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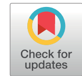
Downsizing and the fragility of corporate reputation: An analysis of the impact of contextual factors



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ABSTRACT

This study extends prior research on the impact of downsizing on corporate reputation by investigating how specific aspects of downsizing measures influence this relationship. Using panel data on the S&P 100 companies for the period 1990–2000, we find that downsizing affects corporate reputation negatively and that the size of the effect depends on the content and the context of the downsizing announcement. More specifically, we find that the motive for downsizing, the time period in which it is announced as well as the extent of previous layoffs significantly influence the reputational penalties that are associated with corporate downsizing. Our results thus elucidate how contextual factors of a downsizing decision can influence the extent of the reputational damage of this measure.

1. Introduction

Since the late 1980s, many US-based firms have adopted downsizing programs and reduced their workforce in order to cut costs and improve their performance (Baumol, Blinder, & Wolff, 2003; Davis & Haltiwanger, 1999). In the US, the Bureau of Labor Statistics counted on average over 1300 mass-layoff events per month in the period 1995–2001, which resulted in millions of job losses (Bureau of Labor Statistics, 2017). Research on corporate downsizing has so far focused predominantly on analyzing the effects of downsizing on a firm's performance and on employees (for an overview, see Datta, Guthrie, Basuil, & Pandey, 2010). Few studies, however, have investigated how downsizing influences other organizational outcomes, such as a firm's creativity, innovative capability or reputation, although these are crucial to a firm's performance. To our knowledge, only the studies by Flanagan and O'Shaughnessy (2005), Love and Kraatz (2009) and Zyglidopoulos (2003, 2005) have analyzed the impact of downsizing on corporate reputation. The findings of these studies concur that, on average, corporate downsizing has a negative impact on a firm's external reputation. Moreover, they show that the relationship between downsizing and corporate reputation is moderated by firm-specific attributes, such as a firm's age or performance. With these exceptions, however, research has so far neglected the impact of other contextual factors, particularly those that are associated with the downsizing announcement. Datta et al. (2010, p. 339) have lamented the lack of studies on how contextual factors affect the outcomes of downsizing. Responding to their criticism, we aim to address this gap and analyze how the contextual conditions that are associated with the downsizing announcement − namely, the motive for downsizing, the time period of the decision, and previous layoffs − influence the relationship between downsizing and corporate reputation.

Corporate reputation is one of the most important strategic resources for firms (e.g., Fombrun, 1996; Roberts & Dowling, 2002; Weigelt & Camerer, 1988). Defined 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 with other leading rivals" (Fombrun, 1996, p. 72), corporate reputation can be regarded as a general organizational attribute that is based on stakeholders' perceptions of a firm's past actions. Reputation constitutes an intangible resource that is hard to replicate. Crucially, it can facilitate access to resources controlled by key stakeholders and in that way influence a firm's ability to create and sustain a competitive advantage that ultimately results in better firm performance (Barney, 1991; Benjamin & Podolny, 1999; Deephouse, 2000; Fombrun & Shanley, 1990). Indeed, previous research has shown that corporate reputation is positively associated with a firm's financial success (e.g., Deephouse, 2000; Eberl & Schwaiger, 2005; McGuire, Schneeweis, & Branch, 1990; Raithel & Schwaiger, 2015; Roberts & Dowling, 2002; Rose & Thomsen,2004). For that reason, managers seek to improve and sustain the firm's good overall reputation through their strategic decisions and actions.

A firm's reputation is not static but evolves continuously:

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stakeholders observe the strategic choices its managers make and infer from their outcomes the firm's ability to create value for them (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). In that respect, certain strategic actions may improve a firm's reputation, if they are perceived as appropriate choices in a given context. Such strategic choices may involve, for example, the introduction of popular management techniques (e.g., total quality management, quality circles or job enlargement) (Staw & Epstein, 2000) or market actions that signal a firm's competitiveness (Basdeo et al., 2006). Other decisions, however, may severely damage a firm's reputation. If managers make decisions that are mainly motivated by managerial self-interest or favor the interests of some stakeholders at the expense of others − in short, if a firm acts in ways that are perceived as controversial by some of their stakeholders (Bednar, Love, & Kraatz, 2015), it may incur reputational penalties. Bednar et al. (2015), for example, found that the use of so-called "poison pills," i.e. measures taken by the board of directors to deter hostile takeovers, has a negative impact on a firm's reputation. Similarly, Williams and Barrett (2000) have shown that legal infringements have a negative impact on corporate reputation.

One prevalent management practice that is likely to impact a firm's reputation is corporate downsizing. Previous research has shown that downsizing, a cost-cutting measure aimed at improving a firm's performance, tends to affect negatively a company's stock-market performance and, thus, shareholder wealth (e.g., Chen, Mehrotra, Sivakumar, & Yu, 2001; Elayan, Swales, Maris, & Scott, 1998; Farber & Hallock, 2009; Hallock, 1998; Hillier, Marshall, McColgan, & Werema, 2007; Lee, 1997; Nixon, Hitt, Lee, & Jeong, 2004). The effect of downsizing on a firm's operational performance remains unclear. Some studies have found that its effects are positive, while others have shown that its effects are negative (e.g., Brauer & Laamanen, 2014; Cascio, Young, & Morris, 1997; Guthrie & Datta, 2008; Love & Nohria, 2005). In addition, prior research has shown that various internal and external stakeholders view corporate downsizing negatively. Employees, as important internal stakeholders, are likely to view reductions in their firm's workforce as a serious violation of their moral contract with the firm, as it threatens their job security (Morrison & Robinson, 1997; Turnley & Feldman,1998). As a consequence, layoffs can weaken employee commitment and job satisfaction (Armstrong-Stassen, Cameron, & Horsburgh, 1996; Brockner, Grover, Reed, & Dewitt, 1987). There is also evidence that downsizing has an adverse impact on work performance, which is manifested in reduced organizational creativity and innovative capability (Amabile & Conti, 1999; Bommer & Jalajas, 1999). The effects of downsizing on external stakeholders have also been researched. For example, Homburg, Klarman and Staritz (2012) found that downsizing tends to increase customer uncertainty and, as a result, to affect negatively a firm's relationship with its customers.

