existence. For example, the New York Times special report on corporate downsizing demonstrates that merger offices have been created within numerous major corporations for the main purpose of assisting in downsizing efforts. So-called 'corporate headhunters' are hired by corporations to assist with deciding who to fire. Others have written books as a result of downsizing. For example, survival guides for managers of corporations who are charged with leading their corporations through the downsizing process have been developed,(13) as have long range plans for corporations who want to carefully plan their downsizing efforts.(14) Such books are not written exclusively for the benefit of corporations, as others suggest guidelines that can be used by individuals, organizations, and communities to respond to mass layoffs.(15) Even individuals who have been downsized have written about their experiences.(16) Others, recognizing the harms associated with corporate downsizing, have made efforts to encourage corporations not to participate in the process. For example, some have set out to demonstrate that it is possible to grow as a corporation and break the cycle of downsizing which is and has been so pervasive in America.(17) In essence, even these individuals are cashing in to some degree on the widespread downsizing that has occurred within the United States.

How Widespread is Downsizing?

Corporate downsizing is not a new phenomenon, except perhaps in who it targets today.(18) It apparently started in the late 1970s, but did not become heavily practiced in the United States
until the 1980s and 1990s. (19) Now it is occurring in large corporations, small partnerships, government agencies, universities and public school systems, and non-profit organizations. (20) There are clear differences in terms of who is being downsized now, as compared with the large numbers of layoffs that took place in the 1980s. For example, even the college-educated, who are the very people who gained the skills and knowledge which ideally would protect them from being fired, have been subject to downsizing. (21) A study conducted by the American Management Association in 1994 found that two-thirds of all workers who were laid off were college-educated, salaried employees. Downsizing in the 1990s has greater effects in the manufacturing sector, while in the 1980s the greatest effects were felt in white-collar and service industries. (22) Today, downsizing has greater effects on older, female, Hispanic, and white employees than in the 1980s. Additionally, downsizing in the 1990s most occurs in the Northeast and West rather than the Midwest as in the 1980s. (23) The effected downsized populations of the 1990s have also been described as office rather than factory. (24)

Downsizing is very common in corporate business in the United States. In fact, there are fifty percent (50%) more victims of downsizing in the United States every year than there are victims of violent crime. (25) Downsizing is so common in the United States that the United States Bureau of Labor Statistics publishes quarterly statistical reports on 'mass layoffs.' More than forty-three million jobs have been lost to downsizing since 1979. (26) Furthermore, seventy-five percent (75%) of households have had a close encounter with downsizing since 1980, and one-third of people have actually lost a job because of downsizing. Another forty percent (40%) know someone who has lost a job due to downsizing. Despite these alarming figures, since 1979, there has actually been a net gain of over twenty-seven million jobs in the United States. (27)

Unfortunately, the majority of people who have been downsized (65%) report earning lower salaries than they earned in the jobs they lost. This means only slightly more than one-third earn equivalent or higher wages in their next jobs. Not surprisingly, one in ten adults who has been downsized report that a major crisis has resulted in their lives as a result. (28) These statistics, when put in the overall context of the American economy, become more troubling. For example, the ratio of earnings for chief executive officers (CEOs) to workers is twice as high as the average ratio for other countries. (29) Major corporations that have recently laid off between 10,000 and 85,000 employees are headed by CEO's with salaries that rage from 1.1 million and 25.3 million dollars. (30) At the same time, income disparity, the gap between the haves and the have-nots, is drastically up in the United States. For example, the top five percent (5%) of earners in the United States witnessed increases in real income of approximately sixteen percent (16%) between 1990 and 1994; almost every other group saw declines in real income as much as seven percent (7%). (31) Class divisions appear to be strengthened by downsizing, particularly those which are driven by technological advances. (32) Overall household income is actually up 10%
during this period of downsizing, but 97% of this gain has been enjoyed by the richest 20%.
Median wages, adjusted for inflation, are actually less than they were in 1979.(33)

The Rationale Behind and Effects of Downsizing

The practice of corporate downsizing is justified in many ways. One common vindication for
corporate downsizing is the fact that it has not affected the overall growth of employment,(34) as
discussed above. This may be true, but this fact does not speak to the harmful effects of
downsizing on individuals, families, communities, and society in general, which will be
identified and discussed below.

