

The Effect of Layoffs on Firm Reputation

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A firm's reputation is perhaps one of its most important strategic resources. Using data from Fortune's America's Most Admired Companies survey, this article examines how layoffs affect the reputations of firms. The authors found that layoffs have a negative impact on a firm's reputation and that this relationship is significantly stronger for newer firms than older firms. Limited support is found for the hypothesis that larger firms' reputations will be buffered from the adverse effects of a layoff on their reputations. Implications of this research and future research questions are discussed.

Keywords: *corporate reputation; layoffs; attribution; performance*

In this article, we investigate the impact of layoffs on corporate reputations. A firm's reputation is perhaps one of its most important strategic resources (Ferguson, Deephouse, & Ferguson, 2000). In fact, a firm's reputation is related to its ability to sustain its competitive advantage and to recover from below-average performance (Roberts & Dowling, 2002). This advantage is not easy to develop, as reputations are notoriously difficult to improve. As a result of the value flowing from a positive reputation and the difficulty improving a reputation, firms go to great lengths to build and maintain their reputations.

Fombrun defined reputation as "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals" (1996: 72). Reputation has similarly been expressed as the jointly held belief about the underlying characteristics of an actor (Weigelt & Camerer, 1988; Rao, 1994). Roberts and Dowling (2002) expanded on these definitions to indicate that reputa-

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tion manifests itself as the extent to which the firm is seen as “good” and not “bad.” Because reputation is “determined by the value (quality) of the actor’s previous efforts” (Podolny & Phillips, 1996: 455), it is important that a firm consider the impact its current actions will have on its future reputation. Each strategic choice that a firm makes will not only have the direct impact of changing its competitive position but also will affect its reputation. For example, although Microsoft’s strategic choice to tie its Internet browser to its operating system had the strategic impact of improving its position in browser software, it also had a reputation effect. Many consumers/stakeholders viewed it as a bully. It is against this backdrop that we consider the impact that layoffs have on the reputation of a firm.

Many view layoffs as a tool managers can use to improve performance by cutting costs. Seen in this light, layoffs could have a positive impact on reputation. However, empirical evidence suggests that the gains to performance are elusive. In fact, whereas some researchers have found increases in firm performance (Wayhan & Werner, 2000) or no significant change in performance (Mentzer, 1996) following layoffs, the majority of research findings reveal a poor reception by the stock market and declining financial performance in the years following a layoff (Cascio, Young, & Morris, 1997; Chen, Mehrotra, Sivakumar, & Yu, 2001; De Meuse, Vanderheiden, & Bergmann, 1994; Hallock, 1998; Lee, 1997; Poudar, Cantrell, & Kulkarni, 1999; Worrell, Davidson, & Sharma, 1991). These studies suggest that the reduction in human resource expenses that follow a layoff is often accompanied by an unintended increase in the cost of organizing and motivating employees. If, along with these increased organizational costs, a firm suffers a costly decline in reputation, then the viability of layoffs as a strategic tool comes increasingly into question.

Theory

The Impact of Layoffs on Firms

Part of the difficulty in determining how layoffs will affect a firm’s reputation is that, in general, the association between layoffs and performance is complex. Layoffs can affect various parts of an organization in a variety of ways. At the micro-organizational level, layoffs are suggested to have almost entirely negative influences on the employees who survive the layoffs. At the macro-organizational level, layoffs are alleged to have both positive and negative effects.

At the micro-organizational level, workforce reductions may both lead to the loss of key knowledge resources and a reduction in the motivation of those that remain (Wayhan & Werner, 2000). Employee commitment declines following layoffs (Brockner, Grover, Reed, DeWitt, & O’Malley, 1987), with high performers more likely to leave the firm (Bedeian & Armenakis, 1998; Brockner & Lee, 1995). Other negative effects on employees include a decrease in satisfaction, work climate, and trust and an increase in absenteeism, union grievances, fear, and guilt (Brockner, 1988; Brockner, Grover, Reed, DeWitt, & O’Malley, 1987; Buch & Aldridge, 1991; Wagar, 2001). The negative consequences of layoffs for employees even extend to their health (Kivimaki, Vahtera, Pentti, & Ferrie, 2000). In sum, empirical results show a variety of negative influences that layoffs have on employees.

Layoffs also have an impact on the internal functioning of organizations, particularly in terms of how employees are connected. Changes in informal communication networks may reduce the ability of downsized firms to share information (Dougherty & Bowman, 1995; Fisher & White, 2000; Lei & Hitt, 1995; Shah, 2000). Through these disruptions to information sharing, downsizing has the potential to damage the firm's learning and memory capabilities (Fisher & White, 2000). Consistent with these arguments, Amabile and Conti (1999) reported that perceptions of creativity decline following layoffs.

At the macro-organizational level, it is generally assumed that layoffs are a strategic choice designed to lower costs. Wayhan and Werner (2000) suggested that layoffs can have a positive impact on firms from a competitive advantage perspective and a negative impact from a resource-based perspective. According to the competitive advantage perspective, layoffs are intended to reduce the firm's cost structure, thereby enhancing its competitive position (Cascio et al., 1997). Consistent with this logic, layoffs are often seen as a response to the increasing pressure for top managers to produce short-term results (Kets de Vries & Balazs, 1997).

