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Consequences of paying CEOs for Downsizing: A Four-Country Study of the Impacts on Survivors vs. Victims

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Abstract. Downsizing is: a) motivated by incentive compensation of executives, and b) negatively related to corporate social responsibility (CSR) perceptions. Yet, the link between executive compensation and CSR perceptions in downsizing contexts has not been examined. We examine this issue in four countries, i.e. France, India, Turkey and Vietnam. We use a 2x2x2x2 (performance-linked bonuses, internal vs. institutional pressure, loss of human capital-yes/no, and role-victim/survivor) between-subjects, experimental design to examine factors influencing CEOs' downsizing decisions. We find that a) CEO compensation is unrelated to CSR and b) downsizing resulting in loss of human capital is negatively related to CSR perceptions. Downsizing motivated by deferred compensation and decline in performance-linked bonuses is negatively related to survivor commitment but not victims' fairness perceptions. We find support for convergence across four countries, with some divergence because of power distance orientation. We provide a discussion of results, limitations and directions for future research.

Keywords: downsizing, CEO responsibility, CEO compensation, CSR perceptions, human capital, institutional pressure

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INTRODUCTION

Downsizing is defined as conscious, purposeful and planned effort to reduce the number of employees to achieve specific objectives (e.g. Datta, Guthrie, Basuil & Pandey, 2010). The literature on downsizing consists of four broad streams: the environmental and organizational antecedents of downsizing, and the individual and organizational consequences of this practice (Datta et al., 2010). Additionally, a growing body of academic research is examining the relationship between executive compensation and corporate social responsibility (CSR), with the consensus that the structure of executive compensation is an effective tool for encouraging managers to undertake socially responsible actions (e.g. Cai, Jo & Pan, 2011; Fabrizi, Mallin & Michelon, 2014).

There are several gaps in these two streams of literature. First, although much of the downsizing research has examined individual consequences such as victims' and survivors' reactions and justice perceptions (e.g. Mishra & Spreitzer, 1998), there has been little understanding of the consequences in terms of employees' perceptions of the CSR of the organization (for an exception see Lakshman, Ramaswami, Alas, Kabongo & Pandian, 2014). Second, there has been very little examination of the relationship between motivating and inhibiting factors and consequences of downsizing. On the one hand, there could be several motivating factors that lead top managers to make the downsizing decision. Brookman, Chang & Rennie (2007) found a positive relationship between equity portfolio incentives of CEOs and their lay-off decisions, thereby empirically identifying a motivational mechanism for such decisions to be made. Other researchers point to the commonly held beliefs among top executives that downsizing announcements are associated with positive stock returns (e.g. De Meuse, Bergmann, Vanderheiden & Roraff, 2004), whereby firms mimic the downsizing practices of other firms (see Datta et al., 2010). On the other hand, downsizing may damage CEOs' prestige and power (see Brookman et al., 2007), or result in loss of firm-specific human capital (Iverson & Zatzick, 2011). Therefore, we do not have answers to such questions as "will employees view downsizing as socially responsible if it is seen to be motivated by CEO compensation?" or "will observers view the downsizing as socially responsible if it is seen to result in the loss of firm-specific human capital?". Importantly, there is a need to investigate how the relationship between motivating and inhibiting factors and consequences of downsizing may differ across victims and survivors of downsizing (Lakshman et al., 2014). Third, although CEOs' decision to downsize has been shown to be related to their compensation (e.g. Brookman et al., 2007), research has not examined the ethics and social responsibility consequences of such compensation. Finally, the above issues have never been studied across cultural contexts, despite an increasing recognition of the role of culture in understanding the dynamics of downsizing and CSR perceptions (Datta et al., 2010).

The conclusions obtained from our study will provide important theoretical and managerial implications. The results provide a more nuanced understanding of antecedents and consequences of downsizing than what is available in extant literature. For example, if downsizing is seen to be motivated by CEO compensation, we believe that it may have a negative impact on CSR perceptions and thus make downsizing an unacceptable strategy for organizational turnaround (Lakshman et al., 2014). If downsizing is seen to be motivated by CEO compensation, it could have a negative impact on survivor commitment, making it more difficult for the downsizing initiative to succeed (Kim, 2009). Finally, if downsizing results in the loss of firm-specific human capital, it could have a negative impact on survivor commitment and make it more difficult to improve organizational performance (Iverson & Zatzick, 2011).

We address the gaps identified above by relying on a cross-cultural sample to study the impact of CEO performance-linked bonuses and CEO deferred compensation (motivating factors), and loss of human capital as a result of the downsizing (inhibiting factor) on CSR perceptions, which is an organizational consequence. In addition, we examine two other outcomes, i.e. victims' perceptions of fairness and survivor commitment to the organization, which are critical for successful turnaround. The literature normally assigns the label "victim" to people who have been downsized and the label "survivor" to employees that remain in the organization after the downsizing (Ranft & Ranft, 1999). Although survivors and victims both react negatively to downsizing, there are likely to be important differences. While past studies have noted other differences between survivors' and victims' reactions (Emshoff, 1994), we believe that downsizing motivated by compensation could be a more crucial issue for survivors rather than victims.

We study the convergence or divergence of these relationships across four contrasting cultures: France, India, Turkey and Vietnam. These countries are interesting contexts to compare because they belong to different societal clusters in the Global Leadership and Organizational

Behavior Effectiveness study (GLOBE) and are thus diverse in cultural values (House, Hanges, Javidan, Dorfman & Gupta, 2004). National cultures differ in the degree of acceptability of downsizing as a corporate practice and consequently the degree of legitimacy normally granted to such initiatives (Datta et al., 2010). Additionally, cultures that are high in power distance may tolerate lower degrees of transparency in the implementation of such initiatives (Lakshman et al., 2014), making it imperative for low power distance countries to do more in this regard. When downsizing is motivated by compensation factors, we believe it can elicit stronger reactions in some cultures than in others. Researchers (e.g. Bailey & Spicer, 2007) suggest that it is important to examine whether individual attitudes and perceptions converge across countries because the emphasis on similarity is as important as the emphasis on cultural differences.

This study contributes to the literature on downsizing and the research about executive compensation and CSR in the following ways. First, we examine an issue hitherto unaddressed in the downsizing literature: the relationship between motivating and inhibiting factors of downsizing and organizational consequences, which include the perceptions of victims and survivors about the organization's CSR, as well as their reaction in terms of survivor commitment and victims' perception of fairness. Next, we examine specific characteristics of the executive decision to downsize by considering the impact of both motivating and inhibiting factors related to CEO responsibility on perceptions of CSR in France, India, Turkey and Vietnam. We focus on the role of power distance orientation (individual level), given its relevance for hierarchical organizational relationships and decisions (e.g. Lakshman et al., 2014). Power distance (societal level) reflects the extent to which a society accepts the unequal distribution of power and accepts authority structures (e.g. Hofstede, 1980).

Below, we provide a description of the four countries, their economies and the importance of examining these issues in these cultural contexts. We follow this with a literature review of the downsizing phenomenon and a discussion of how factors that motivate CEOs to downsize, such as performance-linked bonuses and deferred stock compensation, affect employee perceptions. We also discuss how factors that inhibit CEOs to downsize, such as loss of human capital, are likely to impact the perceptions of survivors and victims. Drawing from this review and theory, we develop hypotheses. We then turn to a description of the study's methodology, results and finally a discussion of its implications for further research and managerial learning.