Given the various negative effects that corporate downsizing has on a firm, it is not surprising that previous empirical research on the reputational effects of downsizing has shown that, in general, its impact on a firm's overall reputation is negative (Flanagan & O'Shaughnessy, 2005; Love & Kraatz, 2009; Zyglidopoulos, 2005). However, it remains unclear whether the effects of downsizing on a firm's reputation are uniformly negative or whether they depend on the specific measures that a firm takes. Past research on stock-market responses to corporate downsizing has shown that how a firm's shareholders assess downsizing varies according to the extent of the layoffs announced, the official reason for downsizing, whether the layoffs are permanent or temporary and the number of previously announced decisions to downsize (Chalos & Chen, 2002; Chatrath, Ramchander, & Song, 1995; Chen et al., 2001; Elayan et al., 1998; Farber & Hallock, 2009; Hahn & Reyes, 2004; Hallock, 1998; Hillier et al., 2007; Lee, 1997; Lin & Rozeff, 1993; Palmon, Sun, & Tang, 1997; Worrell, Davidson, & Sharma, 1991). This suggests that how other stakeholders perceive and evaluate a company is also likely to depend on the specific aspects of the downsizing announcement. In this study, we will build on the results of previous studies on the impact of downsizing on corporate reputation by analyzing in depth the attributes that characterize specific instances of downsizing; namely, the motive that has led a company to lay off staff, the time period of the downsizing and how it relates to previous layoffs. To answer this research question, we will analyze data on a sample of firms drawn from the S&P 100 Index for the period 1990–2000, which subsequently became known as the "downsizing decade" (Wagar, 1998, p. 34).

Our study makes an important contribution to management research and practice. The findings of our study provide insights into how corporate downsizing affects organizational outcomes. Previous research has focused on investigating the direct relationship between downsizing and firm reputation and on how firm-specific attributes moderate this relationship. Our study, however, is the first to examine how the attributes of specific instances of downsizing affect corporate reputation. In this way, our findings also shed more light on the antecedents of corporate reputation. Moreover, we contribute to the emerging research on the impact of critical events on a firm's behavior. Our study examines how a particular type of critical events − namely, layoffs − may influence the media and other stakeholders' perceptions of downsizing. Furthermore, our study has also important implications for the communication of downsizing.

2. Theoretical background and hypotheses

2.1. The impact of downsizing on corporate reputation

Corporate reputation can be viewed as one of the most important strategic resources a firm has at its disposal (e.g., Fombrun, 1996; Roberts & Dowling, 2002; Weigelt & Camerer, 1988). An established reputation reduces uncertainty, guides the actions of a firm's stakeholders (Dowling, 1986; Fombrun & Shanley, 1990) and can thus significantly influence the firm's performance. A good corporate reputation may reduce customer uncertainty about the quality of a company's products (Shapiro, 1983). It may also reduce the uncertainty that employees feel about their employer (Cable & Graham, 2000), as well as uncertainty among actors on the capital market about future stock performance and corporate earnings (Beatty & Ritter, 1986). Firms with a good reputation are in a better position to charge premium prices for their products (Milgrom & Roberts, 1986) and are more attractive to skilled employees or investors than firms with a poor reputation (Beatty & Ritter, 1986; Roberts & Dowling,2002). Unsurprisingly, research has found that a firm's reputation has a positive impact on its financial performance (e.g., Deephouse, 2000; Eberl & Schwaiger, 2005; McGuire et al., 1990; Raithel & Schwaiger, 2015; Roberts & Dowling, 2002; Rose & Thomsen, 2004) and that managers consequently have an interest in building and preserving a good overall corporate reputation and avoiding reputational damage (e.g., Roberts & Dowling, 2002).

Corporate reputation is determined by various factors and is constructed through the perceptions of external observers on the basis of available information about a firm's activities (Fombrun & Shanley, 1990). External stakeholders perceive news about a firm's financial performance, quarterly results, and strategic actions and achievements, or advertising as important signals on whose basis they assess the status of a company and its future prospects. This information is released by the firm in the form of annual or quarterly reports, conference calls, press releases or marketing activities that influence the corporate brand or image of the firm. So-called "information intermediaries," such as the media and financial analysts, play an important role in the way information is processed and distributed to external stakeholders (e.g., Fogarty & Rogers, 2005; Pollock & Rindova, 2003; Zuckerman, 1999). They collect, process and distribute information through various channels (e.g., newspapers, magazines, blogs, research reports) to the stakeholders of the firm who develop perceptions and internal assessments regarding the firm's actions. Their individual perceptions and assessments are then aggregated to form collective judgments that amount to a firm's corporate reputation (DiMaggio & Powell, 1983;

Fombrun & Shanley, 1990).

Each strategic decision that managers make is likely to have a direct impact not only on the firm's competitive position, but also on its overall reputation. Existing empirical research confirms that strategic decisions and corporate practices can affect a firm's reputation. Staw and Epstein (2000), for example, showed that firms that adopt popular management techniques are associated with higher reputation. Similarly, Basdeo et al. (2006) found that the number of a company's market actions positively influences its reputation. However, reputation can also be easily damaged. Corruption, bribery, financial fraud and drastic violations of environmental and social standards can create a climate of controversy and distrust among stakeholders and can even harm a firm's reputation to such an extent that restoring it might prove hard or nearly impossible (Fich & Shivdasani, 2007). Williams and Barrett (2000), for example, have shown that if firms violate health and safety regulations or environmental regulations, their reputation suffers. Moreover, firms may face reputational penalties if their managers do not adhere to commitments they have signaled they would honor (Herbig, Milewicz, & Golden, 1994) or when they introduce management practices that are not in line with the expectations of stakeholders. For example, Bednar et al. (2015) found that using “poison pills” to avoid hostile takeovers is perceived as a controversial practice that can damage corporate reputation. Similarly, Fombrun and Shanley (1990) showed that in the mid-1980s diversification was negatively associated with corporate reputation because many stakeholders perceived it as a value-destroying strategy. In sum, managers need to be aware of the effects of their decisions on the company's overall reputation. This applies also to the decision to lay-off employees.

Corporate downsizing, though often intended to improve a firm's cost structure and competitive position, tends to harm corporate reputation (Flanagan & O'Shaughnessy, 2005; Love & Kraatz, 2009; Zyglidopoulos, 2005). Flanagan and O'Shaughnessy (2005) have shown that downsizing announcements and corporate reputation scores are negatively associated. Similarly, Zyglidopoulos (2005) and Love and Kraatz (2009) found that downsizing announcements generally result in a drop in corporate reputation in the year following the announcement. While managers seem to use downsizing as a feasible way of meeting the demands of the product market (Filatotchev, Buck, & Zhukov, 2000; Hallock, 1998; Palmon et al., 1997; Vicente-Lorente & Suárez-Gonzáles, 2007), organizations are negatively affected by downsizing in various respects. The fact that human resources are among a firm's most important resources explains why this is the case. Employees share specific knowledge, skills and abilities that can produce valuable output that is hard to imitate. If workforce reductions are perceived by the remaining employees as major psychological contract violations regarding job security (Morrison & Robinson, 1997; Turnley & Feldman, 1998), they might develop a “survivorship syndrome” that can result in negative consequences such as decreased employee commitment and job satisfaction (Armstrong-Stassen et al., 1996; Brockner et al., 1987). Furthermore, layoffs can destroy informal communication networks within the organization and may create a climate of distrust and unfairness that reduces the ability of firms to share information. Such disruptions may thus damage an organization's creativity and innovative capability (Amabile & Conti, 1999; Bommer & Jalajas,1999). Finally, downsizing may not produce the expected performance outcomes. Research has shown that downsizing generally results in negative stock-market returns (e.g., Chen et al., 2001; Elayan et al., 1998; Hallock, 1998; Lee, 1997; Worrell et al., 1991). The effects of downsizing on operational performance can be either positive or negative. Cascio et al. (1997), for example, found that the change in a company's operational performance is negative both in the year of staff cuts and in the following year. However, Elayan et al. (1998) and Espahbodi, John, and Vasudevan (2000) found that operational performance effects can also be positive. In sum, research has shown that corporate downsizing has various negative implications for the firm and its stakeholders—i.e., for employees, customers and investors—and creates greater uncertainty about a firm's prospects. Consequently, downsizing leads stakeholders to view a firm less favorably.