Another perspective on layoffs is based on the resource-based view (RBV) of the firm (Penrose, 1959; Wernerfelt, 1984). According to the resource-based view of the firm, performance advantages accrue to the firm possessing resources that allow it to deliver products or services that customers value at a price-to-performance relationship that competitors cannot readily imitate (Barney, 1991). Human resources are among the most important resources upon which firms build resource-based advantages due to the inimitable nature of the tacit knowledge and skills that employees possess (Hitt, Bierman, Shimizu, & Kochhar, 2001; Lado & Wilson, 1994; Wright, Dunford, & Snell, 2001).

Human resources can create RBV strategic advantage in two ways (Boxall, 1996). First, individuals can possess knowledge, skills, and abilities that enable them to perform activities that lead to valuable, difficult-to-imitate output for their firm. Second, groups of employees within the firm can, through their shared knowledge, skills, and abilities, jointly produce valuable, difficult-to-copy output. This second type, which Barney (1991) called a socially complex resource, is potentially the most valuable because it cannot be easily copied. Also, it is likely the most vulnerable to layoffs. Because the firm may be able to identify and protect its most valuable employees, a layoff can be designed to keep the individuals that matter most. Socially complex resources, however, are much more difficult to identify and protect during a layoff and will more likely be damaged. Consistent with the resource-based view of strategic human resource management (HRM), Leana and Van Buren (1999) suggested that layoffs may undermine the buildup of organizational social capital. Combining the competitive advantage perspective and the resource-based perspective on layoffs leads to the conclusion that layoffs may have a short-term competitive benefit and a long-term resource-based loss.

Our main proposition in this study is that the negative impact layoffs have on a firm will lead to decreases in outsiders' perceptions of the firm's future prospects and hence to a reduction in firm reputation. In addition to the deleterious effect mentioned above, layoffs have been found to influence the impression potential employees and customers have of the organization (Bastien, Hostager, & Miles, 1996), making them see the organization as more "bad." Furthermore, given the limited information available that stakeholders have to build their overall perceptions of a firm, layoffs will be seen as a negative signal concerning a firm's overall reputa-

tion. Also, since reputation is seen as a signal about underlying quality (Roberts & Dowling, 2002), stakeholders will adjust down their perception of the quality of the firm when it takes actions, such as layoffs, that have generally been found to be more harmful than helpful.

Hypothesis 1: The impact of a layoff on a firm's reputation will be negative.

The Mitigating Role of Prelayoff Financial Performance

Reputation is the result of perceptions (Fombrun & Shanley, 1990). Corporate reputations are based on how external observers perceive corporate behavior. Because observers cannot see all the behavior of the corporation and there is ambiguity regarding the meaning of the behavior that is seen, the observers make attributions based on the behavior they do observe. According to attribution theory (Kelley, 1967; Weiner, 1985), observers make attributions about the underlying characteristics of individuals or groups of individuals based on the nature of the behavior they observe.

One of the important distinctions drawn by attribution theory concerns the extent to which observers attribute witnessed behavior to characteristics of the actor (internal attributions) versus attributing the behavior to characteristics of the situation (external attributions) (Kelley & Michela, 1980; Martinko, 1995). Attribution theory suggests that when actions appear to be caused more by the situation than by the characteristics of the actor, observers will not ascribe the action to characteristics of the actor. When it appears that internal forces drive behavior, observers will attribute the action to characteristics of the actor. Because, as mentioned in the introduction, reputation is the jointly held belief about the underlying characteristics of an actor (Rao, 1994; Weigelt & Camerer, 1988), internal attributions will affect reputation to a greater degree than external attributions will.

We have discussed above why layoffs will have a negative influence on the reputation of firms. We propose, however, that the strength of this negative influence will be moderated by the extent to which layoffs are seen as internal and hence representative of the characteristics of the firm rather than driven by external factors. We posit that layoffs by below-average performers will be attributed more to external forces (such as market pressures). Layoffs by these firms will be seen as more legitimate, given the firm's situation, than layoffs by above-average performers. Charness and Levine suggested and found support for the notion that "people consider it fairer for an employer to react to an exogenous shock than to take the initiative and cause harm" (2000: 386). This legitimacy will drive the notion that the managers of poor-performing firms are reacting to their situation and not according to their own volition. When layoffs are viewed as legitimate, stakeholders, even those not directly affected, will attribute a level of trustworthiness to decision makers commensurate with the perceptions of legitimacy of the event (Brockner, Siegel, Daly, Tyler, & Martin, 1997; Leana & Feldman, 1992). This is consistent with other research that shows a smaller negative response to layoffs by employees when the employees attribute the layoffs to legitimate factors beyond the control of managers (Brockner et al., 1987; Turnley & Feldman, 1998).

Hypothesis 2: The negative impact of a layoff on a firm's reputation will be moderated by firm performance. High-performing firms will show a larger decline in reputation.