COUNTRY CONTEXTS

It is important to choose cultures that are different on several critical dimensions to test for convergence or divergence effects (Bailey & Spicer, 2007). We chose France, India, Turkey and Vietnam for this study as they belong to different society clusters and thus represent different cultural profiles (House et al., 2004). GLOBE researchers classified France into the Latin Europe cluster, India into the Southern Asia cluster, and Turkey into the Middle East cluster (see House et al., 2004). Although Vietnam was not included in GLOBE's cluster classification, it can be reasonably argued to fit into the Confucian Asia cluster by virtue of a relatively long Chinese influence, but definitely not the Southern Asia cluster (Hoang, 2008).

Countries in the Latin Europe cluster score low on humane orientation, institutional collectivism and in-group collectivism, and have moderate levels of power distance and uncertainty avoidance (see Table 1). In contrast, countries in the Southern Asia cluster score high on humane orientation and in-group collectivism, but have moderate levels of institutional collectivism, power distance and uncertainty avoidance (see Table 1 for additional details). Despite crucial cultural differences, we expect people in all four countries examined here to react negatively to downsizing motivated by compensation, and for survivors in all four countries to have lower commitment as a result of such downsizing.

France: Although downsizing is legal in France, as evidenced by the increasing number of social plan filings with the Labor ministry (de Saint-Julien, 2007), the labor laws and associated procedures are quite complicated (Mohan & Chen, 2010). Compared to the U.S.A., the level of job security is much higher in France, and social attitudes favor job security measures for employees over strategic options for businesses (Lakshman et al., 2014).

India: While studies show positive changes in the economic environment, with increased munificence, improved infrastructure and institutional support, and lower regulatory barriers, the incidence of downsizing is also on the increase (e.g. Lakshman et al., 2014). Despite its prevalence, very few studies examine issues surrounding downsizing.

Turkey: Turkey's economy has increasingly integrated into the world economy since their government's decision to liberalize in 1980. Because of this policy shift, private sector and state-owned enterprises had to confront economic pressures to develop more efficient, productive and competitive organizational structures. Ertürk (2007) reported that although most companies preferred downsizing to adapt to the fundamental structural changes imposed by the economic crisis of 2001, very few studies have examined issues surrounding downsizing.

Vietnam: Downsizing state-owned enterprises has been a component of macro-economic reforms and an indicator of Communist party and government commitment to such reform policies (Thayumanavan, 2001). Despite this common practice, research on downsizing is almost absent (see Rama, 2002 for an exception). Additionally, Vietnam's export-oriented economy is subject to global economic fluctuations such as the financial crisis and subsequent slowdown of recent years, making it subject to more frequent layoffs. Comparing data from such culturally/institutionally contrasting countries would help us gain insights into creating more cross-nationally inclusive models of downsizing and CSR.

LITERATURE REVIEW AND HYPOTHESES

Downsizing. Downsizing (e.g. Cascio, 1993) is typically designed to improve organizational efficiency, productivity and/or competitiveness. The relationship between determinants of downsizing (e.g. the motivating and inhibiting factors described earlier) and its consequences (e.g. CSR perceptions) has never been examined in previous research. However, the literature has examined survivors' and victims' reactions to downsizing, including consequences of downsizing on ongoing behaviors in organizations. This literature suggests that layoffs evoke a variety of psychological states in survivors, including job insecurity, anger and relief (Brockner, Grover, Reed & DeWitt, 1992).

Such psychological states are manifested in work-related domains such as performance, motivation, satisfaction, commitment and organizational citizenship behaviors ((OCBs)—important extra-role behaviors that are not mandatorily required) (Mishra & Spreitzer, 1998). What is surprising, however, is that some survivors respond by feeling more insecure, whereas others feel increased security (Cascio, 1993). While some feel distressed, others feel energized (Emshoff, 1994). While some increase their efforts after the downsizing, others decrease or show no change in their efforts (Brockner et al., 1992). Some survivors increase their OCBs while others show reduction in their citizenship (Naumann, Bennett, Bies & Martin, 1998) or even intentions to quit (Kim, 2009). We suggest that survivors in firms where CEOs were motivated to downsize via compensation are likely to feel insecure, distressed and reduce their OCBs, whereas survivors in other firms experience positive outcomes.

CSR and Downsizing. Consistent with the literature, we define CSR as the commitment of businesses to contribute to sustainable economic development, while acting as a good corporate citizen by balancing the interests of multiple stakeholders such as employees, the local community, the environment and society at large (Carroll, 2004). Although the terms ethics and CSR have different meanings, CSR is a broader construct and the ethical dimension is common to both concepts (Cacioppe, Foster & Fox, 2007). It is necessary for a downsizing decision to be ethical for it to be also seen as socially responsible. However, being ethical (micro focus) is not sufficient for the downsizing to be rated high on CSR (macro focus; see Cacioppe et al., 2007). Other issues, such as balancing the needs of multiple stakeholders, minimizing the negative impact on the natural environment or the local communities and so forth, are key concerns in the CSR realm (Lakshman et al., 2014).

In our examination of the relationship between determinants of downsizing and CSR perceptions of the downsizing action, we make the following arguments drawn from the literature. First, people are likely to think about who is responsible for the plight of many who are downsized and subject to insecurity/uncertainty. The CEO decision to downsize is thus a critical variable influencing people's reactions. Previous research has shown that an individual's' attribution of responsibility for the downsizing has a key impact on his/her perceptions of whether or not the action is socially responsible (Lakshman et al., 2014). However, most downsizing contexts are fraught with uncertainty, making it difficult to determine who is responsible for the downsizing. As noted earlier: a) there are several motivating factors leading top managers to make the downsizing decision; b) a positive relationship exists between equity portfolio incentives of CEOs and their lay-off decisions (Brookman et al., 2007); and c) there is an institutionalized belief among top executives that downsizing announcements are associated with positive stock returns (e.g. De Meuse et al., 2004). Research also suggests that the price of a company's stock usually goes up after the announcement of a downsizing initiative (e.g. Brookman et al., 2007), although it eventually declines in subsequent periods, accompanied by a loss in profitability or productivity (e.g. Cascio, Young & Morris, 1997).

On the contrary, however, layoffs cause damage to CEOs' prestige, power and influence, and result in a decline in accounting performance-linked bonuses and loss of firm-specific human capital (Iverson & Zatzick, 2011). Although senior managers could be under serious pressure from stockholders to improve performance through downsizing (e.g. Cascio et al., 1997), the lay-off decision could be difficult for CEOs with relatively longer tenure who are entrenched, making them less willing to make such difficult decisions (Brookman et al., 2007). Therefore, new CEOs are sometimes hired to implement downsizing and these new CEOs are more likely to announce layoffs (Brookman et al., 2007). In the presence of this confusing mix of motivational and inhibiting factors, it is therefore difficult to determine the responsibility of leaders for the downsizing decision.

