

Does size matter? The impact of the size of downsizing on financial health and market valuation

Financial
health and
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Abstract

Purpose – Although the management and financial literature is replete with much research looking at the impact of downsizing on the financial health and market valuation of companies employing this practice, there has been very little attention paid to the size of the downsizing effort and its impact. The purpose of this paper is to try and address this lack by looking at companies that downsized in 2008, considering the relative size of the downsizing, and the ongoing financial health and market valuation of the companies.

Design/methodology/approach – The impact of the size or severity of the downsizing event was assessed using various financial measures as well as a measure of market valuation from one to five years after the downsizing event. A data set of 251 companies that were in the Fortune 500 in 2014 and also in the Fortune 500 in 2008, that either did not change or decreased headcount were assessed longitudinally over a five-year period.

Findings – Findings indicate that the size or severity of the downsizing did not impact any measures of profitability or efficiency or market valuation, with one exception. The size of the downsizing event was negatively related to return on investment, one year after the downsizing. On the other hand, the size or severity of the downsizing had a positive relationship on the companies' ability to have enough cash at hand to cover expenses (current ratio) from one to four years after the downsizing.

Originality/value – This work may provide additional support for the “band-aid solution” theory of downsizing, as suggested by Carriger (2016), downsizing may stop the bleeding but does not address the underlying financial or strategic issue leading to the need to downsize. The hope is that this work will better inform scholars and practitioners, providing a more nuanced picture of the impact of downsizing on corporate financial health and market valuation.

Keywords Downsizing, Market valuation, Financial health, Layoff, Severity of downsizing, Size of downsizing

Paper type Research paper

“A CEO is faced with a saturated market, falling sales, declining revenue, little strategic direction, and a parent company clamoring for its return on budgeted revenue. What does the CEO do?” (Carriger, 2016). According to Carriger (2016) the CEO of this actual company downsized the company, releasing 7 percent of his workforce. Unfortunately, the downsizing did not appear to work, as Carriger (2016) notes an additional four layoff events over the course of the next three years. The CEO positioned the downsizing as a “rightsizing” (Carriger, 2016). But was it really a “rightsizing?” Was that just a euphemism for the layoff event? Or did the CEO hit the wrong mark by laying off 7 percent of his workforce? If the CEO had laid off more than 7 percent of his workforce, would that have saved the company and obviated the need for additional future layoffs? Or, if the CEO had laid off less than 7 percent of his workforce, could that have resolved the company's financial trouble without impacting a larger number of employees and potentially impacting customer service and productivity? When it comes to downsizing, if you have to downsize, is bigger better, or is smaller better? When it comes to downsizing, does size matter?

Although much has been written about the impact of downsizing itself, on the financial health and market valuation of companies, on the lives of employees downsized and those remaining behind with the company, and on the community within which the downsizing company exists, surprisingly little has been written about the impact of the size or severity of downsizing. Especially little has been written about the size of downsizing on



the financial health and market valuation of the companies engaging in the downsizing. The majority of this small literature has focused on the impact of the size of downsizing on the employees of the company (Mellor, 1992; Brockner *et al.*, 1994, 1998; Wager, 1998; Mellahi and Wilkinson, 2010) or market reaction to the downsizing (Worrell *et al.*, 1991; Lee, 1997; Elayan *et al.*, 1998; Pounder *et al.*, 1999; Filbeck and Webb, 2001; Collett, 2002; Ahmadjian and Robbins, 2005; Capelle-Blancard and Couderc, 2008; Cagle *et al.*, 2009). Only four studies considered the impact of the size of downsizing on the financial health of the downsizing company (DeMeuse *et al.*, 1994, 2004; Ahmadjian and Robinson, 2005; Brauer, 2010).