2.2. The impact of the content and context of downsizing

In this study, we propose that the negative impact of downsizing on external reputation depends on the content and context of the downsizing announcement. The three factors on which we will be focusing are the motive behind the decision to downsize, the time period in which the downsizing was announced and the extent of prior downsizing measures.

2.2.1. The motive for downsizing

How stakeholders such as employees, customers and investors interpret and perceive corporate decisions may depend on the motives behind layoffs and on the reasons that the firms give for downsizing. Firms that announce the intention to downsize aim to convey the image of strategically appropriate decision-making, instead of hinting at the prospect of negative performance. To that end, they usually provide detailed information on the motives and reasons for planned layoffs during analyst conference calls, press conferences or via business press announcements; e.g., restructuring, a prospective M&A, improving efficiency, or an overall slump in demand. Consequently, the motives and reasons for announced layoffs are typically known to external stakeholders and can be viewed as a form of corporate signaling (Asquith & Mullins, 1986) or impression management (Staw, McKechnie, & Puffer, 1983). Especially in the wake of threats such as the possibility of bankruptcy or in circumstances that could lead a company to send mixed signals and that create uncertainty about the company's future performance (e.g., layoffs), managers may try to manage the perceptions of the company's constituents by providing information that is likely to influence their impression of the firm (e.g., Marcus & Goodman, 1991; Sutton & Callahan,1987).

Research has shown that investors react differently to layoff announcements, depending on the motives provided (Chen et al., 2001; Farber & Hallock, 2009; Hahn & Reyes, 2004; Palmon et al., 1997). For that reason, we propose that the impact of downsizing on firm reputation will vary, depending on the explanations and reasons that management gives. We will focus on internal, efficiency-driven motives and on external, demand-driven motives, which, as previous studies have shown, impact the performance of both the firm and the remaining employees differently (Drzensky & Heinz, 2016; Elayan et al., 1998; Palmon et al., 1997).

As a result of significant changes in market forces and governance forces in the late 1980s, during the 1990s managers started to focus more closely on promoting the interests of shareholders and to put greater emphasis on shareholder wealth (Davis & Thompson, 1994; Lazonick & O'Sullivan, 2000). Responding to the increasing pressure to maximize shareholder wealth, managers began to take action to restructure and downsize the extent of their firm's activities (Gordon & Pound, 1993; Lazonick & O'Sullivan, 2000; Useem, 1996) in order to improve efficiency. In that context, downsizing can be seen as a way to meet this objective. However, efficiency-driven downsizing is associated with relatively high uncertainty as to whether the objective of increasing firm performance will be achieved. This is because the positive effects of “leaner” production may be offset by the negative effects of downsizing on the firm's human resources and its innovation capability. Moreover, many journalists viewed critically the stronger emphasis on shareholder interests at the expense of the interests of other stakeholders such as employees, customers and policy makers (Kennedy, 2000; Koslowski, 2000). In addition, since firm performance is often tied to managers' compensation, cutting labor costs with the aim to improve firm performance can be seen as a selfish way of serving the managers' personal interests (Drzensky & Heinz, 2016). In light of these criticisms, we expect that downsizing measures that are internally driven by the need to increase efficiency are viewed very critically by a

firm's stakeholders.

Furthermore, we propose that downsizing in response to external factors, such as a decline in demand, has a less negative impact on company reputation and is more likely to be viewed as a necessity by a firm's stakeholders. Downsizing due to decreasing demand signals that the firm has difficulties in selling output and is forced to lay off employees reluctantly. The information that announcements of downsizing associated with a decline in demand typically convey is that the management believes that the firm is facing a long-term decline in demand (rather than short-term excess capacity); for example, because of particular trends in the economy, the loss of a key customer or because of a decrease in customer satisfaction. Since customers are one of the most important assets of firms (e.g., Schulze, Skiera, & Wiesel, 2012) such changes can result in a material loss of sales and earnings. To compensate for such losses, a firm will need to adjust the cost structure, so demand-driven downsizing is likely to be viewed as a necessity. Consequently, the decision to lay-off staff would also be viewed as more legitimate than when the motive is to serve mainly the interests of shareholders. For that reason, downsizing that is associated with a decline in demand is likely to have a less negative impact on a firm's reputation. Taking these points in consideration, we propose that, in general, efficiency-driven downsizing has a more negative impact on a firm's reputation than downsizing associated with a decline in demand.

Hypothesis 1. The impact of downsizing on corporate reputation will be more negative when the announced motive for downsizing is internal and associated with an increase in efficiency than when it is external and associated with a decline in demand.

2.2.2. Time period of downsizing

We argue that certain critical events can influence how stakeholders perceive a firm's decision to downsize and that the effect of downsizing on the firm's reputation depends on the time period of the downsizing announcement in relation to such a critical event. Critical events can be defined as "dramatic happenings that focus sustained public attention and invite the collective definition or redefinition of social problems" (Hoffman & Ocasio, 2001, p. 414). Such events attract attention to specific aspects of a firm's behavior and may change stakeholders' views on certain decisions and strategic actions (Chandler, 2014).

With regard to corporate downsizing in the 1990s in the US, we expect that the negative effects of downsizing on company reputation were more pronounced in the second half of the 1990s due to a critical event in 1996; namely, AT&T's announcement that it would lay off 40,000 employees (New York Times, 1996). The company's stakeholders viewed negatively the scale of this event and, as a result, the announcement not only hurt significantly the employees' motivation and commitment to the firm, but also received negative coverage in the press. The New York Times (1996, p. 11), for example, reported in relation to this event "Morale at the company was crippled; Robert E. Allen, then AT&T's chairman, found his picture on the cover of Newsweek magazine, in a police-style lineup under the headline 'Corporate Killers.'" In the aftermath of the event, Clinton's public administration increasingly criticized mass layoffs and their impact on communities and the broader society (New York Times, 1996). Over the following months and years the media discourse with regard to downsizing grew increasingly negative and the negative rhetoric permeated media reports on the downsizing programs announced by other firms, while managers' rhetoric became more defensive of similar decisions. For all those reasons, this event can be viewed as a "turning point" (New York Times, 1996: D1) in the public debate on corporate downsizing.