CSR Perceptions. Our focus on CSR perceptions, in this study, pertains to how people perceive the downsizing initiative to be fair, ethical, legitimate and socially responsible. Thus, our focus is on whether or not the downsizing is socially responsible, and not on overall CSR ratings of the firm in question. Among the motivating variables, there are some that are likely to have negative public reaction and some that could elicit a neutral, if not positive, reaction. Specifically, if the CEO decision to downsize is primarily motivated by decline in performance-linked bonuses for instance, employees are likely to react negatively to such a situation with heightened perceptions of stress, uncertainty, insecurity, lack of energy (e.g. Emshoff, 1994) and reduced levels of effort, commitment and OCBs (e.g. Naumann et al., 1998). Such a negative reaction could be stronger if these employees do not see any scope for performance improvement or successful organizational turnaround. Cascio et al. (1997) differentiated between pure employment downsizing and that associated with asset restructuring (new strategy) and identified that the latter type of downsizing is more likely to lead to successful turnaround than the former. Downsizing decisions primarily motivated by decline in performance-linked bonuses are more like the pure employment downsizing case in the work of Cascio et al. (1997). Thus, in the absence of clear indications of performance turnaround, employees are likely to see such CEO decisions as manifestations of greed and thereby as socially irresponsible. Thus:

> ***Hypothesis 1****: The extent to which CEO downsizing decisions are perceived to be influenced by decline in performance-linked bonus is negatively related to perception of CSR.*

Alternatively, if the CEO decision to downsize is motivated by a contractually expected increase in contingent stock compensation (*deferred compensation*), employees are likely to see a way out of the uncertainty/insecurity and stress in the not too distant future. In other words, employees may categorize this type of downsizing as one that is associated with asset restructuring (Cascio et al., 1997) and perhaps a renewed strategy for turnaround. Therefore, downsizing decisions motivated by such deferred compensation are possibly evaluated positively. More importantly, unlike in the previous case, this situation is not likely to be seen as a manifestation of greed. Thus:

> ***Hypothesis 1a****: The extent to which CEO downsizing decisions are perceived to be influenced by deferred compensation is positively related to perception of CSR.*

One of the critical factors in successful turnarounds is the retention or loss of firm-specific human capital that possesses the requisite experience and knowledge in the key business domains (Iverson & Zatzick, 2011). Researchers suggest that maintaining survivor commitment after downsizing is very important especially for organizations that rely on human capital for competitive advantage (Kim, 2009). However, when the firm stands to lose some of its critical firm-specific human capital, employees are likely to react negatively and perceive heightened levels of stress, uncertainty and loss of energy. More importantly, employees may not see a clear path towards successful organizational turnaround. Thus:

> ***Hypothesis 1b****: The extent to which CEO downsizing decisions are perceived to result in loss of firm-specific human capital is negatively related to perception of CSR.*

Continued poor performance of firms often results in intense institutional pressures to engage in asset-restructuring types of downsizing (Brookman et al., 2007). Brookman et al. (2007) suggest that firms with relatively more independent boards monitor CEOs more closely, perhaps as a result of being attentive to these institutional pressures, and this results in a higher likelihood of layoffs. If the CEO decision to downsize is mainly motivated by external pressure from institutional investors, employees are likely to think that the CEO had been relatively helpless and perhaps forced to downsize. Employees and others may see this as poor management leading to poor performance rather than as a manifestation of greed. This would trigger relatively more neutral, if not positive reactions and may not result in the negative consequences for effort, or commitment as in the previous situations. Thus:

> ***Hypothesis 1c****: The extent to which CEO downsizing decisions are perceived to be influenced by intense pressure from institutional investors is positively related to perception of CSR*.

SURVIVOR COMMITMENT

Survivors are probably the most important group in terms of making a difference between success and failure in downsizing. Their attitudes have a significant impact on future productivity (Brockner et al., 1992). Some researchers suggest that the negative impact on surviving employees is one of the major contributing factors to the failure of downsizing as a strategy for turnaround (Ranft & Ranft, 1999).

Earlier studies have found that while some survivors are energized, feel more security, increase efforts and have higher commitment, other survivors have the exact opposite feelings and attitudes (e.g. Cascio, 1993). Attributions of top management responsibility for the company's downsizing initiative may play a key role in distinguishing between these two sets of survivors (Lakshman et al., 2014). Thus, we examine the role of CEO responsibility variables, after controlling for the effects of justice variables. We suggest that when downsizing is motivated by compensation, in general, survivors may think that top managers are engaging in actions to benefit themselves and are less concerned about employees (Ranft & Ranft, 1999). Specifically, when survivors think that downsizing is motivated by a decline in accounting performance-linked bonus, they are likely to perceive the action to be determined by the short-term possibility of increasing performance and the performance-linked bonus. Thus, concerns about future (long-term) organizational performance and their own survival will remain salient. Therefore, when survivors perceive the CEO downsizing decision to have been motivated by decline in performance-linked bonus one would expect them to experience negative emotions and heightened uncertainty about the future and their treatment within the firm. This may result in lower commitment and reduced OCBs and trigger new job searches.

> ***Hypothesis 2****: The extent to which CEO downsizing decisions are perceived to be influenced by decline in performance-linked bonus is negatively related to survivor commitment.*

However, when survivors perceive the CEO downsizing decision to have been motivated by an anticipated increase in *deferred compensation,* they are likely to have relatively more positive reactions than in the previous case. Deferred compensation in the form of stock options is contingent on investors' expectations of continued improvements in firm performance and thus is longer-term in nature than accounting performance-linked bonuses. Thus, when deferred compensation drives downsizing, survivors may not have lower levels of commitment, work effort and OCBs.

> ***Hypothesis 2a****: The extent to which CEO downsizing decisions are perceived to be influenced by deferred compensation is positively related to survivor commitment.*

In the context of loss of firm-specific human capital, however, survivors possibly experience heightened discomfort at the loss of key individuals critical to the firm's business. This would make them experience a loss of energy and lower morale, all of which lowers their commitment.

> ***Hypothesis 2b****: The extent to which CEO downsizing decisions are perceived to result in loss of firm-specific human capital is negatively related to survivor commitment.*

Finally, with reference to the CEO downsizing decision as a result of institutional pressure, survivors are expected to feel less resentful of top management and their potentially greedy motivations than in other cases. Although survivors may still have concerns about top management's ability to bring about successful turnaround, they are not likely to have strong negative reactions in such situations.

> ***Hypothesis 2c****: The extent to which CEO downsizing decisions are perceived to be influenced by intense institutional pressure is positively related to survivor commitment.*

VICTIMS' PERCEPTIONS OF FAIRNESS

We focus on victims' perceptions of fairness mainly because perceptions of commitment are not likely to apply to people who are no longer in the organization. Previous research has noted that survivors and victims both perceive the downsizing as fair when procedural and distributive justice are high. However, survivors and victims may react differently to CEO responsibility variables. We argue that top management responsibility for the downsizing is a critical factor for survivors, but this may not be the case for victims. Victims are not likely to worry about the loss of firm-specific human capital or about the intensity of institutional pressures, especially when the organization provides them with assistance in transitioning to a new job. Thus, with respect to victims' reactions, our principal argument is that these are very different from survivors'. In other words, victims' perceptions of fairness are not likely to be dependent on CEO responsibility variables, beyond the impact of justice variables.

> ***Hypothesis 3****: Survivors and victims differ in their reactions to downsizing motivated by a) decline in performance-linked bonus, b) deferred compensation, c) institutional pressure, and d) downsizing resulting in loss of firm-specific human capital.*

POWER DISTANCE AND CONVERGENCE/DIVERGENCE IN EMPLOYEE REACTIONS

We expect the relationships in the above hypotheses (1-3) to be in the same direction across all four countries in this study, although the magnitude of the effect sizes may vary somewhat as a function of power distance, for the following reasons. Although a number of researchers believe in the role culture plays in the formation of CSR perceptions, a growing number of studies point to the convergence of CSR perceptions, while still pointing to some minor divergences (e.g. Hartman, Ruban & Dhanda, 2007; Jamali, Sidani & El-Asmar, 2009). First, although Hartman et al. (2007) expected to see a difference in the way in which CSR activities are communicated by U.S.A. and European companies, they found both similarities and differences. Broadly, although they did not expect European companies to use financial justifications for CSR as much as others, they found that they do use financial justifications in addition to social responsibility reasons. These and other studies point to increasing evidence of convergence in ethics and social responsibility judgments, with some divergence effects as well.