Corporate downsizing is based on the assumption that the failures of corporations (e.g., low or no
profits) result from inadequacies of employees and their managers.(35) The result is that
corporations look within to find solutions, often concluding that some employees are
unnecessary or are to blame for corporate failures, and therefore are expendable. A common
myth associated with downsizing is that it has most affected middle-level managers of
corporations who are simply not needed. In fact, managers as a percentage of all non-farm
employees have actually increased approximately fourteen percent (14%) from 1991 to 1995,
during a period of intense downsizing.(36) Between fifteen to twenty percent (15-20%) of
private corporations are managers or supervisors even after downsizing; their combined salaries
and benefits total approximately 1.3 trillion dollars, roughly equal to one-fifth of America's
Gross Domestic Product (GDP).(37) This has led some to conclude that even after downsizing,
corporations remain 'fat', top heavy, and 'mean,' despite the lay offs of lesser paid employees.

The rationale behind corporate downsizing is complex. Part of what allows downsizing to
continue in the United States is that workers and labor generally are demonized in the mass
media, while corporations are relatively protected in part because of their ownership of media
outlets.(38) A thorough discussion of why corporations should downsize is contained within the
book, Reengineering the Corporation.(39) These authors claim that the payoffs for the practice of
downsizing include reduced business-related costs, increased quality in employee
performance,(40) and increased customer satisfaction. Downsizing also grants immediate
reductions in operating costs, and gives corporations opportunities to get free publicity via the
news media, to fire workers with poor performance records, and to appear decisive in the face of
uncertain economic conditions(41) and gives corporations increased control of their
employees.(42)
There are psychological advantages that corporations gain over their employees as well. Employees report purposely seeking new job skills in hopes that they will become indispensable to their employers, which undeniably benefits the corporation. Employees may gain new skills as a result of the threat of downsizing, and this actually benefits the employees because they then become more mobile. A more subtle justification of downsizing is that it provides psychologists with increased work.

In essence, the perception is that downsizing is good for the economy. For example, downsizing is perceived to be good for investment values, and actual increases in stock prices have accompanied particular corporations in the face of recently announced mass layoffs. These companies, which laid off between 10,500 and 60,000 employees saw increases in stock prices between three percent (3%) and thirty-one percent (31%). The bottom line is downsizing creates short-term profits for corporations. This is because it provides a mechanism for suppressing wage costs associated with employees. This has led some corporations to call corporate downsizing 'unavoidable' and even 'healthy'.

In some cases, corporations claim that mass layoffs are driven by factors beyond their control. For example, lost jobs are often blamed on technological advances (e.g., machines are simply more efficient and cost effective than people) or by more efficient competitors. Corporations sometimes claim that downsizing allows workers to be shifted into areas where they are more needed.

Of course, despite the supposed necessity of downsizing, it also has a 'flip-side'. For example, research indicates that stated goals of downsizing are infrequently realized by corporations which engage in the practice. A survey of 1,005 corporations conducted by Wyatt and Company found: only one-third of corporations indicated that profits increased after layoffs as much as they had expected; less than one-half indicated that the layoffs resulted in reductions in expenses as much as had been expected; and four out of five corporations ended up refilling positions vacated by downsizing. A follow-up study of 531 corporations showed that more than three-fourths reported laying off employees, the vast majority of these (85%) did so to increase profits. In fact, less than one-half (46%) saw any measurable increases in profits. Thirty-four percent (34%) of the corporations reported slight increases in worker productivity after layoffs, but fifty-eight percent (58%) had reportedly sought this. Only thirty-one percent (31%) achieved increased customer service, although sixty-one percent (61%) sought it. And within one year, most of the companies had hired persons to fill the positions vacated by the job cuts.
The most obvious downside to downsizing is the negative effects that are experienced by those who suddenly lose their jobs. As reported above, the majority of those who are downsized earn lower salaries and/or end up in part-time or temporary positions. In effect, corporate downsizing serves as a form of 'career derailment' because careers are at least seriously interrupted, if not destroyed. Those who are laid off also tend to have more negative views toward politics generally and to government and the economic system of capitalism in particular, and tend to be more pessimistic about the economy and the direction that the country is heading. Laid off employees are also angrier than those unaffected by downsizing.

