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THE COSTS AND BENEFITS OF REORGANIZATION, RESTRUCTURING AND ORGANIZATIONAL CHANGE: FLEXIBILITY AND INERTIA PERSPECTIVES, AND ILLUSTRATIVE EVIDENCE FROM THE NETHERLANDS

RAFAEL WITTEK* & ARJEN VAN WITTELOOSTUIJN**

Introduction

During the past two decades, several waves of restructuring have swept corporate businesses and public administrations in many industrialized countries (e.g., Baumol, Blinder & Wolff, 2003). It may convincingly be argued that, for many decades now, the life cycle of management hype is shortening over time, as is the life-cycle of new products (Sorge & van Witteeloostuijn, 2004). Organization scholars follow these trends with studies on the antecedents, processes and consequences of reorganization and restructuring – or, more broadly, organizational change.¹ However, despite all these research efforts, the conclusions concerning the costs and benefits of reorganizations are still mixed.

The widespread occurrence of reorganizations, often associated with downsizing efforts, and the controversies concerning their economic and social consequences, call for thorough and up-to-date scientific reflection on this topic. With this special issue, we intend to bring together new analytical insights and novel empirical results from the fields of economics and sociology as to reorganization, restructuring and other forms of organizational change. Both disciplines have generated valuable, often complementary, but often also contradictory insights concerning the antecedents and consequences of organizational restructuring. Bringing them together in one issue, with a focus on consequences, will contribute to a clarification of theoretical approaches, and a balanced view on the issue. Moreover, in two of the four articles fresh evidence from the Netherlands will be presented. In what follows, we briefly highlight some issues that have motivated us to compile this volume.

* Rafael Wittek, University of Groningen, Faculty of Behavioural and Social Sciences, Department of Sociology, Grote Rozenstraat 31, 9712 TG Groningen, The Netherlands, e-mail r.p.m.wittek@rug.nl. Rafael Wittek gratefully acknowledges financial support by the Netherlands Organization for Scientific Research (NWO), grant number: 016.005.052.

** Arjen van Witteeloostuijn, University of Groningen, Faculty of Economics, Department of International Economics and Business Administration, P.O. Box 800, 9700 AV Groningen, The Netherlands, e-mail: a.van.witteeloostuijn@rug.nl.

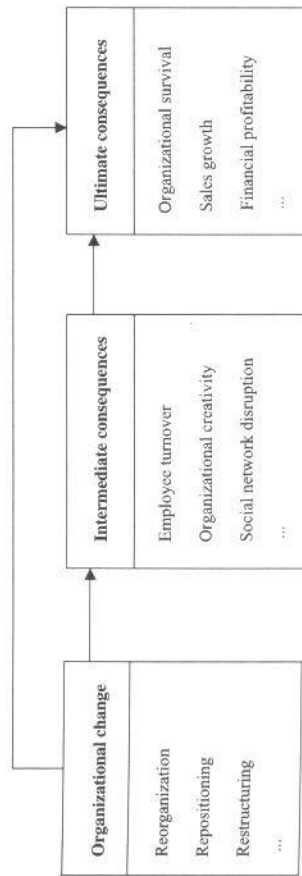
Reorganization, repositioning, restructuring and organizational change

For more than two decades, large numbers of business firms and public organizations have undergone far-reaching transformations in their external positions and/or internal structures on a regular basis. The labels used to advertise these transformations have changed frequently, but their impact is not that different from, say, fifty years ago. Defining reorganization, repositioning and restructuring can become a tedious task, both theoretically and with regard to measurement. This holds true, of course, particularly with regard to drawing the boundary to related concepts, like down- or upsizing, de-layering or up-layering, et cetera. Restructuring may involve only minor deviations from established rules or changes that are limited to one specific governance practice in the organization. For example, from 1975 to 1992, a large Dutch manufacturing company replaced its promotion scheme by a new one no fewer than eighteen times (van Veen, 1997: 85). However, adaptations can also take the form of major reorganizations of the whole work process or drastic shifts in the organization's position in the marketplace.

Between 1994 and 1996 alone, for instance, 30 per cent of Dutch companies with more than ten employees had carried out "substantial changes" within their organizational structure (CBS, 1996). Systematic large-scale studies tend to define reorganizations in terms of the adoption of new structures and/or new 'high-performance' work practices (such as team work or TQM). The degree of organizational change is then often operationalized as, for instance, the number of new practices adopted by an organization, and the percentage of employees affected by it. Crude as these attempts at measurement might seem, they nevertheless provide useful insights into workplace transformation and structural change in organizational systems. This, subsequently, offers the stepping-stone for estimating their impact on individuals, groups and organizations.