Employees around the world may feel that top managers do not pay for their mistakes. Relative to external pressure, when the downsizing is believed to be a result of CEO compensation, it is not likely that employees in any culture would consider it as socially responsible, especially if they believe that top management could have pursued an alternative course of action. Therefore, these employee feelings possibly vary in magnitude and intensity across cultures, rather than in direction. Of the cultural value dimensions (Hofstede, 1980), we feel that power distance is the major variable of interest that could potentially bring out these differences (Lakshman et al., 2014). Power distance is relevant because it pertains to the nature of hierarchical relationships and authority structures (Hofstede, 1980) and thereby influences employee perceptions of top management decisions. Power distance can interfere in the transparency of processes, the value of timing of downsizing announcements and the participation and involvement of employees, all of which are known to affect employee attitudes in the downsizing process. In high power distance cultures, employees are more likely to accept lower levels of transparency, participation and involvement in processes surrounding downsizing. Although we believe that downsizing influenced by CEO compensation, or downsizing resulting in loss of firm-specific human capital, might result in negative perceptions of CSR across the four countries examined here, we do think that power distance orientation could be the variable that leads to some divergence effects across cultures. Similarly, we expect survivor attitudes and the difference between survivors and victims to be convergent across the four cultures. We present a summary picture of our hypotheses in Figure 1.

> ***Hypothesis 4****: The associations of the independent variables in this study (i.e. CEO compensation factors, loss of firm-specific human capital and external pressure) with the dependent variables (CSR perceptions, survivor commitment, victims' perceptions of fairness) will be in the same direction in all four countries, although the magnitude of the effect sizes will be different as a result of differences in power distance.*

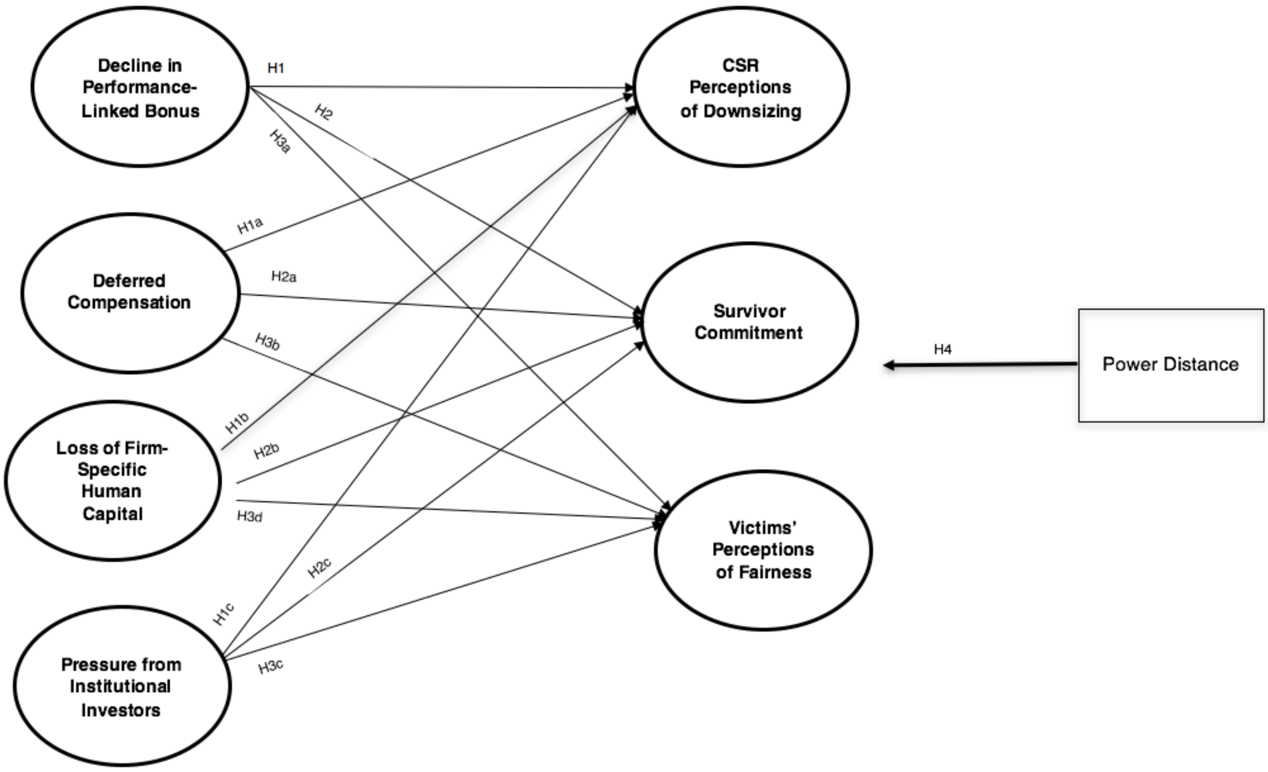

Figure 1. Diagrammatic representation of hypotheses

METHOD

Study Design and Sample. A comprehensive review of the downsizing literature suggests that extant research has predominantly used designs that limit the ability to infer causality (Datta et al., 2010). Thus, to complement extant research and overcome inherent weaknesses, we conceived of an experimental design to test our hypotheses. We tested hypotheses using a 2x2x2x2, between-subjects experimental design. The factors that were crossed in this experimental design were: 1) decline in performance-linked bonuses as a result of poor performance preceding the downsizing decision (yes or no); 2) pressure leading to downsizing (internal—deferred compensation—or external—institutional pressure); 3) loss of firm-specific human capital because of downsizing (yes or no); and 4) role (survivor vs. victim).

We developed scenarios to cross the above factors, paper and pencil versions of which were then randomly distributed to: a) 200 MBA students in a top business school in France, b) 212 executives enrolled in an executive education program in a premier business school in India, c) 223 executives enrolled in an executive education program in a premier business school in Turkey and d) 197 participants of an executive education program in a top business school in Vietnam. In each of these cases, we solicited participation from all participants in their respective programs, but then randomly assigned them to different experimental conditions. For France, Turkey and Vietnam, the scenarios were first designed and written in English,then translated into the local language and then back translated into English for verification. We used the English version of the scenarios in India because it is the most appropriate. The experiment took 25 minutes on average to complete and subjects were not provided with any compensation to participate in the research. We provide sample characteristics in Table 1.

S. No.	Country	Cluster Membership in GLOBE and Characteristics	N	Years of Experience		Category	Gender		Power Distance Orientation	
				Mean	Sd		Male	Female	Mean	Sd
1	France	Latin Europe (L-HO; L-IC; L-I_GC; M-UA)	200	8.09	3.50	MBA Students	103	95	2.13	0.59
2	India	South Asia (H-HO; M-IC; H-I-GC; M-UA)	212	11.10	4.25	Executives	174	36	2.74	0.89
3	Vietnam	Confucian Asia (M-HO; H-IC; H-I-GC; M-UA)	197	3.65	2.26	Executives	78	115	2.77	0.44
4	Turkey	Middle East (M-HO; M-IC; H-I-GC; L-UA)	223	10.31	8.48	Executives	144	79	2.40	1.04
			832	8.44	6.88		499	325	2.53	0.79

HO-Humane Orientation; IC-Institutional Collectivism; I-GC-In-Group Collectivism; UA-Uncertainty Avoidance

Table 1 - Sample characteristics

The document that was distributed to each subject contained one scenario, which was followed by a questionnaire. The questionnaire contained a number of manipulation check questions to assess how well the treatments worked, followed by scale measures of the dependent variables. After reading the scenario, the subjects responded to a number of manipulation checks and then to questions pertaining to their perceptions of commitment (or fairness) and social responsibility of the company involved in the downsizing. A subset of these questions were different for survivors and victims, with survivors responding to a set of questions on their commitment and victims responding to a set of questions on perceived fairness.