Research has shown that the media can influence public knowledge and opinions. In particular, the agenda-setting theory has proposed that the media coverage of certain issues can raise the salience of these issues on the public agenda and thus increase public awareness and concern (Ader, 1995; Behr & Iyengar, 1985; McCombs & Shaw, 1972). Critical and visible events in particular can attract significant media attention (Roche, 2000; Tilcsik & Marquis, 2013), which may influence how the public views a firm and interprets certain management concepts or strategies. In view of the marked shift towards negative rhetoric with regard to downsizing since 1996, we propose that during the 1990s downsizing announcements made after 1996 have had a more negative impact on the reputation of the respective firms.

Hypothesis 2. During the 1990s, downsizing announcements made before 1996 had a less negative impact on the respective firms' corporate reputation than announcements made after 1996.

2.2.3. Extent of prior downsizing

How stakeholders perceive downsizing also depends on whether the decision is unique or whether the firm has downsized extensively in the past. If a firm has downsized significantly in the past, downsizing again is likely to increase uncertainty on the part of stakeholders. When firms lay off employees, they have to cover significant costs, such as severance payments (Worrell et al., 1991). The larger the layoff, the higher the costs associated with a workforce reduction. Extensive previous reductions in a company's workforce also mean that a large number of workers have already left the company. As a result, extensive downsizing may represent a serious loss of knowledge. A major loss of human capital is likely to damage a firm's bundle of resources and thus the capabilities that the firm needs in order to create and sustain a competitive advantage (Nixon et al., 2004). In addition, as Brauer and Laamanen (2014) argue, large reductions in the workforce augment the negative effects of the so-called survivor syndrome. As routines become more stretched and more dysfunctional, the impact of downsizing on a firm's performance becomes increasingly negative. Considering these effects, we propose that firms that have experienced significant downsizing in the past will encounter greater problems as a result of downsizing again than firms that have never downsized in the past. Moreover, the decision to downsize again will create greater uncertainty about the prospects of the company. Hence, for firms that have downsized extensively in the past we expect that stakeholders will view more critically a firm's decision to downsize and that the overall impact of downsizing on company reputation is greater:

Hypothesis 3. The impact of downsizing on corporate reputation is more negative if a firm has already downsized extensively in previous years.

3. Method

3.1. Sample

Our sample consists of the Standard & Poor's 100 firms (S&P 100) in the period 1990–2000. We chose to use the S&P 100 firms because, as leading U.S. stocks, they are highly visible and closely monitored by the media and other external constituents who may have an influence on corporate reputation. We chose the 1990–2000 period because it was a period with a high prevalence of downsizing. We gathered annual data on the reputation of those firms using Fortune's "America's Most Admired Companies" (AMAC) survey. The sample of firms represented in Fortune's AMAC changes from one year to the next, so the data on reputation do not cover our sample of the S&P 100 firms in all years. Moreover, we required that a firm-year observation was included if the company received a Fortune AMAC reputation rating in at least two consecutive years and the record of financial information was complete. Due to incomplete data and M&As among the S&P 100 firms, our final sample comprises 74 firms and 646 firm-years. For these firm-years, we collected downsizing announcements. Data for the control variables were collected from the Compustat and Thomson Reuters 13f databases.

Table 1
Examples of Motives for Downsizing[a].

Efficiency-motivated downsizing	Demand-decline-motivated downsizing
"The E.I. du Pont de Nemours & Company said today that it would cut costs by $1 billion over two years by reducing staff and trimming its chemicals and specialties businesses in the United States. […] Edgar S. Woolard Jr., the company's chairman, said costs were hurting the chemical giant's ability to compete worldwide." (*New York Times, July 26, 1991, p. D3*)	"Hewlett-Packard Co said it hopes to reduce its work force by 2,700 jobs, or 3 percent, by early 1993 through a voluntary severance package offer. The computer manufacturer attributes the layoffs to shrinking defense and aerospace work and tighter computer profit margins." (*Wall Street Journal, October 9 1992, p. B4*)
"Delta Air Lines on Apr 28, 1994 announced a sweeping plan to reduce costs by $2 billion and eliminate as many as 15,000 jobs – or 20 percent of its work force – during the next three years, reflecting the mounting pressure major carriers are feeling from low-cost competitors." (*Los Angeles Times, April 29, 1994, p. D1*)	"The Boeing Company, responding to a slump in orders from the world's struggling airlines, said yesterday that it would eliminate 28,000 jobs over the next 18 months." (*New York Times, February 19, 1993, p. D1*)
"Louisville KY-based Humana Inc said it plans to eliminate up to 900 jobs, or 5 percent of its workforce, during 1997 as it seeks to streamline operations and cut costs. For the first nine months of 1996, Humana reported a loss of $10 million, or six cents a share." (*Wall Street Journal, December 31, 1996, p. A2*).	"Facing a slowdown in chip orders, the National Semiconductor Corporation said today that it would cut 1,400 jobs worldwide, or about 10 percent of its employees, through a combination of layoffs and attrition." (*New York Times, April 23, 1998, p. D7*)

[a] Keywords used to code the text are highlighted in grey.

[a]Keywords used to code the text are highlighted in grey.

3.2. Dependent variable

Our dependent variable is *corporate reputation*. We measured corporate reputation using the overall score that a firm received for a given year in *Fortune*'s AMAC ranking. In this annual survey, the largest companies in various industries are evaluated by several thousand expert participants, such as senior executives, outside directors and financial analysts (Fombrun & Shanley, 1990; Roberts & Dowling, 2002). The respondents are asked to rate the firms of the industry they are familiar with on a number of dimensions, such as quality of management, innovativeness or quality of products and services. The ratings of these dimensions are then aggregated into an overall raw reputation score. We chose to utilize the AMAC score for several reasons. First, this score is the most widely used measure of corporate reputation in management studies (Dowling, 2016). Second, the AMAC score has been used in all studies on the impact of downsizing on corporate reputation (see Flanagan & O'Shaughnessy, 2005; Love & Kraatz, 2009; Zyglidopoulos, 2005). Given that we aim to refine the findings of previous research on the impact of downsizing on corporate reputation, using the same measure of reputation allows comparisons between our findings and those of earlier works. Third, although the AMAC index is based on the responses of industry experts who regularly assess companies in their own industry, it is also used routinely as a reputation measure for other stakeholder groups such as customers (Sarstedt, Wilczynski, & Melewar, 2013; Walker, 2010) and has been found to be highly correlated with measures such as employees' pride in organizational membership and job satisfaction (Helm, 2013). In our sample, the ranking score ranges from 3.32 to 9.02, with a mean of 6.59.