The Mitigating Role of the Age and Size of the Firm

A firm's current reputation is based on the accumulated actions of its past, that is, its stock of actions. The greater the time or the larger the set of visible prior actions that make up the stock, the more developed and stable will be the reputation. The flows of reputation are the current actions that are being added to the stock of prior actions. Thus, the number of past observable actions that define the current reputation (its "thinness" or "thickness") will influence how much weight stakeholders will give to new observable actions. In effect, for firms with thick reputations, a single action will not have as large an impact on reputation as it will for firms with thin reputations.

We suggest that both younger firms and smaller firms have thinner, and therefore less stable, reputations. Accordingly, these firms' reputations will be more strongly affected by a layoff announcement.

With regard to firm age, we believe that younger firms will suffer from a form of "liability of newness." Their reputations will be based on fewer observed behaviors and tend to be more volatile. This will make their reputations more susceptible to decreases due to the announcement of a negative event such as a layoff. For a newer firm, there is a great deal of ambiguity regarding how well the observed behaviors of the firm accurately reflect the firm's underlying characteristics. This ambiguity leads observers to place greater weight on the few actions that they do observe. It follows that the reputations of these firms are likely less stable than the reputations of older firms. Rao (1994) suggested that the establishment of reputation is the external part of the liability of newness that Stinchcombe (1965) proposed. Rao (1994) proposed and found evidence for the supposition that positive events have a stronger, positive impact on the survival of new firms than for existing firms. This is consistent with our notion that the reputations of younger firms are more highly influenced by the negative impact of layoffs.

Hypothesis 3: The negative impact of a layoff on a firm's reputation will be moderated by firm age. Younger firms will show a larger decline in reputation.

We also posit that smaller firms will be more susceptible to the negative reputation effects of layoffs. Similar to the argument above about newer firms, smaller firms will tend to have thinner, less stable reputations than large firms. For a smaller firm, the amount of ambiguity regarding the underlying characteristics of the firm is based on its lack of visibility (Goldberg, Cohen, & Figenbaum, 2003). Visibility has been established as a driver of reputation (Carroll & McCombs, 2003; Fombrun & Shanley, 1990), and larger firms are more visible (Greve & Fujiwara-Greve, 2003). Therefore, the reputations of smaller firms will tend to be based on a smaller number of observed behaviors. Studying Danish firms, Schultz, Mouritsen, and Gabrielsen (2001) suggested greater stability of reputation among large firms. For larger firms, the great amount of visible activities they engage in will result in thick reputations (built on many observed actions) lessening the impact of each subsequent action. For smaller firms, each individual publicized event provides more insight into the abilities of the firm and therefore has a larger impact on the reputation.

Hypothesis 4: The negative impact of a layoff on a firm's reputation will be moderated by firm size. Smaller firms will show a larger decline in reputation.

Method

Sample

Data for this study were drawn from *Fortune's* America's Most Admired Companies (AMAC) Survey data book. The AMAC data book contains information on a wide variety of companies ranging from the most admired (such as Southwest Air) to the least admired (such as Kmart). Our sample is arranged as panel data where each observation is one company in a given year (1996 through 1998). A company/year observation was included if the company was in the data book and had complete financial and survey information for the observation year and the proceeding year. An observation was removed from our sample if the firm announced a layoff during the months that the survey was conducted (September-December) in a given year. This was done to remove observations where some AMAC respondents may have filled out their surveys before a layoff was announced, whereas others filled theirs out after an announcement. Our final sample has 782 observations and comprises 347 firms, each having observations for one or more of the years 1996, 1997, or 1998.

Dependent Variable

We relied on *Fortune's* AMAC data book to construct our dependent variable. Each year, *Fortune* asks an independent research firm to develop rankings of the 10 largest companies in each of a variety of industries. For each industry, executives, directors, and financial analysts are surveyed and asked to rate the 10 firms in their industry (or, for the financial analysts, the industry they cover) on eight dimensions using a scale from 0 (*low*) to 10 (*high*). The dimensions are (a) use of corporate assets; (b) community and environmental responsibility; (c) ability to attract, develop, and keep talented people; (d) financial soundness; (e) innovativeness; (f) value as a long-term investment; (g) quality of management; and (h) quality of products or services. These dimensions are then averaged into an "overall reputation score" for each company. The survey draws from a large sample of respondents. The 1998 sample, for instance, comprised responses from more than 12,000 individuals. *Fortune* does not publish response rates to yearly surveys but boasts a response rate approaching 50% across the survey's 17-year history. An excellent, more in-depth, description of the data collection process can be found in Roberts and Dowling (2002).

Arguments have been developed and empirical evidence found that support the validity and reliability of the *Fortune* AMAC database (Simerly, 1999; Szwajkowski & Figlewicz, 1999). The data, either for the overall reputation scores or for the individual dimensions, have been widely used in past research (see, e.g., Fombrun & Shanley, 1990; Gatewood, Gowan, & Lautenschlager, 1993; Hammond & Slocum, 1996; McGuire, Schneeweis, & Branch, 1990; Roberts & Dowling, 2002; Wartick, 1992).