Scenarios and Manipulations. We used 16 scenarios, each representing one of the unique conditions in this orthogonal experimental design. Subjects were asked to read a passage and then respond to the questions that followed. The passage containing the scenario clearly informs the subject about whether they were laid off or not by the company that employed them. The passage describes the employer as one that had quick growth since its inception but had recently experienced losses. The passage then informs subjects that the CEO had decided to downsize in an effort to cut costs and increase effectiveness. Following this, the passage then goes on to describe the motivating and inhibiting factors unique to each scenario, as described in the following manipulations.

Performance Bonus Manipulation (Yes or No). In the “yes” condition, subjects were told that some informed people think that the downsizing decision by the CEO may have been influenced by a decline in the CEO’s performance-linked cash bonus as a result of the losses leading to the downsizing. In the “no” condition, nothing was mentioned about performance-linked bonuses.

Pressure for Downsizing Decision Manipulation (Internal vs. External). In the “internal pressure” condition, subjects were informed that some informed people think that the downsizing decision by the CEO may have been influenced by the expected (contractual) increase in grant of stock options for the CEO if the downsizing helped in increasing stock value. In the "external pressure" condition, subjects were told that some informed people think that the downsizing decision by the CEO may have been influenced by intense pressure from institutional shareholders who are worried about the declining value of the company's stock.

Loss of Firm-specific Human Capital Manipulation (Yes or No). In the "yes" condition, subjects were informed that the CEO's downsizing decision could lead to loss of some key people with critical knowledge and experience in the business, which could make it difficult to improve performance. In the "no" condition, subjects were informed that the CEO's downsizing decision does not involve a loss of key people with critical knowledge and experience in this business, but rather reflects a new strategic approach.

Role Manipulation. The scenario described the subject as either one of the employees being laid off (victim) or one of those who were not part of the lay-off (survivor).

All scenarios provided the same information about how the downsizing decision was handled in terms of implementation, to control for procedural and distributive justice (Brockner et al., 1992). To accomplish this, the scenario informed the subject that either a) they were invited in to the manager's office and provided with an explanation of the decision-making process and information on transition assistance, or b) all the downsized employees had been invited for such a purpose (Lakshman et al., 2014).

External Validity. We took a number of steps to ensure external validity by designing for and assessing the "reality" of the experimental conditions, as is common in such designs (e.g. Cho, Martens, Kim & Rodrigue, 2011). First, as is evident from our literature review, we carefully developed our scenarios based on real-life situations. Next, to ensure respondents perceived them as real and typical in the current business environment, we used two questions that addressed this issue. To the first question addressing the issue of how common it would be for a company to find itself in a situation as described in the scenario, the responses were either at 3 or higher in exactly 87.3% of the cases, with a median response of 4 (on a five-point scale). To the next question, asking the respondents how typical events in the scenario were in the current business environment, the responses were again at 3 or higher in exactly 86.3% of the cases, with a median response of 4. Thus, our scenarios were quite high in realism (external validity), while also giving us excellent control for internal validity.

Manipulation Checks. Subjects were first asked whether or not they were being laid off, with a yes/no option, to check the role manipulation. We then used two questions each to check each of the other manipulations on a five-point scale varying from "not at all" to "extremely". For the performance bonus manipulation, the first question asked them if they thought that the decline in the performance-linked bonus was responsible for the downsizing decision, and the second asked them if they believed that the downsizing decision was influenced by the performance-linked bonus. To check the pressure for the downsizing decision manipulation, we asked two sets of questions, one pertaining to deferred compensation, and the other pertaining to institutional pressure. First, subjects were asked about the degree to which they thought the possible increase in deferred compensation influenced the decision and the degree to which they thought the downsizing decision was a result of the anticipation of an increase in deferred compensation. Next, subjects were asked to indicate the degree to which they thought the downsizing decision was a result of intense pressure from institutional shareholders and the degree to which they believed that external pressure from institutional shareholders influenced the downsizing decision. To check the loss of firm-specific human capital loss manipulation, subjects were asked to indicate the degree to which they thought the company would lose people with critical knowledge and experience of the business and the degree to which they believed that the downsizing would result in loss of such people.

Measures—Dependent variables. We used five-point scales (where 1 = strongly disagree and 5 = strongly agree) drawn from the literature (Lakshman et al., 2014) for the dependent variables in this study. First, *CSR perceptions* (α = 0.83) were measured with seven items that assessed the degree to which subjects thought the firm's actions were favorable, ethical, legitimate, socially responsible, etc. (e.g. to what extent do you think the downsizing decision was socially responsible?). Some items were reverse scored. Second, v*ictims* responded to three questions assessing their *perceptions of fairness* (α = 0.85) of the treatment meted out to them. They indicated the degree to which the decision to lay them off was ethical, appropriate and fair (e.g. how ethical was it for company X to lay you off?). Finally, for *survivor commitment* (α = 0.74), survivors indicated the degree to which they were satisfied with their treatment during the downsizing, the degree to which they would be comfortable continuing to work for the firm, the degree to which they would start looking for other jobs and the degree to which they would be motivated to contribute their best (e.g. how motivated would you be to contribute your best?).

Independent variables. We used continuous measures of the treatment variables as the independent variables in the regressions. Decline in performance-linked cash bonuses were measured with two items (α = 0.87) described above. Internal pressure, measured as the degree to which deferred compensation influenced the decision, was measured with two items (α = 0.82). External pressure, measured as the degree to which institutional investors pressured the downsizing decision, was measured with two items (α = 0.86). Loss of human capital was measured with two items (α = 0.84). The role variable was dichotomous, which was coded 1 (victim) or 2 (survivor).

Control variables. We included several control variables in our study, such as the individual difference of attributional complexity (α = 0.81), using a 28-item measure to assess the degree to which respondents think about complex external and internal attributions for events (see Fletcher, Danilovics, Fernandez & Reeder, 1986), and hence relevant to control in this context. Respondents rated the items on a Likert scale (where 1 = strongly disagree and 5 = strongly agree). Additionally, we controlled for distributive and procedural justice associated with the downsizing implementation (Kim, 2009) and for values of respondents (e.g. Lakshman et al., 2014). For distributive justice, subjects were asked to indicate the degree to which appropriate criteria were used in deciding who to lay off. For procedural justice, subjects were asked to indicate the degree to which appropriate procedures were used in the lay-off process.

Respondent values were measured in two different ways to assess reliability. First, respondents were asked to rank seven different values that varied in importance to them, with the most important to them being ranked 1 and the least 7. Second, they rated each of these seven values on a Likert scale (where 1 = strongly disagree and 5 = strongly agree) indicating the degree to which these values were important to the respondent. We compared the means of the continuous measures of the two values (second from above) with the ranks (first from above) to establish reliability.