3.3. Explanatory variables

3.3.1. Corporate downsizing

To measure *corporate downsizing*, we analyzed layoff announcements in the public business press, including the business sections of mainstream newspapers. For that purpose, we searched full text articles and abstracts in the *New York Times*, *Wall Street Journal*, *Los Angeles Times* and *Washington Post*, as well as in several wire services, for announcements during the period from 1989 through to 2000. To identify downsizing, we searched for the following terms: "layoff," "laid off," "downsize," "downsizing," "downsized," plus firm name and specific time period (e.g., Hallock, 1998). We limited our search to permanent reductions in personnel and excluded temporary layoffs. We also excluded downsizing announcements that had already been executed or were part of a broader downsizing program, downsizing announcements that did not report the number of employees that would be laid off, and announcements of plans to revise the number of employees that would be laid off due to downsizing. In accordance with similar studies (e.g., Love & Kraatz, 2009), an additional criterion was that the announced downsizing would affect at least 1% of the workforce. Finally, if a firm made two or more separate downsizing announcements in the same year, we aggregated them into a single observation. This procedure resulted in 197 firm-years with downsizing announcements in the total sample of 646 firm-years. Of the 74 firms in our sample, 61 firms announced at least one downsizing measure in this period. The downsizing firm-years were coded as dummy variables that took the value "1" if a firm announced downsizing in the respective year. To investigate the impact of downsizing on firm reputation, we lagged our independent variables by one year.

3.3.2. Motive for downsizing

In a downsizing announcement, managers usually state the reason for their decision. Drawing such information from newspaper articles on the downsizing of specific firms, we coded the publicly announced motives for downsizing as follows: "efficiency-motivated downsizing," "demand-decline-motivated downsizing," and "other-motivated downsizing." When an announcement indicated that downsizing was motivated by the desire to cut costs or boost profitability, that instance was coded as "efficiency-motivated." When the announcement indicated that the firm would downsize in response to a slump in demand, an industry downturn or an economic downturn, that instance was coded as "demand-decline motivated." Downsizing announcements due to other reasons, such as reorganization or an M&A were classified as "other-motivated downsizing." If a firm had issued multiple downsizing announcements within the same year, we used the announcement that contained the greatest number of layoffs. Examples of how we coded various downsizing announcements are presented in Table 1. The coding was carried out independently by two researchers who achieved an inter-rater reliability of over 90% (92.5%). In cases of disagreement, consensus was reached through discussions between the coders. Of the 197 firm-years with downsizing, 86 downsizing announcements were assigned to the category "efficiency-motivated downsizing" and 43 to "demand-decline-motivated downsizing." To further check the reliability of our coding of the motives for downsizing, we additionally asked a group of five students to code selected downsizing announcements and compared the results. To facilitate their task, we described orally the three motives for downsizing to the group and provided an example of each case. After this introduction, we asked the students to assign ten randomly picked downsizing announcements to one of the three downsizing categories. The congruence between the classification we had carried out and the classification the students carried out reached nearly 80% (78.0%), which indicates that our coding is robust. We created two dummy variables *efficiency-motivated downsizing* and

demand-decline-motivated downsizing which took the value "1" if a firm announced downsizing with the respective motive in the respective year, and "0" otherwise.

3.3.3. Time period of downsizing

To analyze pre- and post-1996 downsizing announcements, we created two dummy variables. If downsizing was announced between 1990 and 1995, the variable *pre-1996 downsizing* was set to "1." If downsizing was announced after 1995, the variable *post-1996 downsizing* was set to "1." We counted 127 downsizing announcements in the pre-1996 period and 70 in the post-1996 period.

3.3.4. Extent of prior downsizing

To measure the extent of previous cases of downsizing in a firm, we calculated the sum of the extent to which it had downsized in the previous two fiscal years. The variable *extent of prior downsizing* ranges from 0.00 to 0.49, with a mean of 0.04%.

3.4. Control variables

To take into account other factors that may influence corporate reputation, we controlled for certain company characteristics, following prior research (e.g., Basdeo et al., 2006; Bednar et al., 2015; Flanagan & O'Shaughnessy, 2005; Love & Kraatz, 2009; Musteen, Datta, & Kemmerer, 2010; Philippe & Durand, 2011; Roberts & Dowling, 2002; Staw & Epstein, 2000).

In line with previous research, we controlled for a company's past reputation by including the lagged dependent variable, i.e., Fortune's AMAC reputation score in the previous year (Flanagan & O'Shaughnessy, 2005; Love & Kraatz, 2009; Roberts & Dowling, 2002). We named this variable *prior corporate reputation*. This score can influence how stakeholders interpret and evaluate a firm's activities (Love & Kraatz, 2009). Moreover, Roberts and Dowling (2002) found a high persistence of corporate reputation over time.

Following the suggestions of previous studies, we controlled for a firm's age (Flanagan & O'Shaughnessy, 2005; Musteen et al., 2010; Philippe & Durand, 2011). *Firm age* is the logged number of years since a firm's founding year. We obtained information on each company's founding year from Standard & Poor's *Register of Corporations* (Flanagan & O'Shaughnessy, 2005).

Larger firms tend to receive more media attention and are thus more visible than smaller firms (Fombrun & Shanley, 1990). For that reason, we controlled for *firm size* and measured this variable using the natural log of a firm's total sales at the end of the preceding fiscal year (Flanagan & O'Shaughnessy, 2005; Love & Kraatz, 2009).

Prior research has shown that a firm's AMAC rating is heavily influenced by its previous financial results (e.g., Brown & Perry, 1994). To remove this performance "halo", we included various performance variables as controls. The first of these is *average profitability,* which reflects the mean of the return of assets (ROA) ratio over the three preceding years (Love & Kraatz, 2009; Musteen et al., 2010). The second performance measure we used is *average sales growth*, which reflects the mean of sales growth in the three preceding years (Love & Kraatz, 2009; Musteen et al., 2010). The third measure is *profitability change*. We measured changes in profitability as the change in the ROA ratio between two consecutive years and included the percentage ROA change between year *t-1* and *t* as well as its lagged measure (i.e., the percentage ROA change between *t-2* and *t-1*) in our models (Love & Kraatz, 2009). The reason for including the lagged measure was that reputational changes may lag behind increases or decreases in performance. The fourth performance measure is *market capitalization change*. We included two measures: the percentage change in the market value of the firm between *t-1* and *t* and its lagged measure, i.e., the percentage change in market value between *t-2* and *t-1* (Love & Kraatz, 2009). Finally, we included *Tobin's Q* as a control and measured the variable as the market value of a firm divided by the book value of that firm in year *t* (Flanagan & O'Shaughnessy, 2005).

We included the debt-to-equity ratio to control for firm risk (Brown & Perry, 1984; Flanagan & O'Shaughnessy, 2005).

Institutional ownership has been found to be positively related to corporate reputation (Bednar et al., 2015; Fombrun & Shanley, 1990). For that reason, we included the level of institutional ownership by calculating the percentage of total shares owned by institutions such as mutual funds or investment banks in year *t* (Bednar et al., 2015; Fombrun & Shanley, 1990).