There also appear to be positive relationships between losing a job to downsizing and experiences with stress and all the health problems associated with it, as well as divorce and marital separation. A negative relationship exists between losing a job and one's level of civic activities in the community and episodes of domestic violence may result from corporate downsizing. There is a positive relationship (simple correlation=0.73, p=0.01) between incarceration rates and the percentage of administrative and managerial employment in ten advanced countries (excluding the United States because it is an outlier): countries with the highest percentage of administrative and managerial employees also have the highest incarceration rates. Whether this is because of increased crime rates that result from downsizing is unclear; it may simply be that countries which are most willing to downsize are also most likely to respond to crime by locking people up. It's also possible, although not confirmed, that crime rates may increase in countries that lay off workers, because of the effects that downsizing has on urban growth. Downsizing can lead to increases in urban growth, which may mediate increases in street crime.

Despite the inherent logic which underlies laying off relatively few to save the majority, engaging in corporate downsizing can be equated to cutting off your nose to spite your face. This is because the negative effects of downsizing may extend to all or a large portion of employees within the corporation. Such effects are experienced by workers not laid off, because the practice of downsizing produces low morale and productivity in employees, generally. Job insecurity, stress, and negative attitudes can result in non-laid off employees when others within the corporation are laid off. A further consequence can be what has been called role ambiguity and role overload, which are perceptions by employees that they don't know their proper role in the corporation or that they have too many roles to fill. Employees who work for corporations who are downsizing tend to report feeling less loyal to their company and feel that their corporations are less loyal to them. They also report sensing increased competition between
individual employees within the corporation, which leads to working more hours in order to keep their jobs.(66)

Corporate downsizing may also lead to concern in ordinary citizens, whether working for large corporations of not,(67) including health and safety professionals who in a recent study indicated high concerns about corporate downsizing.(68) An additional unfortunate consequence of downsizing in American society is that it provides a rationale for scapegoating; groups below (e.g., the poor, minorities, immigrants, illegal aliens) are blamed for lost jobs when the real cause lies within the decision-making of powerful groups above.(69)

Despite all this research, the relationship between corporate downsizing and crime, crime prevention, and corporate security has not been adequately assessed. This study explores these relationships in order to clarify effects of corporate downsizing on corporate loss prevention initiatives, loss prevention budgets, attitudes of employees regarding loss prevention guidelines and downsizing, actual incidents of criminal losses to corporations, and general morale of corporate employees. Corporations, as they lay off workers, are now concerned that these displaced workers may pose problems for their prior employers. As a result, security personnel within the corporations are now stepping up efforts to prevent crimes against the corporations by the downsizing employees and by employees who are resentful that colleagues were laid off. What have been the effects of downsizing on corporative security? This study seeks to explore this question.

Methodology

Survey

A mail survey was constructed in order to explore several aspects of corporate downsizing. Recipients of the survey were asked whether their corporation was experiencing downsizing and if so, how long the reengineering process had been occurring within their corporations. The survey also explored whether the reengineering process had affected their loss prevention budgets and if so, whether modifications of their operational loss prevention budgets had inhibited or limited loss prevention's capacity to function as a preventive mechanism. The survey also contained items aimed at discovering whether corporations had adopted new loss prevention guidelines or standards as a result of downsizing, the level of influence that downsizing had exerted on their loss prevention initiatives (e.g., strong, average, weak) and the nature of this influence on loss prevention initiatives (e.g., positive, negative). The survey addressed the effects
of corporate reengineering on actual loss incidents since the downsizing process started and on
the morale of employees working for reengineered corporations.