We found that respondents who ranked “bottom line results orientation” as the most important (Rank =1) indicated to a higher degree (M = 4.36) that this value was important to them than those that ranked it the least important (M = 2.80 for rank 7, F =11.57, p<0.000). Similarly, respondents who ranked “employee well-being” as the most important (Rank = 1) indicated to a higher degree (M = 4.94) that this value was important to them than those that ranked it the least important (M = 3.45 for rank 7, F = 4.80, p<0.000). Thus, our approach to measuring these values is reliable. We also controlled for the cultural value dimension of power distance (Hofstede, 1980).

RESULTS

Manipulation Checks. For the performance-linked bonus manipulation, although subjects in the “yes” condition perceived to a higher degree (M = 2.42) that the downsizing decision was influenced by these bonuses than in the “no” condition (M = 2.31, F = 1.78, ns), this difference was not statistically significant. For the pressure for downsizing manipulation, subjects in the “internal” condition perceived to a higher degree (M = 2.65) that deferred compensation influenced the downsizing decision than subjects in the “external” condition (M = 2.35, F = 16.81, p < 0.001). Additionally, subjects in the “external” condition perceived to a higher degree (M = 3.75) that institutional pressure resulted in the downsizing decision than in the “internal” condition (M = 3.45, F = 15.02, p < 0.001). For the loss of human capital manipulation, subjects in the “yes” condition perceived to a higher degree (M = 3.35) that the downsizing would result in loss of firm-specific human capital than in the “no” condition (M = 2.79, F = 52.42, p < 0.001). For the role manipulation, subjects in the victim condition identified themselves as victims and subjects in the “survivor” condition identified themselves as survivors in a significant majority of the cases (Chi-square = 585.35, p < 0.001). Thus, satisfied with the manipulation checks, we tested the hypotheses using hierarchical regressions.

Hypotheses Tests. Table 2 presents the means, standard deviations, correlations and reliability indices for the variables. Cronbach’s alpha for the various scales are presented along the diagonal. We present the results of the hypotheses tests in Tables 3, 4 and 5. We also present a summary of the results of the hypotheses tests in Table 6.

S. No	Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1	**Value results orientation**	3.78	1.20	----												
2	**Value employee well-being**	3.96	1.12	-.13**	----											
3	**Distributive justice**	3.09	.92	.03	-.02	----										
4	**Procedural justice**	3.08	.98	.06	.03	.64**	----									
5	**Power distance orientation**	2.53	.79	.02	.05	.02	-.00	**.60**								
6	**Attribution complexity**	3.48	.42	.17**	-.06	.05	.05	-.24***	**0.81**							
7	**PLB**	2.37	1.07	.08*	-.06	-.08*	-.08*	-.11**	.03	**0.87**						
8	**DC**	2.49	1.05	.07	-.09*	-.04	-.04	-.09*	.07	.62***	**0.82**					
9	**HCL**	3.05	1.13	.07	.05	-.19***	-.18***	.02	.01	.20***	.15***	**0.84**				
10	**External pressure**	3.59	.97	.10**	-.02	.05	.04	-.09*	.15**	.14**	.11**	.17**	**0.86**			
11	**CSR perceptions**	2.72	.70	.04	-.05	.46***	.43***	.09*	-.01	-.10*	-.05	-.17**	.04	**0.83**		
12	**Victims' fairness perceptions**	2.41	.87	.10*	-.14**	.40***	.41***	.03	.05	-.10*	-.03	-.29***	.06	.61***	**0.85**	
13	**Survivor commitment**	2.69	.89	-.04	-.03	.21***	.18**	.07	-.02	-.23***	-.11*	-.25***	-.01	.40***	-----	**0.74**

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$ (PLB = Performance-Linked Bonus; DC = Deferred Compensation, HCL = Human Capital Loss)

Table 2 - Means, standard deviations, correlations and scale reliabilities (along diagonal)

Variables entered	**Step I β**	**Step II β**	**Step III β**	**Step IV β**	**Step V β**	**Step VI β**	**Step VII β**
Country	.05	.05	.05	.05	.06	.06	.32**
Attributional complexity	-.02	-.02	-.02	-.02	-.02	-.02	-.01
Value employee well-being	-.04	-.05	-.05	-.05	-.04	-.04	-.05
Value results orientation	.02	.02	.02	.02	.02	.03	.04
Distributive justice	.32***	.32***	.32***	.32***	.31***	.31***	.31***
Procedural justice	.22***	.21***	.21***	.21***	.20***	.20***	.20***
Power distance orientation	.08**	.08*	.08*	.08*	.08*	.08*	.32**
Deferred compensation		-.02	.02	.01	.02	.02	.02
Performance-linked bonuses			-.06	-.07†	-.06	-.06	-.05
External pressure				.04	.06	.06	.06
Human capital loss					-.08**	-.08*	-.08*
Role						.02	.02
Country X power distance							-.39*
R^2	0.26***	0.26***	0.26***	0.26***	0.27***	0.27***	0.28***
ΔR^2		0.00	0.00	0.00	0.01*	0.00	0.01*

Table 3 - Regression on CSR perceptions

Variables entered	**Step I β**	**Step II β**	**Step III β**	**Step IV β**	**Step V β**	**Step VI β**	**Step VII β**
Country	-.21***	-.21***	-.20***	-.20***	-.19***	.16	-.18***
Attributional complexity	-.04	-.04	-.05	-.05	-.05	-.03	-.04
Value employee well-being	-.01	-.02	-.02	-.02	-.01	-.02	-.01
Value results orientation	-.06	-.06	-.05	-.05	-.04	-.02	-.03
Distributive justice	.14*	.13*	.13*	.13*	.11†	.10†	.10†
Procedural justice	.11†	.11†	.09	.09	.08	.08	.08
Power distance orientation	.09†	.08†	.07	.07	.07	.40**	.57***
Deferred compensation		-.09*	.05	.05	.06	.05	.06
Performance-linked bonuses			-.23***	-.23***	-.21***	-.20**	-.20***
External pressure				.01	.03	.04	.04
Human capital loss (HCL)					-.17***	-.17***	.33*
Country X power distance						-.52*	----------
HCL X power distance							-.73***
R^2	0.10***	0.10**	0.14***	0.14***	0.16***	0.17***	0.19***
ΔR^2		0.01*	0.04***	0.00	0.03***	0.01*	0.03***

Table 4 - Regression on survivor commitment

Variables entered	**Step I β**	**Step II β**	**Step III β**	**Step IV β**	**Step V β**	**Step VI β**
Country	-.07	-.07	-.07	-.06	-.05	.22
Attributional complexity	.01	.01	.00	.00	.00	.01
Value employee well-being	-.11*	-.11*	-.11*	-.11*	-.10*	-.11*
Value results orientation	.06	.07	.07	.07	.08†	.09†
Distributive justice	.23***	.23***	.22***	.22***	.20***	.19***
Procedural justice	.26***	.26***	.26***	.25***	.23***	.24***
Power distance orientation	.05	.04	.04	.04	.05	.30*
Deferred compensation		-.03	.03	.03	.04	.04
Performance-linked bonuses			-.09	-.09	-.07	-.06
External pressure				.04	.08	.08†
Human capital loss					-.21***	-.21**
Country X power distance						-.39†
R^2	0.22***	0.22***	0.23***	0.23***	0.27***	0.28***
ΔR^2		0.00	0.00	0.00	0.04***	0.01†