We also controlled for year-specific effects by including the years 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998 and 1999 as time-dummy variables (Philippe & Durand, 2011). The year 2000 is the omitted year.

3.5. Analysis

To test our hypotheses, we used a panel design with the firm-year as the unit of analysis. We estimated the parameters of our model by applying a fixed-effects model, which takes into account firm-specific errors. The fixed-effects model assumes that firm-specific heterogeneity is "fixed" in the intercept term and thus allows firm-specific error terms to be correlated with regressors. We also conducted a Hausman test to evaluate whether our choice was appropriate for our data (Greene, 2003; Gujarati, 2003). The Hausman test was significant ($p < 0.01$), which confirms that choosing a fixed-effects model over a random-effects model was the right choice.

4. Results

Table 2 presents the means, standard deviations and correlation coefficients for all variables used in our analysis. The results of the firm-fixed-effects regressions of the explanatory and control variables on corporate reputation are presented in Table 3.

The F-statistic indicates that each model is significant ($p < 0.01$) compared to the control model. The adjusted R-square for each model is high (0.87). Our models thus have a good predictive ability with regard to corporate reputation. Model 1 in Table 3 is the base model of control variables regressed on corporate reputation. The results indicate that *prior corporate reputation*, *average profitability*, *market capitalization change* and *institutional ownership* are significant and positively associated with corporate reputation while *firm size* is significant and negatively associated with corporate reputation. Model 2 in Table 3 tests the direct effect of downsizing on corporate reputation. As shown in Model 2, *corporate downsizing* is significant and negatively related to corporate reputation ($\beta = -0.15$, $p < 0.01$). If firms downsize, their reputation score decreases on average by 0.15. These findings support prior research in that corporate downsizing is associated with reputational penalties.

In Model 3 in Table 3, we test Hypothesis 1 that the impact of downsizing on corporate reputation will be more negative when the announced motive for downsizing is associated with an increase in efficiency than when it is associated with a decline in demand. To test this hypothesis, we included the motives for downsizing as independent variables in the model. As Model 3 shows, *efficiency-motivated downsizing* has a significant and negative impact on firm reputation ($\beta = -0.12$; $p < 0.01$), while *demand-decline-motivated downsizing* is not significant. These findings provide support for Hypothesis 1, when downsizing is driven by a desire to increase efficiency, its impact on corporate reputation is more negative than when it is driven by a decline in demand. In Model 4 we test Hypothesis 2 that during the 1990s announcements of downsizing that were made after 1996 had a more negative impact on corporate reputation than announcements made before 1996. As Model 4 shows, the coefficient of *post-1996 downsizing* is significantly negative ($\beta = -0.20$, $p < 0.01$) and larger than the coefficient of *pre-1996 downsizing* ($\beta = -0.12$, $p < 0.05$). Although the difference of the coefficients is not significant, our findings provide

Table 2
Descriptives and Correlations[a,b].

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. Corporate Reputation	6.59	1.00	–																	
2. Corporate downsizing	0.30	0.46	−0.17	–																
3. Efficiency-motivated downsizing	0.27	0.45	−0.13	0.73	–															
4. Demand-decline-motivated downsizing	0.15	0.36	−0.03	053	0.43	–														
5. Pre-1996 downsizing	0.20	0.40	−0.09	0.75	0.52	0.39	–													
6. Post-1996 downsizing	0.11	0.31	−0.14	0.53	0.41	0.28	−0.17	–												
7. Extent of prior downsizing	0.04	0.08	−0.23	0.18	0.08	0.09	0.11	0.13	–											
8. Prior corporate reputation	6.65	0.99	0.91	−0.11	−0.06	0.03	−0.07	−0.07	−0.28	–										
9. Firm age	76.48	42.45	0.10	0.04	0.07	0.03	−0.01	0.08	−0−04	0.09	–									
10. Firm size	9.58	0.98	0.23	0.10	0.19	0.20	0.09	0.03	0.05	0.25	0.07	–								
11. Average profitability	0.05	0.05	0.51	−0.19	−0.14	−0.07	−0.18	−0.04	−0.38	0.57	−0.01	−0.03	–							
12. Average sales growth	0.07	0.10	0.33	−0.17	−0.14	−0.06	−0.16	−0.04	−0.23	0.36	−0.10	0.15	0.24	–						
13. Profitability change (t, t-1)	−0.18	2.21	0.10	−0.07	−0.05	0.04	−0.07	−0.02	−0.01	0.08	0.01	0.05	0.04	0.01	–					
14. Profitability change (t-1, t-2)	−0.12	2.24	0.10	−0.04	−0.06	0.01	−0.05	0.01	−0.03	0.10	0.03	0.05	0.08	0.03	−0.02	–				
15. Market capitalization change (t, t-1)	0.15	0.36	0.18	−0.09	−0.10	−0.13	−0.02	−0.10	0.14	0.00	−0.06	0.03	−0.10	0.04	0.00	0.07	–			
16. Market capitalization change (t-1, t-2)	0.17	0.34	0.23	−0.13	−0.12	−0.06	−0.17	0.03	−0.01	0.17	−0.05	0.07	0.01	0.21	0.05	0.01	0.03	–		
17. Tobin's Q	1.47	1.34	0.47	−0.18	−0.14	−0.11	−0.18	0.04	−0.14	0.47	0.01	−0.03	0.71	0.15	0.08	0.08	0.18	0.16	–	
18. Firm risk	0.20	0.12	−0.17	−0.06	−0.00	0.06	−0.08	0.01	−0.08	−0.15	0.12	0.05	−0.26	0.02	−0.05	−0.11	−0.10	−0.12	−0.23	–
19. Institutional ownership	0.57	0.14	−0.22	−0.12	−0.13	−0.11	−0.19	0.07	−0.01	−0.26	0.13	−0.39	−0.15	−0.10	−0.01	0.04	0.10	0.03	−0.09	−0.13

[a] n = 646 firm-years.
[b] Correlations larger than 0.08 are significant at the level of $p < 0.05$ and those larger than 0.10 at the level of $p < 0.01$.

Table 3
Results of fixed-effects regression analysis[a].