We acknowledge, however, that there is some controversy regarding the use of individual measures on specific dimensions of the *Fortune* data. Fombrun and Shanley (1990), for instance, argue that the eight attributes, when combined as an index, are components of an underlying and stable construct of corporate reputation. They report that their index measure has an alpha of .97, and factor analysis revealed one underlying factor that accounted for 84% of the variance with an eigenvalue of 6.68 (Fombrun & Shanley, 1990: 245). Replicating their tests using our data sample revealed nearly identical results ($\alpha = .974$, one factor with an eigenvalue of 6.83 that accounted for 85.4% of the overall variance). Thus, the evidence regarding the appropriateness of using an overall index of the eight measures is strong. This leads to us being less certain, however, of the appropriateness of using the data on the individual dimensions separately. Indeed, Fombrun and Shanley (1990) contended that the pattern of correlations among the dimensions suggests that using them individually is not advisable because they are not conceptually or empirically distinct. Brown and Perry (1994) built upon this argument.

Because our hypotheses deal with a firm's overall reputation, we are confident that each firm's overall reputation score from the *Fortune* database is a good measure to employ in this study. However, we also test the impact of a layoff announcement on each of the eight individual reputation measures. Although we believe that layoff announcements will have a negative impact on each of the eight components, specifically testing this assumption is a worthy exercise. We also suggest and test the notion that although the relationships will all be negative, some may be stronger than others. For example, human resource activities have had an important impact on human resource reputations (e.g., Chauvin & Guthrie, 1994) and thus, activities like layoffs may have a larger impact on human resource components of reputation than they will have on other components of reputation.

Independent and Moderating Variables

Layoff. Observations where the firm had a layoff in a given year were identified using a dummy variable set to one when a layoff announcement was reported in the *Wall Street Journal* abstracts. *Wall Street Journal* abstracts were searched using a broad set of terms (layoff, layoffs, job cuts, downsizing, or restructuring) for the years 1995 to 1998. The abstract of each article was examined for evidence of a layoff announcement. The announced layoffs were then compared to the list of firms in the *Fortune* database. For each layoff by a firm in the *Fortune* database, the layoff variable is coded as one for that year.

Prior performance. Performance is measured as industry-adjusted return on assets (ROA) the year before the observation year. Industry-adjusted ROA has been the most commonly used performance measure in the literature (Roberts & Dowling, 2002). Returns and assets values (as well as the other financial values used in this study) were obtained from COMPUSTAT.

Firm age. Age was calculated by subtracting the date of founding for each firm from the observation year. Founding dates were obtained from Standard and Poors' *Register of Corporations*.

Organizational size. The size of firms is measured as the industry-adjusted log of sales.

Control Variables

To account for movements in performance and firm size over time, we also included ROA and the log of sales in the observation year. Thus, our model has both contemporaneous and lagged values of ROA and organizational size. In addition, we included contemporaneous and lagged values of risk and price to book (both adjusted for industry). These variables were included to account for the financial halo in the *Fortune* measures found in past research (Brown & Perry, 1994). Furthermore, we included a variable for prior year layoff in the model to control for any residual effect that a layoff in the previous year might have had on firm reputation. Finally, 56 dummy variables were included to account for the 57 industries covered by the firms in our sample as defined by *Fortune*. All financial data were obtained from COMPUSTAT, and all industry classification data were obtained from the AMAC data book.

Table 1 provides summary data on the variables. Seventy-two of our 782 observations involved firms that announced layoffs during an observation year. Layoffs occurred in firms in 32 of the 57 industries in our sample. The industries of firms reporting layoffs were widespread. Various manufacturing, transportation, raw material, health care, and financial service industries were all included. The greatest number of layoffs reported in an industry was 5, and the mean number of layoffs per industry was 1.3 with a standard deviation of 1.5.

Statistical Technique

The data were analyzed using ordinary least squares regression. The reputation of the firm in time t is the dependent variable, and the reputation in time $t - 1$ is an independent variable. Allison (1990) pointed out, however, that, at times, using a change score approach is more appropriate than using the regressor approach and that the choice of which approach to use is rarely obvious. Therefore, we also conducted our analysis using the change in reputation from time $t - 1$ to time t as the dependent variable. We found that the results were consistent across methods, and for the sake of parsimony, do not report the latter set of results.

Results

The results of our regression analysis are shown in Table 2. The coefficient for layoffs is negative ($b = -.4359$) and significant at the .001 level for the regression with composite (overall) reputation as the dependent variable. This supports Hypothesis 1. This result is consistent across all of the models employing the various submeasures of overall reputation. Thus, we find that the relationship between layoffs and reputation is consistently negative.

(text continues on p. 457)