Table 5 - Regression on victims' perceptions of fairness

Hypothesis	IV and Measurement	DV and Measurement	Expected Relationship	Empirical Support
1	Performance-linked bonus (two-item scale; α=.87)	**CSR Perceptions** (seven-item scale; α=.83; from Lakshman et al., 2014)	Negative	Not supported
1a	Deferred compensation (two-item scale; α=.82)		Positive	Not supported
1b	Loss of firm-specific human capital (two-item scale; α=.84)		Negative	Supported
1c	Pressure from institutional investors (two-item scale; α=.86)		Positive	Not supported
2	Performance-linked bonus (two-item scale; α=.87)	**Survivor Commitment** (four-item scale; α=.74; from Lakshman et al., 2014)	Negative	Supported
2a	Deferred compensation (two-item scale; α=.82)		Positive	Not supported (support for negative relationship)
2b	Loss of firm-specific human capital (two-item scale; α=.84)		Negative	Supported
2c	Pressure from institutional investors (two-item scale; α=.86)		Negative	Not supported
3	Differences between survivors and victims	(for same IVs and DVs)	Difference	Supported
4	Moderating effect of power distance		Same direction of relationships, but different strengths	Supported

Table 6 - Summary of support for hypotheses

The results of the tests of hypotheses (1, 1a, 1b and 1c) pertaining to CSR perceptions are shown in Table 3. As can be seen in Step I of the regression, the control variables of power distance, procedural and distributive justice are positively related to perceptions of CSR provided by all respondents. The CEO responsibility variable of *deferred compensation*, entered in Step II is negatively (β = -0.02, ns) related to CSR perceptions but is not significant and therefore does not support Hypothesis 1. As can be seen in Step III, although *performance-linked bonus* is negatively related (β = -0.06, ns) to CSR perceptions, this relationship is not significant and fails to support Hypothesis 1a. However, Hypothesis 1b is clearly supported in that, the loss of firm-specific human capital, entered in Step V, is significantly negatively related (β = -0.08, $p < 0.01$) to CSR perceptions. As can be seen in Step IV, CSR perceptions are not related to institutional pressure-driven downsizing decisions, although it is in a direction consistent with the hypothesis. Thus, Hypothesis 1c is not supported.

The results for survivor commitment are shown in Table 4. Hypothesis 2 is supported, with the decline in performance-linked bonus variables significantly negatively related (β = -0.23, $p < 0.001$) to survivor commitment, as seen in Step III. Hypothesis 2a is not supported, with the relationship between *deferred compensation* and survivor commitment being significantly negative (β = -0.09, $p < 0.05$), in a direction opposite to that hypothesized. Thus, regardless of the expected future turnaround, survivors do not see deferred compensation-motivated downsizing favorably, contrary to our expectations. Next, as can be seen in Step IV, external pressure does not seem to be significantly related to survivor commitment, failing to support Hypothesis 2c. However, the loss of firm-specific human capital is significantly negatively related ($\beta = -0.17$, $p < 0.001$) to survivor commitment, supporting Hypothesis 2b.

The results for victims' reactions to the downsizing are shown in Table 5. As hypothesized in H3, victims' perceptions are not related significantly to any of the CEO responsibility variables, in a manner different to that for survivors. In other words, although survivor attitudes (commitment) are related to the CEO responsibility variables (as shown in Table 4), victim attitudes (fairness perceptions) are not related to any of these leader responsibility variables. Victims and survivors are similar only in their response to the loss of firm-specific human capital, with this relationship between victims' perception of fairness and loss of human capital being negative and significant ($\beta = -0.25$, $p < 0.01$).

Our Hypothesis 4 of convergence across cultures is supported, as we explain here. First, the country X power distance interaction is significantly related ($\beta = -0.39$, $p < 0.05$) to perceptions of CSR, as can be seen from Step VII in Table 3. Second, the country X power distance interaction is significantly related ($\beta = -0.52$, $p < 0.05$) to survivor commitment, as can be seen from Step VI in Table 4. Following Aiken and West (1991), we more closely investigated these interactions by examining the movement in the dependent variable for a change in one standard deviation on either side of the mean of power distance in each country (see Figures 2a, and 2b). As can be seen in both figures (2a & 2b), the slopes of the lines for all four countries are in the same direction in support of convergence. However, power distance orientation does have a differential effect on a) CSR perceptions and b) survivor commitment in that they vary in strength from one country in our study to another. The strongest impact of power distance orientation on CSR perceptions is seen in Turkey (see Figure 2a; highest slope), followed by India, France and Vietnam respectively. The strongest impact of power distance orientation on survivor commitment is seen in India (see Figure 2b; highest slope), followed by Turkey, France and Vietnam respectively. Since India and Turkey are higher in power distance orientation (Table 1), the stronger slopes for these two countries in both Figures 2a and 2b are somewhat consistent with the expectation that the higher the power distance, the stronger the slope.

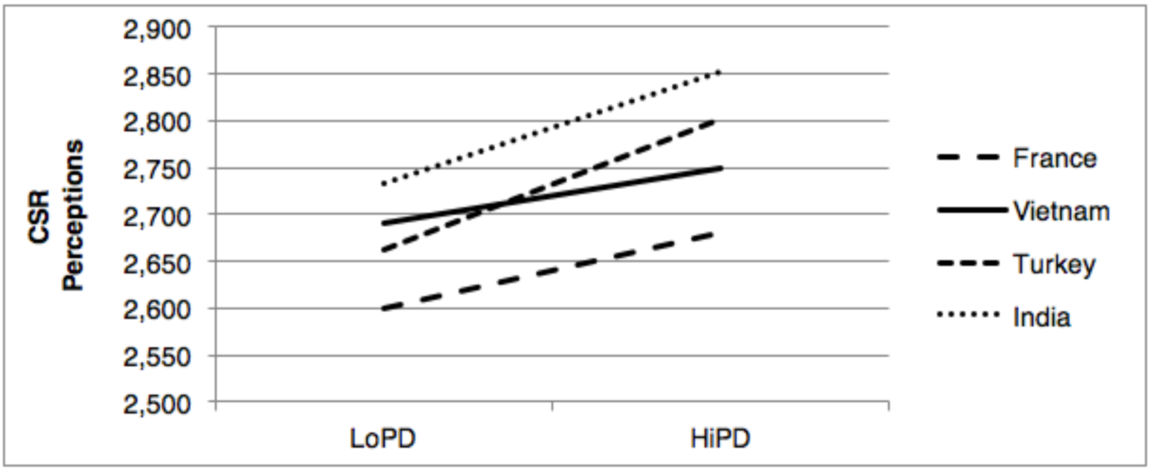

Figure 2a. Interaction of country and power distance orientation on CSR perceptions

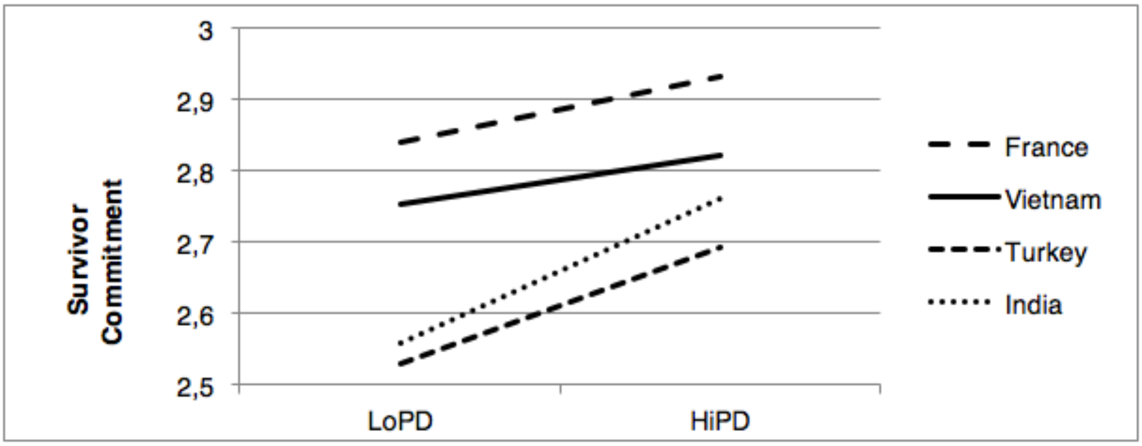

Figure 2b. Interaction of country and power distance orientation on survivor commitment