Sample

The survey described above was sent to the entire membership (270 members) of the
International Security Management Association (ISMA). ISMA, founded in 1983, is an
international security association made up of senior security executives from major business
organizations located throughout the world. Members include security practitioners whose
primary responsibilities are to develop and form policies and controls of corporate organizations
which have assets and/or sales exceeding one hundred million dollars per annum. Members also
include suppliers of security services and chief executive officers (CEOs) of companies engaged
in supplying a wide range of consultive security services whose business revenues are at least
fifty millions dollars per annum. All members have received a minimum of a Baccalaureate
degree from accredited institutions of higher learning (or the international equivalent) or have
served in a policy making role in the private industry security profession for at least six (6) years.

Eighty-nine completed surveys were returned for inclusion in the study; therefore, a response
rate of 33% was obtained for this study. Since the response rate is not close to the ideal response
rate of 100%, caution is taken when generalizing to larger populations.

Findings and Interpretations

Most of the corporations were experiencing downsizing (91%). The largest percentage of these
had been experiencing the downsizing process for four years or longer (40%). Another eighteen
percent (18%) had been downsizing for one year, seventeen percent (17%) for two years, and
sixteen percent (16%) for three years. These findings suggest that within our sample, downsizing
is widespread.

Exactly half of the respondents (50%) indicated that the process of downsizing had not affected
their budgets for loss prevention. One in five respondents (20%) indicated that downsizing had
slightly reduced their loss prevention budgets, while one in four (25%) indicated moderate
reductions in loss prevention budgets. Only five percent (5%) of respondents indicated that
downsizing had greatly reduced their loss prevention budgets. Therefore, within our sample, one-half of the corporations reported that downsizing was affecting their loss prevention budgets.

However, most of the respondents (85%) suggested that modifications of their operational loss prevention budgets had not inhibited or limited loss prevention's capacity to function as a preventive mechanism. Only fifteen percent (15%) said that reductions in their loss prevention budgets did limit loss prevention's capacity to function as a preventive mechanism. Perhaps this illustrates that downsizing corporations will not cut back too far in the security realm for fear that crimes against the corporations may increase.

Approximately half of the respondents (52%) indicated that they adopted new loss prevention guidelines or standards as a result of the downsizing process, while forty-eight percent (48%) indicated that they made no changes to their loss prevention guidelines or standards. Therefore, within our sample, about one-half of the corporations made changes in their loss prevention efforts as a result of downsizing. This may illustrate that security executives within downsizing corporations perceive a need to consider and implement crime prevention guidelines specifically because of downsizing.

Of those corporations that made changes in their loss prevention efforts, slightly more than half of the respondents (56%) reported that the process of downsizing had exerted an average influence on their overall loss prevention initiatives. Approximately one in five respondents (19%) stated that downsizing had exerted a weak influence on their loss prevention initiatives, and one in four (25%) respondents indicated that downsizing had exerted a strong influence on their loss prevention initiatives. Thus, for some of the corporations in our sample, downsizing had meaningfully affected their crime prevention initiatives.

Of those corporations which reported that their loss prevention initiatives had been influenced by downsizing, the large majority of respondents (82%) suggested that the effects of downsizing on loss prevention initiatives were positive, while eighteen percent (18%) said the influence was negative. Therefore, within our sample, a small minority of respondents indicated that downsizing had negative effects on their loss prevention initiatives. This may suggest that corporate security executives are being supported by downsizing corporations in a corporate crime prevention effort.
On the other hand, about one-third of respondents (32%) suggested that actual loss incidents had increased since the downsizing process started, while the majority (68%) reported that actual external or internal loss incidents experienced had not increased since the implementation of the downsizing process. Despite the changes in crime prevention budgets and crime prevention initiatives, we cannot know if crimes against the corporations actually increased or whether this finding is an artifact of another factor. A significant share of the corporations in our sample at least perceived that downsizing had resulted in increased criminal activity against their corporations.