Given a review of this literature, as well as the broader literature on downsizing (see Capelle-Blancard and Couderc, 2008; Datta *et al.*, 2010, and Carriger, 2016 for an overview), “very little can be said with certainty regarding the antecedents and consequences of employee downsizing” (Datta *et al.*, 2010, p. 337), but even less can be said about the impact of the size of downsizing. However, a theoretical case can be made that the size of a layoff does matter. For example, research has shown that layoffs have a significant negative impact on a firm’s reputation (Flanagan and O’Shaughnessy, 2005; Love and Kraatz, 2009), especially for smaller, younger firms. Additionally, research has shown that layoffs have a significant and immediate negative impact on customer satisfaction and customer retention (Williams *et al.*, 2011), leading directly to a negative financial impact on the company. Finally, research has shown that layoffs have a significant negative impact on employee job security, physical health, and emotional health (Grumberg *et al.*, 2001), especially for those employees who are laid off and then rehired. Given the negative impact downsizing has on firm reputation, customer satisfaction, and employee well-being it is theoretically reasonable to assume that the larger the downsizing the worse these effects and concomitant financial health and market valuation of the downsizing firms.

The study here was designed to try to address the limited understanding of the impact of the size of downsizing on a comprehensive set of financial and market valuation outcome measures.

Literature review

The literature on downsizing can be broken down into two segments: the management literature focused on the impact of downsizing on the employees of the company and the financial health of the organization, and the finance literature focused on the market valuation or market reaction to the downsizing (see Carriger, 2016 for an overview). The same is the case for the brief literature on the size of downsizing.

Management literature

With regards to the impact of the size of layoffs, the management literature can be further broken down into two segments: the impact of the size of layoffs on the productivity of workers and on the financial health of the downsizing company.

A few researchers have investigated the impact of the size of a layoff on worker productivity. Brockner *et al.* (1994) found that the severity of a layoff, defined as sporadic downsizings of 25-70 percent of a company’s workforce over a three-year period, did not impact surviving employees job involvement, defined as interest in and commitment to work. Mellor (1992), however, found that there was a relationship between the severity of the layoff and worker commitment in those employees surviving the layoff. But this result was mediated by the employees’ belief in the perceived truthfulness of the stated reasons for the layoff. Brockner and another set of colleagues (Brockner *et al.*, 1994) found that the severity of a layoff, defined as downsizing by an average of 40 percent of the company’s workforce, significantly related to the downsized employees’ reactions to the downsizing, but only if procedural justice was perceived as low. In two studies of Canadian companies

Wager (1997, 1998) found that larger layoffs led to less employee efficiency, less employee satisfaction, and poorer employee relations among survivors of the layoffs. More recently, Mellahi and Wilkinson (2010) found that the size of a workforce reduction had no impact on the level of innovation in firms in the UK.

Although some of the studies found an association between size or severity of downsizing and negative employee outcomes, the studies did not look at the impact of size of downsizing on employee outcomes and the financial health of the companies. Additionally, these employee outcomes have not been employed as moderators, or controlled, in subsequent research looking at the impact of size or severity of downsizing on financial health of the company.

A few researchers have found that the impact of the size of a layoff was unrelated to a company's financial health or status after the layoff. Ahmadjian and Robinson (2005), comparing Japanese firms that downsized by 2, 5, or 10 percent or more, found that for those companies downsizing by 10 percent or more some of the negative relationships between downsizing and financial outcome variables were attenuated. Although all relationships were in the same direction, they were not significant for those companies laying off 10 percent or more of their workforce. DeMeuse *et al.* (1994) found no statistically significant positive relationship between the total percentage of employees downsized and any financial outcome measure. A negative relationship between size of layoff and profit margin, and return on equity (ROE) was found in some years after the layoff. In a follow up study DeMeuse *et al.* (2004) found no additional statistically significant relationships between the size of a layoff and financial health or status of the downsizing company from 3 to 12 years after the layoff. Finally, Brauer (2010) found that the size of a workforce reduction was significantly related to profitability of the downsizing company, but in a U-shaped fashion, with smaller and larger layoffs having the most significant impact on profitability and medium-sized layoffs having the least.