Table 1
Descriptive Statistics

Variable	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Overall reputation	6.41	0.90													
2. Overall reputation _{<i>t</i>-1}	6.45	0.87	.84												
3. Asset use	6.34	0.95	.96	.79											
4. Asset use _{<i>t</i>-1}	6.37	0.91	.81	.96	.81										
5. Community/ environment	6.11	0.81	.82	.69	.74	.61									
6. Community/ environment _{<i>t</i>-1}	6.09	0.77	.68	.81	.59	.71	.82								
7. Develop/keep people	6.27	0.95	.98	.83	.94	.79	.79	.65							
8. Develop/keep people _{<i>t</i>-1}	6.29	0.92	.82	.97	.77	.93	.67	.78	.84						
9. Financial soundness	6.62	1.14	.92	.81	.90	.78	.72	.61	.90	.77					
10. Financial soundness _{<i>t</i>-1}	6.66	1.15	.78	.92	.74	.89	.61	.70	.76	.88	.87				
11. Innovativeness	6.20	0.96	.88	.75	.81	.68	.69	.58	.86	.73	.71	.60			
12. Innovativeness _{<i>t</i>-1}	6.26	0.95	.74	.88	.66	.80	.58	.68	.73	.86	.62	.71	.86		
13. Investment value	6.26	1.08	.97	.81	.95	.80	.73	.59	.94	.79	.92	.77	.81	.68	
14. Investment value _{<i>t</i>-1}	6.29	1.05	.82	.96	.79	.94	.61	.71	.81	.94	.81	.92	.69	.81	.84
15. Management quality	6.66	1.02	.96	.79	.96	.79	.71	.57	.94	.77	.86	.70	.83	.69	.94
16. Management quality _{<i>t</i>-1}	6.73	0.99	.82	.95	.80	.95	.60	.69	.81	.93	.76	.85	.71	.83	.80
17. Product quality	6.83	0.86	.89	.75	.79	.66	.78	.65	.84	.71	.75	.63	.84	.71	.79
18. Product quality _{<i>t</i>-1}	6.90	0.84	.74	.88	.64	.77	.65	.77	.70	.83	.64	.74	.70	.82	.66
19. Layoff	0.09	0.29	-.02	.04	-.08	-.01	.05	.08	-.03	.04	-.04	.02	.02	.07	-.05
20. ROA _{<i>t</i>}	0.22	6.21	.30	.24	.34	.26	.17	.15	.29	.23	.36	.29	.19	.15	.32
21. ROA _{<i>t</i>-1}	0.13	6.09	.26	.30	.28	.33	.18	.18	.26	.28	.33	.35	.14	.18	.27
22. Age	68.76	42.05	.10	.08	.07	.04	.22	.21	.08	.06	.14	.12	-.01	-.04	.10
23. Sales _{<i>t</i>}	-.018	0.72	.38	.40	.32	.34	.36	.39	.39	.41	.37	.37	.33	.34	.39
24. Sales _{<i>t</i>-1}	-.018	0.72	.37	.36	.30	.29	.38	.37	.38	.38	.35	.34	.30	.30	.36
25. Price to book _{<i>t</i>}	-.013	8.74	.13	.11	.13	.11	.07	.05	.13	.11	.14	.11	.11	.10	.15
26. Price to book _{<i>t</i>-1}	-.003	11.62	.10	.08	.08	.07	.07	.05	.10	.08	.10	.09	.12	.10	.10

(continued)

Table 1 (continued)

Variable	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
27. Risk _{<i>t</i>}	2.20	59.92	-.12	-.12	-.11	-.12	-.08	-.08	-.08	-.08	-.15	-.15	-.10	-.10	-.11
28. Risk _{<i>t-1</i>}	0.46	64.46	-.10	-.12	-.10	-.12	-.07	-.06	-.06	-.08	-.13	-.16	-.09	-.10	-.10
29. Layoff last year	0.11	0.31	-.02	-.04	-.07	-.11	.04	.04	-.03	-.06	-.02	-.04	.00	-.02	-.06
1. Overall reputation	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
2. Overall reputation _{<i>t-1</i>}															
3. Asset use															
4. Asset use _{<i>t-1</i>}															
5. Community/ environment															
6. Community/ environment _{<i>t-1</i>}															
7. Develop/keep people															
8. Develop/keep people _{<i>t-1</i>}															
9. Financial soundness															
10. Financial soundness _{<i>t-1</i>}															
11. Innovativeness															
12. Innovativeness _{<i>t-1</i>}															
13. Investment value															
14. Investment value _{<i>t-1</i>}															
15. Management quality	.78														
16. Management quality _{<i>t-1</i>}	.93	.83													
17. Product quality	.67	.80	.68												
18. Product quality _{<i>t-1</i>}	.79	.65	.79	.84											
19. Layoff	.00	-.07	-.01	.06	.09										
20. ROA _{<i>t</i>}	.26	.32	.25	.19	.15	-.14									
21. ROA _{<i>t-1</i>}	.32	.27	.32	.17	.19	-.12	.56								
22. Age	.07	.04	.02	.15	.13	.04	.05	.00							
23. Sales _{<i>t</i>}	.40	.37	.39	.29	.32	.17	.04	.03	.05						

Table 2
Regression Results Using Overall Reputation and Its Eight Components as Dependent Variables