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	3.82***	3.92***	3.87**	3.86**	3.95**
	(0.82)	(0.81)	(0.81)	(0.81)	(0.81)
Prior corporate reputation	0.69**	0.68**	0.69**	0.68**	0.67**
	(0.03)	(0.03)	(0.03)	(0.03)	(0.04)
Firm age	−0.01	−0.01	−0.01	−0.01	−0.01
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Firm size	−0.15†	−0.15†	−0.15†	−0.16†	−0.17†
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Average profitability	1.34*	1.16*	1.14*	1.22*	0.81
	(0.60)	(0.60)	(0.60)	(0.60)	(0.62)
Average sales growth	0.29	0.24	0.24	0.27	0.24
	(0.25)	(0.24)	(0.25)	(0.25)	(0.24)
Profitability change (t, t-1)	0.01	0.00	0.01	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Profitability change (t-1, t-2)	−0.00	−0.00	−0.00	−0.00	−0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Market capitalization change (t, t-1)	0.43**	0.40**	0.40**	0.39**	0.40**
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Market capitalization change (t-1, t-2)	0.30**	0.27**	0.28**	0.28**	0.28**
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Tobin's Q	0.04	0.03	0.03	0.03	0.03
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Firm risk	−0.16	−0.23	−0.19	−0.23	−0.24
	(0.27)	(0.27)	(0.27)	(0.27)	(0.27)
Institutional ownership	0.44†	0.42†	0.41	0.42†	0.48†
	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Corporate downsizing		−0.15**			−0.21**
		(0.04)			(0.04)
Efficiency-motivated downsizing			−0.12**		
			(0.04)		
Demand-decline-motivated downsizing			−0.05		
			(0.05)		
Pre-1996 downsizing				−0.12*	
				(0.05)	
Post-1996 downsizing				−0.20**	
				(0.06)	
Extent of prior downsizing					−0.92**
					(0.35)
Corporate downsizing x Extent of prior downsizing					0.89*
					(0.41)
F-statistic	36.56**	36.59**	35.28**	35.07**	34.18**
R-square	0.89	0.89	0.89	0.89	0.89
Adjusted R-square	0.87	0.87	0.87	0.87	0.87

[a] n = 646 firm-years; all regression models also include time dummy variables that are jointly significant ($p < 0.01$).
† $p < 0.10$.
* $p < 0.05$.
** $p < 0.01$.
*** $p < 0.001$.

partial support for Hypothesis 2. Hypothesis 3 suggests that the impact of downsizing on corporate reputation will be moderated by the extent of past instances of downsizing in the same firm. As shown in Model 5 in Table 3, the interaction of corporate downsizing and the extent of prior downsizing is significant and positive ($\beta = 0.89$, $p < 0.05$), which supports our Hypothesis 3. These findings indicate that downsizing announcements have a more negative impact on firm reputation if a firm has already downsized extensively during the previous two years.

4.1. Supplementary analyses

To examine the robustness of our findings we conducted additional analyses. First, we analyzed the models for our study sample (S&P 100)

to examine the effect of corporate downsizing on firm reputation in a more recent period; namely, 2010–2012. In that period, downsizing events were less frequent than in the period that our original sample covers. In the 2010–2012 period the percentage of firm-years with downsizing is smaller than in the 1990–2000 period, i.e., 12.9% compared to 30.4% of firm-years respectively. This disparity is not surprising, given that during the 1990s the frequency and scale of mass layoffs in US companies were unprecedented (Morris, Cascio, & Young, 1999; Wagar, 1998) − this, as we explained, is the reason why we chose the 1990–2000 period for our investigation. Our analysis shows that in the more recent period, i.e., 2010–2012, downsizing had a negative and significant effect on firm reputation ($\beta = -0.26$; $p < 0.01$) and that previous layoffs in the same company weakly moderate this relationship ($\beta = 6.17$; $p < 0.10$). Our results indicate that the motive for downsizing had no impact on reputation in this period; however, this can be explained by the lower frequency of downsizing events in the 2010–2012 period. Overall, the additional analysis reveals that our results are on the whole robust even in a period characterized by less downsizing.

In our second robustness test, we aim to test the robustness of our findings for alternate reputation measures and specifically analyze the impact of downsizing on the firm's reputation as employer. Current and potential employees are important stakeholders of the firm. For example, Brown and Matsa (2016) show that firms get fewer and lower quality applications if they are under financial distress. We used the 100 Best Companies to Work for in America (BCW) as dependent variable for our 1990–2000 sample. The list is based on a score that is compiled from employee responses to a survey created by the Great Place to Work Institute and the institute's evaluation of work conditions at the respective companies (for a detailed description of the data, see Edmans, 2011). Using this list, we measured the impact of downsizing on the firm's reputation as employer. On the basis of the information we derived from the list, we created two dependent variables: the dummy variable *top-25 firm*, which takes the value "1" if the firm was listed among the top 25 firms and "0" otherwise, and the dummy variable *top-50 firm*, which takes the value "1" if the firm was listed among the top 50 firms and "0" otherwise. Because the BCW only contains limited data about our sample of S&P 100 firms for the period 1990–2000, the sample for this additional analysis was reduced to 178 firm-years for 1993, 1998, 1999, and 2000. Interestingly, the ranking of the firms listed in the BCW is highly correlated with our AMAC reputation score ($rho = 0.26$, $p < 0.01$), which supports our choice of the AMAC score as a reputation measure. We investigated the relationship between downsizing and employee reputation using the dichotomous variables *top-25 firm* and *top-50 firm* as dependent variables. We ran simple logit models and used the same control variables as in our original models. The results show that downsizing has a negative and significant impact ($\beta = -2.50$; $p < 0.05$) on the predicted probability that the company was ranked among the top 50 firms and a negative and weakly significant impact ($\beta = -2.30$; $p < 0.10$) on the predicted probability that the company was ranked among the top-25 firms. Thus, firms that downsize are less likely to be rated as top employers. These results are consistent with our findings that downsizing is negatively associated with firm reputation and reveal that the effect of downsizing on firm reputation is robust independently of the stakeholder group that evaluates the reputation of that firm.

5. Discussion

5.1. Main findings and contributions of this study

This study was motivated by the need to gain deeper insights into how specific aspects of a firm's decision to downsize influence the negative impact of downsizing on firm reputation. For that purpose, we examined how the motive for downsizing, the time period of the downsizing announcement and previous downsizing measures impact the relationship between downsizing and firm reputation during the 1990s in the US. Our findings indicate that, on average, downsizing due to a decline in demand does not impact a firm's reputation, while downsizing intended to increase efficiency has a significantly negative impact on a firm's reputation. Moreover, we found that the time period of downsizing also influences the reputational effects. Downsizing measures that are announced in periods when the media and internal and external stakeholders are particularly critical of layoffs tend to have a more negative impact on a firm's reputation. Finally, we found that extensive previous layoffs strengthen the negative effect of downsizing on firm reputation.