Finance literature

With regard to the impact of the size of layoffs, the financial literature primarily focused on the market valuation of the company downsizing. The impact of the size of layoffs on the market valuation of the downsizing company shows mixed results. Elayan *et al.* (1998), looking at layoffs announced in the *Wall Street Journal Index* over a 12-year period, found that larger layoffs lead to more negative market reactions than smaller layoffs. Pounder *et al.* (1999), on the other hand, also looking at layoffs announced in the *Wall Street Journal Index* over a 14-year period, found no significant relationship between the size of the layoff and the cumulative average abnormal return on stock. Filbeck and Webb (2001) found that larger layoffs lead to more negative market share price reactions in companies announcing layoffs over a seven-year period in the *Wall Street Journal Index*. Collett (2002), using the Extel Company Analysis and Financial Times McCarthy databases, and employing an event methodology approach, found a consistent negative reaction from the international stock market to layoff announcements, however, the larger the layoff the less negative the reaction. Ahmadjian and Robbins (2005) also collected data on the market valuation of Japanese firms as indexed in the Nikkei NEEDS database and found no significant relationship between the size of the layoff and market valuation. Capelle-Blancard and Couderc (2008), conducting a meta-analysis of numerous studies on the impact of downsizing, found that some studies showed a significant negative market reaction and some showed the opposite but the relationship between size of layoff and market valuation was non-significant. Lee (1997) theorized that the size of a layoff would convey a signal to the market about the severity of a company's financial ill-health and, therefore, would lead to a decrease in market valuation. Using an event methodology approach, Lee (1997) found a negative, though not significantly so, relationship between

the size of a layoff and abnormal returns in both US and Japanese companies. Cagle *et al.* (2009), looking at stock price reaction to layoffs, employing an event methodology, found no significant relationship between layoff size and stock price using any of various regression models. Finally, Worrell *et al.* (1991), using the *Wall Street Journal Index* to identify firms that downsized between 1979 and 1987, found a significantly more negative market reaction to larger layoffs than to smaller layoffs, with the largest impact seeming to be during the pre-layoff-announcement window.

In summary, across the management literature looking at the impact of the size of a layoff on employees and on the financial health and status of the organization, as well as across the finance literature looking at the impact of the size of a layoff on market valuation using a variety of measures, there does not seem to be a clear picture of the impact of the size of downsizing. "According to the previous studies, the actual impact of the size of the layoff plan – which is measured as a percentage of number of workers laid off out of total payroll, or by the relative size of the plan – remains ambiguous" (Capelle-Blancard and Couderc, 2008, p. 20). However, no study to date has used a comprehensive set of financial and market valuation measures to assess the impact of the size of downsizing. And, very few studies have employed a longitudinal methodology to consider any impact over time.

This study was undertaken to try to clarify the impact of the size of a layoff on both financial and market valuation measures. In a rather comprehensive study of the overall impact of downsizing on financial and market valuation measures Carriger (2016) found that it was "not the case that downsizing had an appreciable impact, positive or negative, on the financial or market condition of the company that downsized". However, that work, as with much of the other work in this area, looked at downsizing as a monolithic construct: either downsizing or not. The present study was designed to look at downsizing as a continuous variable, considering the percentage of the workforce laid off, and asks the question, does size matter?

Theoretically, it would seem that the size of downsizing would matter as downsizing impacts firm reputation, customer satisfaction, and employee well-being. It would seem reasonable to suggest that the negative consequences of downsizing on these variables would increase with larger downsizings and this would lead to increasingly negative financial and market valuation outcomes. However, direct empirical evidence presents an unclear picture of the differential impact of the size of downsizing on financial and market outcomes.

Methods

All companies that appeared in the 2014 Fortune 500 list, who were also included in the 2008 Fortune 500, and who did not increase their headcount between 2008 and 2009, were considered the initial subjects for this research. This included 251 companies. The average change in headcount for these companies was -8 percent (SD = 8.32) with a range of 0--81 percent. Five of the companies decreased headcount by 30 percent or more, which represents less than 2 percent of the entire sample. However, this suggests that there may be outliers in the data sample impacting the analysis. To manage this, a process was implemented to identify predictor outliers, defined as those data points with a standard residual value of 3 standard deviations or greater from the average residual value. As the removal of predictor outliers may actually result in improper inferences about the population from which the data was drawn all significant results are presented with the outliers included as well as with the outliers removed (Aguinis *et al.*, 2013) (Figure 1).