	Overall Reputation	Asset Use	Community/ Environment	Develop/ Keep People	Financial Soundness	Innovativeness	Investment Value	Management Quality	Product Quality
Layoff	-.4359***	-.5562***	-.2379*	-.4835***	-.6294***	-.3075**	-.4592***	-.5580***	-.2732**
Layoff \times ROA _{<i>t-1</i>}	-.0020	.0037	-.0025	-.0050	.0022	-.0021	-.0024	-.0050	-.0058
Layoff \times Age	.0035**	.0044**	.0022*	.0034*	.0051***	.0022	.0036*	.0041**	.0027*
Layoff \times Sales _{<i>t-1</i>}	.1198	.0857	.1352*	.0895	.1718*	.1025	.0899	.1254	.1571*
ROA _{<i>t</i>}	.0174***	.0254***	.0049	.0170***	.0231***	.0128***	.0239***	.0239***	.0092**
ROA _{<i>t-1</i>}	-.0046	-.0076	.0038	-.0010	-.0053	-.0075*	-.0069	-.0078*	-.0005
Age	-.0001	-.0003	.0003	-.0003	-.0002	-.0003	.0002	-.0003	.0002
Sales _{<i>t</i>}	.0312	.0599	-.0838	.0638	.0680	.0120	.1762**	.1122	-.1134*
Sales _{<i>t-1</i>}	.0976	.0894	.2126	.0947	.0862	.0826	.0014	.0417	.1777**
Price to book _{<i>t</i>}	.0024	.0030	.0019	.0027	.0038	.0021	.0038	.0017	.0005
Price to book _{<i>t-1</i>}	.0012	.0005	.0012	.0013	.0008	.0017	.0011	.0010	.0018
Risk _{<i>t</i>}	-.0013	-.0009	-.0006	-.0006	-.0023**	-.0015	-.0017*	-.0011	-.0014*
Risk _{<i>t-1</i>}	.0010	.0007	.0002	.0005	.0019*	.0011*	.0014*	.0009	.0012*
Layoff last year	-.0126	-.0128	-.0157	.0041	-.0137	-.0025	-.0659	-.0198	.0026
Reputation variable _{<i>t-1</i>}	.7716***	.7178***	.7400***	.7502***	.7811***	.8009***	.7497***	.7547***	.7900***
Intercept	1.4208***	1.7287***	1.5173***	1.5266***	1.3550***	1.2559***	1.5688***	1.6173***	1.3718***
<i>R</i> ²	.79	.75	.76	.77	.83	.79	.79	.76	.77
Adjusted <i>R</i> ²	.77	.73	.73	.75	.81	.77	.76	.74	.75
Adjusted <i>R</i> ² —Industry dummies only	.17	.18	.28	.15	.16	.18	.18	.12	.24
<i>F</i> value (model)	37.12	30.36	30.97	33.34	47.67	37.71	36.60	31.59	33.33

Note: *N* = 782 in all models. Industry Dummy Variables 1-56 included in all models.

**p* < .05 (one-tailed test)

***p* < .01 (one-tailed test)

****p* < .001 (one-tailed test)

Hypothesis 2, that the relationship between layoffs and reputation is moderated by prior firm performance, is not supported. The coefficient on the interaction term between layoffs and prior firm performance is not significant.

Hypothesis 3 is tested by the interaction term $\text{Layoffs} \times \text{Age}$. This interaction term is statistically significant ($p < .01$) in the predicted direction ($b = .0035$) when overall reputation is used as the dependent variable. This finding supports Hypothesis 3. Support for this hypothesis is reasonably consistent across the various components of overall reputation. Only when "innovativeness" is used as the dependent variable is the coefficient not significant at traditionally used levels. The coefficient is, however, positive (as predicted) and significant at $p = .06$. Figure 1 points out how the negative impact of layoffs on reputation is substantially larger for newer firms than it is for older firms using the coefficients estimated when overall reputation is used as the dependent variable.

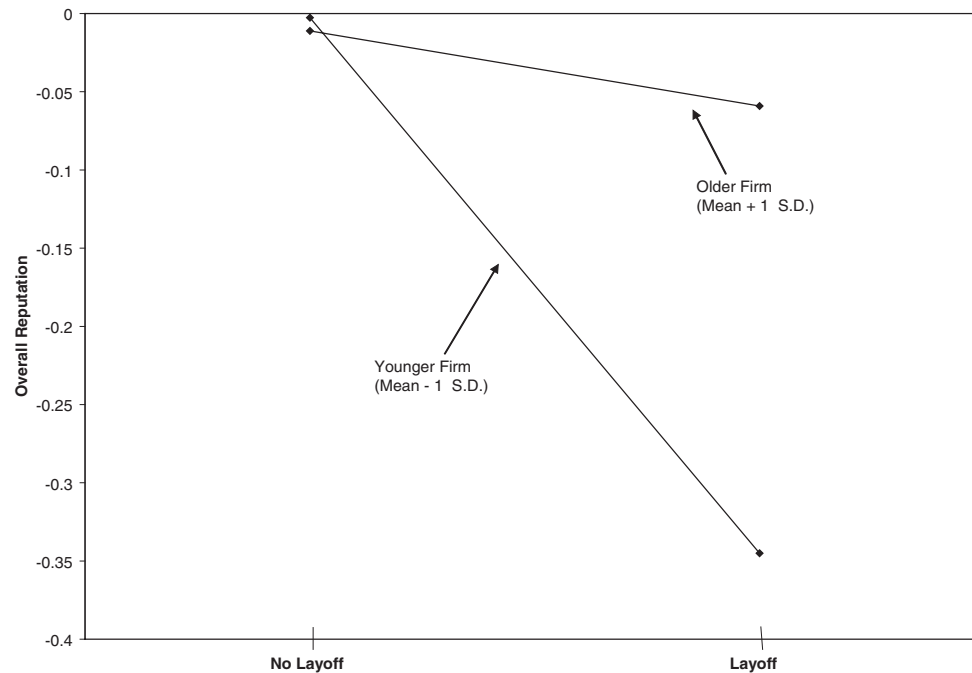
We find only limited support for Hypothesis 4, that firm size moderates the relationship between layoffs and overall reputation. The interaction term for size and layoffs is significant using traditional cutoffs for three of the components of reputation (community/environment, financial soundness, product quality) but is only marginally significant ($p = .056$) for the composite measure of reputation. Figure 2 graphically shows, using the coefficients estimated when overall reputation is used as the dependent variable, how the impact of layoffs on reputation is moderated by firm size.