In a nutshell, Figure 1 depicts the key direct and indirect relationships that are the focus in this special issue.

Figure 1: Direct and indirect relationships



In this special issue, antecedents of organizational change are largely ignored. Rather, the focus is on the intermediate and ultimate consequences of organizational change. Both theoretical contributions – by Pólos & van Witteeloostuijn, and by Volberda – deal primarily with the organizational change-performance nexus. In the empirical study of Mühla, the emphasis is on the impact of reorganizations on intermediate consequences for a sample of Dutch organizations, while van Witteeloostuijn and Boone focus on evidence for the change-performance link for the case of daily newspapers in the Dutch province of Limburg, and Witte and van de Bunt analyze the consequences of post-bureaucratic organizational forms on oppositional solidarity.

Theoretical debate and empirical evidence

By and large, two contrasting views dominate the theoretical debate as to the effect of reorganizations, one emphasizing the pros and the other the cons. Here, we illustrate this debate by briefly reflecting on two representatives from each side of the controversy. On the one hand, if one believes the more recent managerial literature, in particular the *sense-making* approaches, 'reorganization' as an analytical concept has become useless. Instead, they see organizations as being constantly in flux. Permanent redesign is seen as the precondition for organizational survival (e.g., Weick, 1993). Similarly, according to many *economic approaches*, new governance practices trigger high performance because they increase the autonomy of employees, decrease the intensity of managerial control, and speed up decision-making processes through decentralization. Consequently, *flexibility* theorists – pointing to evidence from large-scale surveys focusing on various external antecedents and economic consequences of workplace restructuring (e.g., Janod & Saint-Martin, 2004) – see restructuring efforts as well-planned, far-sighted managerial adaptations to changing external circumstances that promote fit, and hence enhance performance.

This key claim, on the other hand, contrasts with beliefs of *organizational ecologists* about organizational inertia, associated with the argument that organizational change tends to be dysfunctional for the survival chances of a firm (Hannan & Freeman, 1984). The claim that much organizational change harms the likelihood of organizational survival is backed with evidence from a series of change effect studies (Carroll & Hannan, 2000). In line with this view, *sociological* and *ethnographic* case studies of reorganization processes draw conclusions which are completely different from what would be suggested by the flexibility perspective. Focusing on internal causes and social dynamics of organizational restructuring, most of them report increasing rather than decreasing centralization of control and standardization of work as the result of reorganizations (Vallas, 1999: 93). Far from being short and frictionless transition periods that follow a well-defined trajectory of planned organizational

change, restructuring processes are strongly shaped by seemingly marginal singular events and local sociopolitical constellations (Brunsson & Olsen, 1993; Glendon, 1992; Stevenson & Greenberg, 1998). So, *inertia* theorists argue that more often than not the downsides of change dominate over the (potential) benefits, implying that reorganizations tend to be negatively associated with performance.

It is evident that a huge theoretical and empirical gap separates the two different perspectives. With regard to theory, conceptions of far-sighted rational managerial decision-making clash with models of organizational behavior in which the limits of rationality, the social embeddedness of actors, the downsides of change, the role of unique events and the like stand in the foreground. Concerning empirical evidence, generalizations from large-scale survey research confront highly context-specific ethnographic process descriptions. Moreover, fine-grained hazard rate analyses in the organizational ecology tradition tend to produce evidence against the best-practice cases that dominate so much pro-flexibility arguments. The persistence of this gap, in theory and evidence, is one of the major shortcomings of existing theories of organizational change and its impact on performance.

Consequences of reorganization, restructuring and organizational change

So, there is much controversy about organization-level (intermediate and ultimate) consequences of reorganizations (Vallas, 1999). In some cases, reorganizations put pressure on solidarity relationships, which in turn facilitates the implementation of new structures (Tebbutt & Marchington, 1997). In other occasions, work restructuring triggers collective opposition against management, forcing it to alter the initial plans. Though there is evidence of performance increases after reorganizations (e.g., see Janod & Saint-Martin, 2004, for a recent study on France), other studies found no or even negative effects (e.g., Capelli et al., 1997; Wezel & van Witteeloostuijn, 2006) on economic performance. As far as the impact on employees is concerned, some studies show at least short-term improvements in performance and intra-organizational efficiency after major restructuring, whereas others provide evidence for reorganizations which not only failed to achieve their predefined goals, but actually caused a significant deterioration of organizational performance (for an overview, see van Witteeloostuijn, 1999).