Financial and market valuation data on the 251 companies were extracted from the Mergent Online™ database from 2008-2014. Two sets of measures were collected to comprehensively assess the impact of the size of downsizing. To assess the impact on financial health of the downsizing companies measures of profitability, efficiency, debt, and

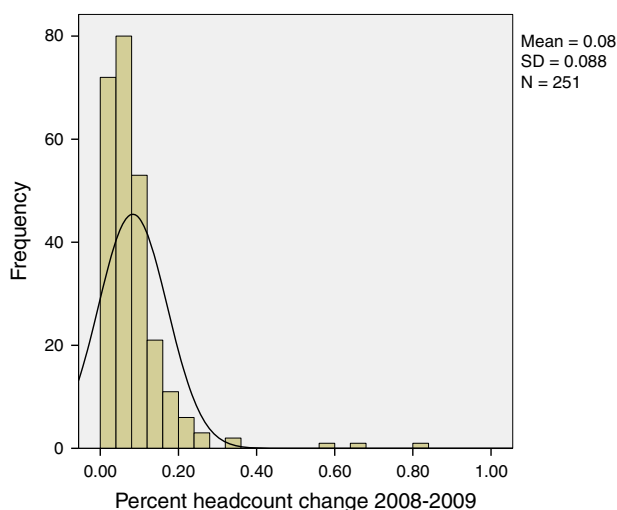


Figure 1.
Distribution of size of
downsizing events

revenue were collected. To assess the impact on market valuation of downsizing companies a measure of stock equity was collected. Specially, the financial data collected included: measures of profitability – return on equity (ROE – a profitability ratio which measures the efficient use of equity or income per dollar of equity Block and Hirt, 2005), return on assets (ROA – a profitability ratio which measures the efficient use of assets or income per dollar of assets Block and Hirt, 2005), return on investment (ROI – a profitability ratio which measures the efficient use of investment, or income per dollar of long-term investment Block and Hirt, 2005), earnings before interest, taxes, depreciation, and amortization (EBITDA – operating income of a company before deductions for financial changes, taxes, and cost of assets Block and Hirt, 2005); measures of debt –current ratio (a liquidity ratio which measures the ability to meet current cash needs Block and Hirt, 2005), long-term debt (how much of a company’s operations are funded by bond issues, leases, or bank loans Block and Hirt, 2005); measures of efficiency –inventory turnover (efficient use of inventory or sales per dollar of inventory Block and Hirt, 2005), revenue per employee (employee productivity or revenue generated per employee), total asset turnover (efficient use of total assets or sales per dollar of total assets Block and Hirt, 2005); and measures of revenue – total revenue (total receipts from sales or total income from the business). Market valuation data collected included: stock equity (total contribution to and ownership interest of stockholders in the company Block and Hirt, 2005).

A series of regression analyses were conducted, regressing percent change in headcount from 2008 to 2009 on each of the financial and market valuation measures for each year from 2009-2014. Only companies that showed no change in headcount or a decrease in headcount were included in the analysis. Using change in headcount rather than a binary (decrease in headcount below a threshold, e.g. 5 percent) allows for a more complete assessment of the impact of the size of downsizing without relying on arbitrary cut-offs for defining downsizing (Carriger, 2016).

Similar to Carriger (2016), no additional control variables, such as financial health of the companies, industry, competitiveness of the marketplace, were included. This was a tactical decision made since the sample of 251 Fortune 500 Companies was relatively large and by definition, because of inclusion in the Fortune 500, relatively homogeneous in terms of size and corporate success. However, the Fortune 500 is made up of companies from many industries and previous research has suggested that industry, specially the financial

industry, may, in fact, mediate the impact of downsizing on firm performance (Guthrie and Datta, 2008). Finally, the year 2008-2009 was specifically chosen as the index year for this study as this represents the beginning of the financial crisis and increased the likelihood of finding companies that downsized. Additionally, since 2008-2009 was used as the index year, including any economic control variables was determined to be unnecessary.