Although Table 2 shows that some estimated coefficients for certain layoff variables fall below (or above) traditionally used cutoff levels for significance (i.e., $p < .05$), we need to do additional analysis to determine whether the *actual magnitudes* of the estimated coefficients are different when overall reputation is used as the dependent variable as compared to each component measure. Following the procedures outlined in Cohen, Cohen, West, and Aiken (2003), we tested whether layoffs had a statistically different impact on any of the component measures of reputation when compared to the overall index of reputation.

We first standardized all of the variables and reran our regression models using change scores as the dependent variables. This allowed us to statistically compare the magnitude of the coefficients obtained when each component of reputation is used as a dependent measure against the coefficients obtained when an index of the other seven measures was used as a dependent measure. Using the "other seven" as the index we were comparing a component measure to is a stronger test than comparing the coefficient for a component to the overall, eight-component index (which contains the component we are comparing a component to). We had to use the change score approach, rather than the regressor method because the procedure in Cohen et al. (2003) requires that only the dependent variables be different in the equations being compared. It is important to note that, as mentioned earlier, the overall results for the tests of our four hypotheses were consistent regardless of whether a change score or the regressor method was used.

The results of our tests of the coefficient magnitudes using different components as dependent variables showed that, with one exception, there was no significant difference between the parameter estimates for any of the component regressions and the estimates found when an index of the other seven measures was used. The one exception was the coefficient found on our layoff variable when "community/environmental responsibility" was the dependent variable. Although negative and significant, this coefficient was statistically

Figure 1
Interactions of Layoff and Firm Age

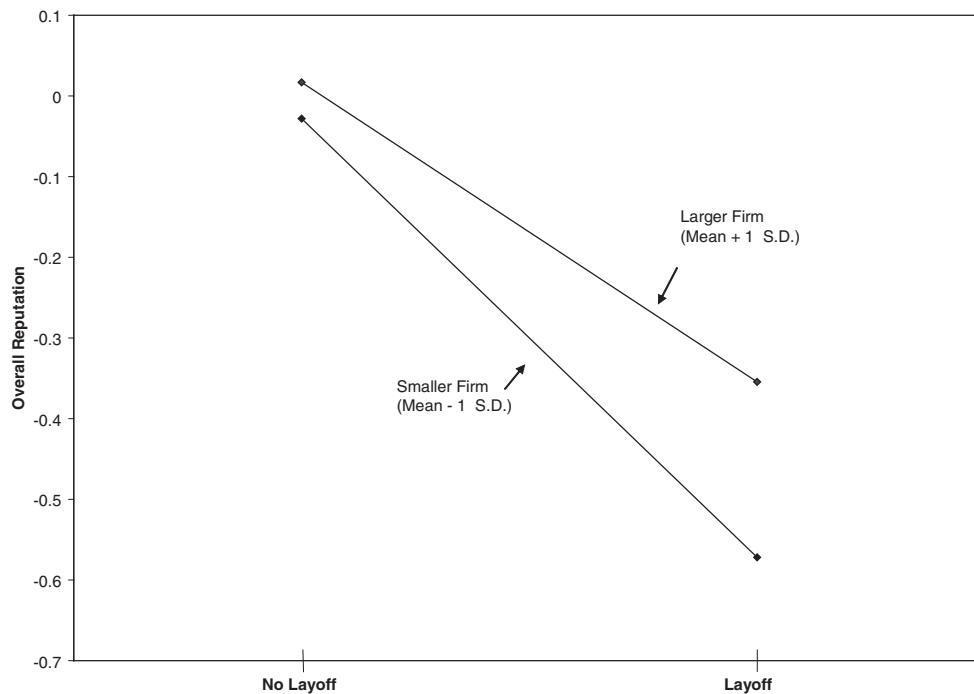


smaller (less negative) than that found when an index of the other seven measures was used as a dependent variable. In summary, with the one small exception noted above, we find that layoffs affect each of the components of reputation no differently than they affect overall reputation.

Discussion

The main result of this study is that layoffs, on average, have a strong, negative impact on corporate reputation. Using the coefficients we obtained for the main and interaction effects and the average values for firm age, size, and performance in our sample, we find that the average firm experienced a reduction of .22 points in its overall reputation score when it announced a layoff. This is a substantial drop equal to almost a quarter of one standard deviation of reputation ($SD = 0.90$). Although the impact of layoffs on corporate financial performance is somewhat unclear, this study shows that the average impact on corporate reputation is clearly negative. On average, then, managers can expect that performance will decline and reputation will falter after layoffs. It could be that managers assume (often incorrectly) that, given their firm and its situation, reputation will not be negatively affected.