Not surprisingly, most respondents (66%) indicated that the morale of their employees or representatives had been negatively affected by the process of downsizing, while thirty-four percent (34%) said that the re-downsizing process had not negatively affected the morale of their employees or representatives. This provides evidence that corporations involved in downsizing may create negative emotions in their employees, or at least a perception of them in security executives.

**Discussion**

Tests of association were run to assess if the duration of the downsizing process (i.e., how long corporations had been laying off employees) was significantly related to any of the other variables. Results show that the effects of the duration of the downsizing process on all of the variables was not statistically significant: on loss prevention budgets ($x^2=12.01$, d.f.=9, $p=0.21$); on loss prevention's capacity to function ($x^2=2.40$, d.f.=3, $p=0.49$); on loss prevention guidelines ($x^2=4.69$, d.f.=6, $p=0.59$); on nature of loss prevention initiatives ($x^2=5.42$, d.f.=0.14); on actual loss incidents ($x^2=3.13$, d.f.=3, $p=0.37$); and on morale of employees ($x^2=2.07$, d.f.=3, $p=0.56$). It can confidently be stated that within our sample, how long corporations had been downsizing was not related to any of the other variables in the analysis.

However, the effects of budget changes on loss prevention's capacity to function was statistically significant ($x^2=6.81$, d.f.=1, $p=0.009$). Those respondents who reported moderate to great budget reductions were more likely to indicate that loss prevention's capacity to prevent loss incidents had been affected. This suggest that greater budget reductions which occur due to downsizing are likely to inhibit security executives for preventing losses against the corporations.
The effects of budget changes on respondents' perceptions of the nature of the effects (positive or negative) was also statistically significant (χ²=2.55, d.f.=1, p=0.01). Those respondents who reported moderate to great reductions were more likely to indicate that the effects of downsizing on loss prevention initiatives were negative. This suggests that greater budget reductions which occur due to downsizing are likely to have negative effects on loss prevention initiatives.

Perhaps most important, the relationship between respondents' perceptions of employee morale and perceptions of changes in actual loss incidents against the corporations was statistically significant (χ²=3.38, d.f.=1, p=0.05). This means that respondents who perceived that employee morale was negatively effected by downsizing were more likely to perceive that loss incidents had increased after downsizing.

This exploratory study suggests that corporate downsizing may have negative effects on the ability of security executives to effectively prevent losses against corporations, may lower employee morale, and may even increase loss incidents against corporations, adding further arguments against the practice of corporate downsizing. Yet, given the nature of our sample, it is not clear if similar findings would be attained in a larger study. As such, further research is needed to verify or falsify these findings. Further research into the effects of corporate downsizing on crime prevention and crime is clearly warranted.

Notes

1. Matthew Robinson is an assistant professor of criminal justice at Appalachian State University in Boone, North Carolina. Alex del Carmen is an assistant professor of criminology and criminal justice at the University of Texas at Arlington in Arlington, Texas. A previous version of this paper was presented to the Annual Meeting of the Academy of Criminal Justice Sciences, 1998.


29. Wolman and Colamosca, op cit.


35. Wolman and Colamosca, op cit.


41. Downs, op cit.

42. Wolman and Colamosca, op cit.


44. Arnst, op cit.


46. Edmondson, op cit.

47. Downs, op cit.


49. Wolman and Colamosca, op cit.

50. Wolman and Colamosca, op cit.


52. Dentzer, op cit.

53. Wolman and Colamosca, op cit.

55. Downs, op cit.; also see Wolman and Colamosca (1997).


60. Gordon, op cit.


63. Dentzer, op cit.


65. Forst, op cit.