The results of our study have various implications for management research and business practice. First, our findings contribute to the literature on the organizational outcomes of downsizing by providing a more detailed understanding of the relationship between downsizing and corporate reputation. Prior research has shown that the negative impact of downsizing on reputation can be cushioned by certain firm characteristics such as firm age or firm performance (Flanagan & O'Shaughnessy, 2005; Love & Kraatz, 2009). Specifically, the reputation of older firms and of firms that performed poorly in the preceding year tends to suffer less when they downsize. Although previous works provide evidence that the firm-specific context plays an important role in the relationship between downsizing and firm reputation, we are the first to find that specific characteristics of the downsizing measure influence this relationship. Our study shows that the motive for downsizing, the time period of the announcement, and the extent of previous layoffs may either buffer or amplify the reputational effects of downsizing. Specifically, we have shown that if downsizing is viewed as an externally driven necessity aimed to ensure the firm's survival, as in the case of a sudden decline in demand, the decision may be evaluated as legitimate and may not affect negatively the firm's reputation. On the contrary, if managers decide to downsize a firm in order to streamline operations and improve efficiency, regardless of the firm's actual performance, stakeholder groups such as employees may perceive downsizing primarily as an internally driven, selfish decision that serves only the interests of managers and shareholders. In such cases, downsizing is likely to have a much more negative impact on the firm's reputation. In sum, our study demonstrates that the motives for downsizing influence decisively its reputational effects. In addition, our results indicate that the time period of the downsizing announcement, particularly in relation to critical events, such as unprecedented layoffs, also influences significantly the extent of these reputational effects. Specifically, we found that if a firm downsizes after a critical event that significantly and negatively influenced the general public view on layoffs, the negative impact of this decision on the firm's reputation is slightly more pronounced. We furthermore found that the extent of previous layoffs also influences the magnitude of the effect that downsizing has on a firm's reputation. When firms have already downsized to a large extent in the past, downsizing again leads stakeholders to view much more negatively the prospects of the firm. Hence, we can conclude that stakeholders are far from forgetting these past decisions. Instead, they add to the reputational penalty of the firm.

Second, our study also contributes to the literature on the determinants of corporate reputation (for an overview, see Ali, Lynch, Melewar, & Jin, 2015). Previous studies in this stream have investigated the direct impact of variables such as firm performance, firm size or firm risk (e.g., Fombrun & Shanley, 1990; McGuire et al., 1990), the impact of governance decisions (Bednar et al., 2015) and management decisions such as the adoption of popular management techniques or market actions (Basdeo et al., 2006; Staw & Epstein, 2000). However, there is little research on the impact of corporate restructuring decisions on a firm's reputation. We add to this body of knowledge by investigating one type of corporate restructuring, namely downsizing. By showing how specific aspects of this type of corporate restructuring decision affect a firm's reputation, we gain a more fine-grained understanding of the underlying factors that influence this relationship.

Third, our study also contributes to the emerging stream on the relationship between critical events and firm behavior in management research (e.g., Chandler, 2014; Hoffman & Ocasio, 2001). Previous studies have sought to understand how critical events impact the broader institutional context of a firm and how firms respond to such events. Hoffman and Ocasio (2001), for example, investigated differences in the attention that the media and industry experts pay to various types of critical events and Chandler (2014) examined how critical events impact institutional pressure on a firm and, consequently, a firm's behavior. We contribute to this discussion by investigating how a critical event − in this case, an unprecedented mass layoff − by one firm can change the public debate on mass layoffs and moderate the reputational effects of similar events for other firms.

Fourth, our findings also highlight the evidence of previous research that reputation can be fragile and hard to restore. Once it is eroded, it takes time to rebuild it (Herbig et al., 1994). One consequence of the negative impact that downsizing has on corporate reputation is that it may hinder a firm's access to important resources and ultimately weaken its performance. This suggests that when managers intend to lay off employees, they need to consider the potential damage to the firm's reputation in addition to other costs associated with downsizing and need to find ways of mitigating the negative reputational effects and/or try to restore the firm's reputation. One way of mitigating the negative effect is to proactively influence the perceptions of the firm's stakeholders through carefully constructed announcements (Elsbach, 1994). For example, if managers need to announce massive layoffs, they may need to consider that certain motives may be viewed as more acceptable than others and thus cause less damage to the firm's reputation. Generally, how and when to announce layoffs and what information to provide are important considerations. In this context, our study also suggests that it might make sense for firms to improve the communication (e.g., via the services of independent IR firms) in order to reduce the reputational damage of downsizing or even restore the firm's reputation in the long-run. This suggestion is based on evidence that IR firms can influence significantly the media coverage of news that concerns specific firms (Solomon, 2012), and thus the views of stakeholders whose opinions are shaped by information provided by the media.

Finally, the potential reputational damage that is associated with downsizing might managers also induce to reconsider the necessity of potential layoffs. For example, Harrison and Scorse (2010) show that anti-sweatshop campaigns which were aimed to improve work conditions for employees lead to significant wage increases. In order to avoid reputational damage as consequence to these campaigns managers increased wages. Similarly, rational managers might consider the reputational costs associated with downsizing and, in consequence, avoid downsizing, if possible.

5.2. Limitations and future research

This study has certain limitations, which may stimulate further research into its topic. One limitation is that we investigated how specific aspects of downsizing influence a firm's reputation. The set of contextual conditions on which we focused, however, is not exhaustive. Future studies could investigate how other contextual conditions, such as the type of ownership or third-party actors such as labor unions or the media may affect the relationship between downsizing and reputation. For example, Friebel and Heinz (2014) have shown that downsizing announcements made by foreign-owned firms attract greater media attention than announcements made by domestic firms and that the tone of media reports is more negative in the first case. Furthermore, in our study, we treat the media as important information intermediaries that decrease information asymmetries between a firm and its stakeholders. However, the media are also active agents that can select and bias information. Therefore, we think that it would be interesting for future research to explore how media coverage of firms undertaking downsizing influences the relationship between downsizing and firm reputation.

A second limitation of our study is related to the study context. Our Hypothesis 2 is specifically related to the public debate on downsizing in the US. In our analysis, we examine the S&P 100 firms in the 1990s. However, although we would expect similar results for firms in other countries in a different time period, we do not know yet whether and to what extent these findings are generalizable. An analysis of these relationships for different countries and time periods may thus be an interesting future research avenue.

Furthermore, future research could explore the perceptions of various stakeholder groups in greater depth and how downsizing is perceived by different stakeholders. The reputation data for this study come from managers and directors as well as investment analysts. These are experts of the firm and its industry and are thus important stakeholder groups. However, there are other groups of stakeholders such as customers and suppliers whose perceptions are also influential for a firm's reputation.

Finally, researchers could also examine how the reputational effects of downsizing develop in the long-term, how much time it takes for a firm's reputation to recover from the negative effects of downsizing and which potential measures could help to restore corporate reputation.

6. Conclusion

This study extends prior research on the impact of downsizing on external corporate reputation by investigating how specific aspects of downsizing measures influence a firm's reputation. Our results show that downsizing affects corporate reputation negatively and that the size of the effect depends on the motive for downsizing, the timing of downsizing and the extent of previous layoffs. These findings elucidate how the content and context of downsizing announcements can significantly influence the extent of the reputational penalties that are associated with corporate downsizing and advances our understanding of the organizational outcomes of downsizing and the moderating role of critical events.

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