One country that defies this pattern is Vietnam, which has the highest power distance orientation in our study but the weakest slope in both interactions. However, the fact that France has the lowest power distance orientation in this study is consistent with it having a relatively weaker slope in both interactions (Figures 2a and 2b). Thus, with the exception of Vietnam, the results in the other three countries seem to be consistent with the pattern that individuals with a higher power distance orientation are more likely to accept compensation-driven downsizing as socially responsible and more likely to be committed to their organizations as survivors. Thus, there is some divergence across the four cultures in the magnitude of their reactions. Our expectation of convergence across cultures is also supported in that the country X power distance interaction is only marginally significantly related (β = -0.39, $p < 0.10$) to victims' perceptions of fairness, indicating that the differences across countries are only marginal.

DISCUSSION

Despite a growing interest in executive compensation issues (e.g. Cai et al., 2011), the CSR consequences of incentive compensation for strategies such as downsizing have never been addressed before. Our study contributes to the literature in several ways. First, we contribute by investigating CSR perceptions of downsizing in France, India, Turkey and Vietnam. Our findings are consistent with the literature's emerging consensus that the structure of executive compensation is likely to be critical for shaping CSR engagement (e.g. Fabrizi et al., 2014) and extend this consensus, in particular, to the commonly used downsizing strategy.

Second, we contribute by examining the impact of antecedents of downsizing in the form of CEO compensation variables on consequences with regard to CSR perceptions. We also examine the impact of loss of firm-specific human capital, a downsizing consequence, on CSR perceptions. Although our results show that CEO compensation-motivated downsizing decisions are not related to CSR perceptions, the loss of firm-specific human capital is strongly negatively related to perceptions of CSR. The loss of firm-specific human capital is likely to be detrimental to the "employee relations" dimension of CSR, as typically measured by public ratings, which have been shown to be negatively related to CSR (e.g.

Fabrizi et al., 2014). Pure employment downsizing (see Cascio et al., 1997) without regard to loss of firm-specific human capital can be counterproductive, not only for the desired turnaround but can also be seen as socially irresponsible by observers. The asset-restructuring mode of downsizing where firm-specific human capital is matched to strategy for the future is likely to be seen as socially responsible, while also holding a higher likelihood of success in the turnaround initiative.

We were surprised to find that CEO compensation factors are not related to perceived CSR. We reasoned that downsizing decisions made by CEOs motivated mainly by decline in performance-linked bonus are likely to be seen as “pure employment” downsizing and perhaps even as manifestations of greed, in the absence of any clear strategy for the future. On the contrary, downsizing decisions triggered by an anticipation of *deferred compensation*, we reasoned, would be seen as asset-restructuring in nature and thereby opening new windows of opportunity. Although this line of reasoning did not hold in the case of CSR perceptions, the results support our line of reasoning for perhaps the most crucial variable in our study, i.e. survivor commitment. Interestingly, survivor commitment is significantly negatively related to both compensation factors. Thus, deferred compensation is not viewed by survivors in our study as a component of “asset restructuring” or part of a new strategy for turnaround. Survivors in our study are just as likely to be demotivated and anxious about the downsizing when it is influenced by deferred compensation as much as they are when it is influenced by decline in performance-linked bonuses. Perhaps survivors see all forms of compensation as “manifestations of greed” or undesirable, to say the least.

Nonetheless, our results suggest that companies engaged in downsizing as a means of organizational turnaround need to be very careful in explaining compensation issues to survivors, if they are to succeed in the post-downsizing scenario. Some have reported that higher levels of executive compensation in firms are likely to be related to higher overall meanness scores for mistreating employees (see Cai et al., 2011). Thus, although our results do not support the negative relationship with CSR perceptions, they do suggest that CEO compensation could be a crucial factor in successfully restructuring the company. This effect is more or less the same across the four countries examined here, indicating more convergence in this regard than divergence across cultures.

One reason for the lack of a negative relationship between CEO compensation for downsizing and CSR perceptions is that downsizing is increasingly seen as inevitable across the world, with rapid growth in globalization. Another reason, perhaps, is the limitation of an experimental design in not making the downsizing real enough for the subjects. However, this argument does not hold for the other two dependent variables, i.e. survivor commitment and victims’ perceptions of fairness. Both of these dependent variables show reasonable support for our hypotheses. Additionally, we tested for realism (external validity) of the scenarios and found support for it, following recommendations in earlier research (Lakshman et al., 2014). Thus, we believe that the inevitability of downsizing may make the expected relationship between compensation and CSR perceptions weaker. This, however, may be different in countries with stronger ideologies favoring job security and attitudes against downsizing.

This study has some important managerial implications for the design of CEO compensation packages and for CEOs making downsizing decisions. CEOs making downsizing decisions need to be wary of being seen to be driven by greed and need to engage more in asset restructuring

(Cascio et al., 1997), reorganizing or efficiency-enhancing (Brookman et al., 2007) types of downsizing to preserve and protect their managerial reputations, in addition to fostering commitment among survivors in their organizations.

Our study has certain limitations applicable to experimental designs using scenarios. However, we took all measures recommended in the literature (see Cho et al., 2011) such as using and testing for realism of scenarios, utilizing theoretical frameworks for the development and testing of hypotheses, among others. We also used experienced executives, thereby matching subjects to experimental tasks (see Lakshman et al., 2014). Still, CEO compensation is a complex construct and our design simplifies the different components, which may require additional research to sort out some of the inconsistencies in our findings.

Our study adds to the evidence in favor of the importance of ethics (CSR) trumping culture, as presented by Lakshman et al. (2014). Lakshman et al, (2014) also used an experimental design to show that CEO responsibility attributions for downsizing were negatively related to ethics/CSR perceptions in a similar fashion across four countries, i.e. U.S.A., France, India and Estonia. Our findings show convergence across four cultures and some level of divergence in that the strength of the study relationships varies as a function of power distance. Thus, we point to the importance of intracultural variation and its impact on outcome variables in international business. People within a culture, especially in rapidly changing business environments (i.e. India and Vietnam), can react differently to similar business situations, thereby increasing the complexity for managers to handle. However, our results are likely to be generalizable to other countries by virtue of the support for convergence obtained here. More importantly, we make crucial contributions to the literature by examining hitherto under-examined or unaddressed issues in this context.

CONCLUSION

Downsizing continues to dominate the scene around Europe and the rest of the world, which is suffering from the consequences of the worst financial crisis to date. By examining the CSR consequences of incentive compensation for downsizing, we turn the attention of interested scholars and professionals to this very important domain. By focusing on CEO responsibility characteristics and governance mechanisms, we identify a number of interesting relationships that need to be carefully managed in practice and examined in research. Careful design of compensation packages, with complete consideration of their consequences, especially from the perspective of CSR implications are imperative. We hope that this study will be the trigger for moving away from simple debates to systematic research in this context.

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