Results

A series of regression analyses were conducted regressing the percent change in headcount from 2008 to 2009 on each of the financial and market valuation measures from 2010-2014 for the 251 companies that showed either no change or a decrease in headcount. Of the 60 regression analyses conducted five showed a significant relationship and one showed a borderline significant relationship. This represented 10 percent of all analyses run. With an alpha level of 0.05, one would have expected 5 percent of these analyses to be significant just by chance. Employing the Bonferroni correction ($\alpha/\text{number of individual tests run}$, Rice, 1989; Cabin and Mitchell, 2000) to adjust for the large number of analyses run and to protect against accepting a null hypothesis when in fact the null hypothesis is false (type I error), for a result to be significant at the 0.05 level, when 60 statistical tests are used, the alpha level must be below 0.001, and at the 0.10 level, below 0.002. Only one of the five significant results reached this level of significance. However, given the pattern of significant results it seems less likely that a type I error has been committed.

Overall, the size of downsizing was statistically unrelated to any of the profitability measures, with one exception (see below), the efficiency measures, the revenue measure, and the market valuation measure. However, the size of downsizing was significantly related to one of the two debt measures.

With regard to profitability measures, there was a significant relationship between percent change in headcount between 2008 and 2009 and ROI in 2010. However, the significance of the relationship disappeared when submitted to the Bonferroni correct. The correlation between percent change in headcount and ROI was -0.142 , indicating that the percent change in headcount explained approximately 2 percent of the variance in ROI the year after the headcount changed. As the percent of headcount change increased, the company's ROI the next year decreased ($\text{ROI } 2010 = -18.724 \times \text{percent change in headcount} + 17.905$, $F = 4.585$, $p = 0.033$, $r = -0.142$, $r^2 = 0.020$). Removal of outlier data points produced little change in the results ($F = 5.152$, $p = 0.023$, $r = -0.151$, $r^2 = 0.024$) (Figure 2).

With regard to debt measures, there was a non-significant relationship between percent change in headcount between 2008 and 2009 and long-term debt, however, there were significant relationships between percent change in headcount and current ratio in 2010-2013 (approached significance). However, the significance of the relationship disappeared when submitted to the Bonferroni correct, except for the relationship between change in headcount between 2008 and 2009 and current ratio in 2010. The correlation between percent change in headcount and current ratio in 2010 was 0.203 , indicating that percent change in headcount explained approximately 4 percent of the variance in current ratio the year after the headcount changed. As the percent of headcount change increased, the company's current ratio the next year also increased (current ratio $2010 = 1.771 \times \text{percent change in headcount} + 1.523$, $F = 9.650$, $p = 0.002$, $r = 0.203$, $r^2 = 0.041$). Removal of outlier data points produced little change in the results ($F = 9.482$, $p = 0.002$, $r = 0.204$, $r^2 = 0.042$) (Figure 3).

The correlation between percent change in headcount and current ratio in 2011 was 0.141 , indicating that percent change in headcount explained approximately 2 percent of the variance in current ratio two years after the headcount changed. As the percent of headcount change increased, the company's current ratio two years after also increased (current ratio $2011 = 1.265 \times \text{percent change in headcount} + 1.522$, $F = 4.545$, $p = 0.034$,