Moreover, many studies demonstrate that reorganizations can have severe repercussions on the social structure and psychological well-being of employees, which may result, e.g., in an increasing number of stress-related diseases and a decline in commitment inside the organization (Capelli et al., 1997). Similarly, there is much controversy about the impact of reorganizations on intra-organizational control and cooperation. In many cases, reorganizations seem to result in the imposition of tighter control regimes – despite manage-

ment rhetoric emphasizing the opposite. For example, various case studies report an increase of organizational control in organizations where flattening and 'empowerment' of the shop floor were the formally intended goals of the reorganization (Vallas, 1999). In almost all cases, reorganizations put severe pressure on the social relationships inside the organization; sometimes causing their complete disruption, and sometimes acting as a trigger for the formation of collective opposition and resistance against the changes.

Organization of the volume

The present issue consists of five articles. These are organized along two dimensions, as indicated in Table 1 – mainly an empirical or a theoretical contribution on the one hand, and primarily emphasizing a flexibility or an inertia perspective on the other hand.

Table 1: *Two dimensions and five contributions*

	Empirical contribution		Theoretical contribution
	Flexibility perspective	Inertia perspective	
	Mühlau Wittek & van de Bunt	van Witteeloostuijn & Boone	Volberda
			Pólos & van Witteeloostuijn

Two of the articles offer theoretical contributions (Volberda, and Pólos & van Witteeloostuijn), focusing on conceptual clarification and theoretical integration. Volberda is in the flexibility tradition, and Pólos and van Witteeloostuijn emphasize inertia logic. Volberda focuses on the question as to how multi-unit firms reconcile conflicting forces of short-term profit maximization and long-term learning adaptation in the context of pressures for flexible organization. Volberda develops a co-evolutionary perspective on strategic renewal, thereby providing a template to integrate adaptation and selection theories of organizational change. The major purpose of Pólos and van Witteeloostuijn's contribution is to present key insights from recent developments in the field of organizational ecology's theory of inertia, clarifying notoriously ambiguous concepts by translating insights that were originally derived from applying formal logic. Their key argument is that for a variety of reasons, which are made explicit, organizational change is more likely to produce failure than success.

The other three articles provide empirical material on reorganizations and changes, all analyzing data from the Netherlands (Mühlau, Wittek & van de Bunt, and van Witteeloostuijn & Boone). Building on a recent representative survey of 1,200 Dutch firms, Mühlau's contribution offers insights into current

reorganization efforts and their performance-related consequences. The data show that Dutch firms make increasing use of so-called high-performance work practices such as teamwork, information sharing and total quality management. Most notably, however, no evidence could be found for the claim that the current wave of reorganizations has produced smaller and flatter organizational units.

Building on data from employee surveys in four Dutch organizations, Wittek & van de Bunt have provided an empirical test of the so-called 'hegemony thesis'. It states that 'post-bureaucratic' forms of governance – in which management replaces traditional forms of hierarchical control by more subtle forms of normative control – ultimately result in the erosion of oppositional worker solidarity and resistance. Drawing on new institutional theory, Wittek & van de Bunt identify three key characteristics of post-bureaucratic organizations: a strong reliance on functional legitimization of authority through deadlines, a high level of satisfaction with extrinsic and intrinsic rewards, and a fragmented informal social network structure, which is rich enough to provide for work-related support, but too weak to serve as a power base for collective action. The results of Wittek & van de Bunt's analyses lend support to the general claim, in line with the hegemony hypothesis, that these three elements decrease the degree of oppositional worker solidarity.

Finally, van Witteloostuijn & Boone have developed an integrated contingency theory of the performance effects of organizational change by combining insights from a large variety of theoretical perspectives, giving center stage to inertia arguments next to the usual flexibility stories. The empirical tests for a sample of regional daily newspapers in the Dutch province of Limburg provide evidence for a U-shaped relationship between the degree of organizational change on the one hand, and newspaper performance on the other hand.

NOTE

- 1 Organizational change comes in many different forms and shapes. In this Introduction, we use different terms (such as reorganization, repositioning, restructuring and organizational change) interchangeably, for the sake of convenience.

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