Figure 2
Interactions of Layoff and Firm Size



Our results do show that age is a moderating factor in that older firms appear to be buffered from the adverse reputation effects of a layoff. This finding has implications for both the literature on reputations and the literature on layoffs. The greater cost to reputations that layoffs bring to newer firms reinforces the notion that the reputations of newer firms are more variable, which is consistent with the ideas in Rao (1994). The research investigating the impact of layoffs on the performance of firms has largely ignored the differential impact of layoffs on young firms. Given the research that follows Stinchcombe's (1965) liability of newness arguments, future research should investigate whether layoffs threaten the external relationships of young firms and thereby reduce the ability of such young firms to survive.

We found limited support for the notion that firm size moderates the relationship between layoffs and reputation. Combining the support for age as a moderator and the limited support for size as a moderator, though, implies that the thinness of reputation argument we proposed is fairly well supported by our results. This suggests a path for future research investigating how the characteristics of firms influence the stability of reputations. Fombrun and Shanley (1990) argued that the size of firms is positively associated with mean differences in reputation but did not address the stability or variability of reputation. It would be interesting to understand how characteristics such as size and age of firms are related to both the mean and variance of reputation.

We did not find support for the hypothesis that prior financial performance moderates the impact of layoffs on reputation. Although we expected that, due to attributions about internal versus external causality, the layoff penalty to reputations would be higher for firms with strong financial performance, we do not uncover support for this idea. Particularly considering the influence that financial performance has on reputation, future research using alternative performance measures and other firm characteristics as moderating variables is warranted.

Managers may also assume (again, incorrectly on average) that, given the way they intend to implement a layoff, their firm's reputation will be spared. Although this article did look at some of the characteristics of the companies instituting layoffs, we did not examine specific characteristics of the layoffs themselves. Future research could look at how factors such as the size of the layoff, whether it was part of a facility shutdown, whether multiple layoffs were announced, or the level of the organization where the job losses occurred affect the reputation effect.

Overall, the findings in this study regarding the impact of layoffs on the reputation of firms also lead to questions regarding how managers manage their firms' reputations. Although the research on the RBV view of strategy increasingly focuses on human assets as important sources of competitive advantage, little research has considered how some of the choices that firms enact may have long-term harmful influences on the ability of the firm to develop human asset-based RBV advantages. A firm's reputation as a high-quality employer, for instance, has been shown to be valuable (Chauvin & Guthrie, 1994).

This study also sheds some additional light on characteristics of the *Fortune* reputation database. We find that layoffs affect each of the eight *Fortune* reputation dimensions in very similar ways. This supports the notion proposed by Fombrun and Shanley (1990) that the eight dimensions are empirically indistinguishable from each other and really reflect one underlying dimension of reputation. The only statistical difference we could find when using the various components of reputation as dependent variables was for the community/environmental responsibility component. Although layoffs still had a significant, negative impact on this measure, the impact was not as large (less negative) than that found when an index of the other seven measures was used as a dependent variable. Szwajkowski and Figlewicz (1999) contended that the community/environment measure should really be broken up into two separate questions in the *Fortune* survey because they are really two distinct components. Our results may lend some support to their position. It could be, for instance, that a layoff involving the closing of an old plant could be viewed as having a negative impact on a community but a less negative or even a positive impact on the environment. Thus, it may not be surprising that, although we find that the overall impact of a layoff on a firm's community/environment rating is negative, the impact is not as strong as that found for other components of reputation.

A few limitations of our study are notable. First, our reputation measure, although the best measure generally available, may miss some of the elements of reputation. For example, the influence layoffs might have on the firm's reputation with stakeholders such as potential employees or customers is not fully captured by the *Fortune* measure. Second, although we examined a few contextual variables that might moderate the relationship between layoffs and performance, there are certainly a number of other attributes of layoffs that would be important for future research to consider. For example, like Charness and Levine (2000), we consider the legitimacy of the layoff decision but do not consider the fairness of the layoff process. Similarly, recent research has considered the connection between changes in top management

preceding or following layoffs. Considering how important top management is for reputation, future research could consider how layoffs, changes in top management, and reputations all covary.

One methodological issue that warrants further research has to do with how performance variables (such as ROA, ROE, or stock returns) are industry adjusted. Like many other researchers (e.g., Buchholtz, Ribbens, & Houle, 2003), we adjust for industry effects by subtracting average industry performance from an individual's performance. However, this effectively constitutes the use of a difference score, and difference scores have been criticized as having methodological problems (Edwards, 1995). Future research investigating potential problems with industry-adjusted firm performance measures, the magnitude of these problems, and potential alternatives (especially with regard to the moderator variable case) would be useful.

If corporate reputations are indeed sources of competitive advantage (Deephhouse, 2000), then a deeper understanding of how those reputations are built and maintained is warranted. Furthermore, given the incidence of layoffs, their social costs, and their dubious impacts on financial performance, continued research on layoffs is clearly justified. Our study adds to the reputation and layoff literatures by showing the powerful influence layoffs can have on corporate reputations.

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