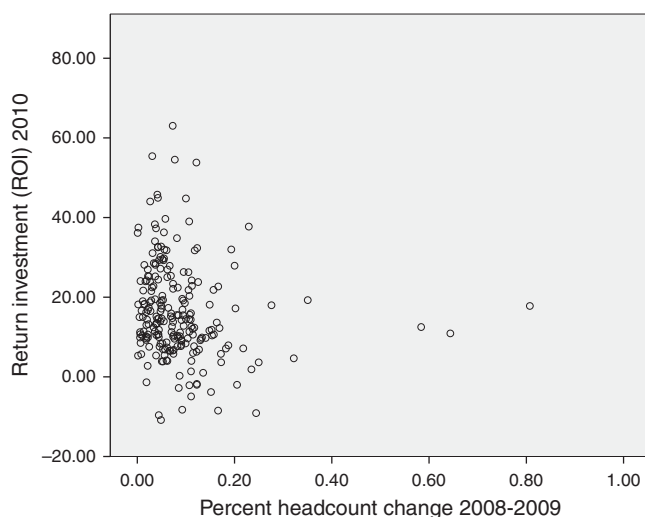


Figure 2.
Scatterplot for return
on investment 2010
against size of
downsizing event

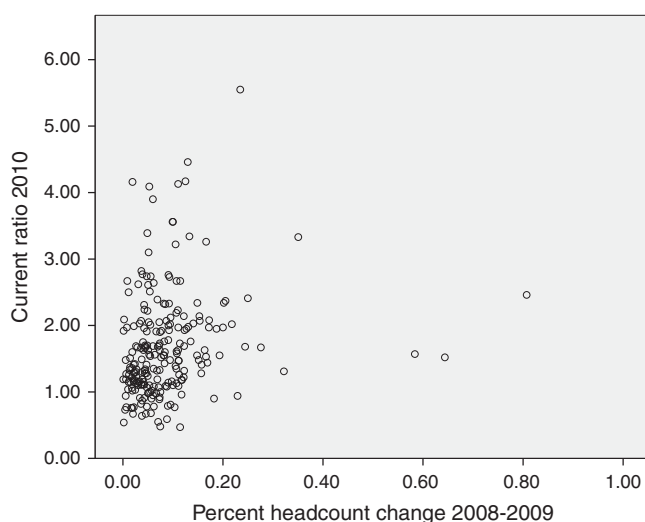


Figure 3.
Scatterplot for current
ratio 2010 against size
of downsizing event

$r = 0.141$, $r^2 = 0.020$). Removal of outlier data points produced little change in the results ($F = 5.177$, $p = 0.024$, $r = 0.152$, $r^2 = 0.023$) (Figure 4).

The correlation between percent change in headcount and current ratio in 2012 was 0.142, indicating that percent change in headcount explained approximately 2 percent of the variance in current ratio three years after the headcount changed. As the percent of headcount change increased, the company's current ratio three years after also increased (current ratio₂₀₁₂ = 1.208 × percent change in headcount + 1,527, $F = 4.624$, $p = 0.033$, $r = 0.142$, $r^2 = 0.020$). Removal of outlier data points produced little change in the results ($F = 6.063$, $p = 0.015$, $r = 0.164$, $r^2 = 0.027$) (Figure 5).

The correlation between percent change in headcount and current ratio in 2013 was 0.126, indicating that percent change in headcount explained approximately 2 percent of the

Figure 4.
Scatterplot for current ratio 2011 against size of downsizing event

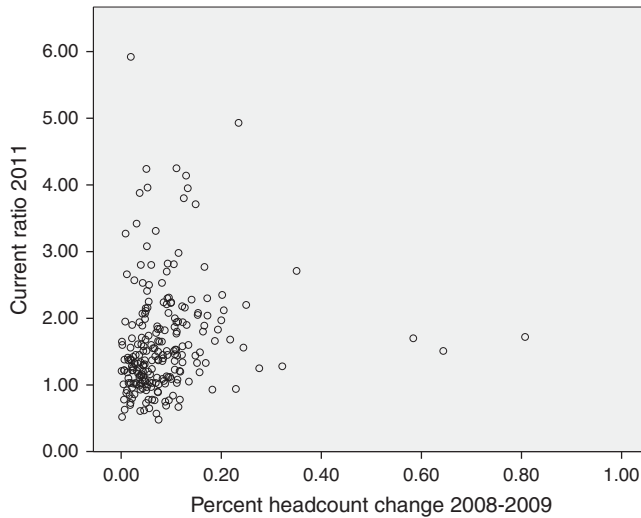
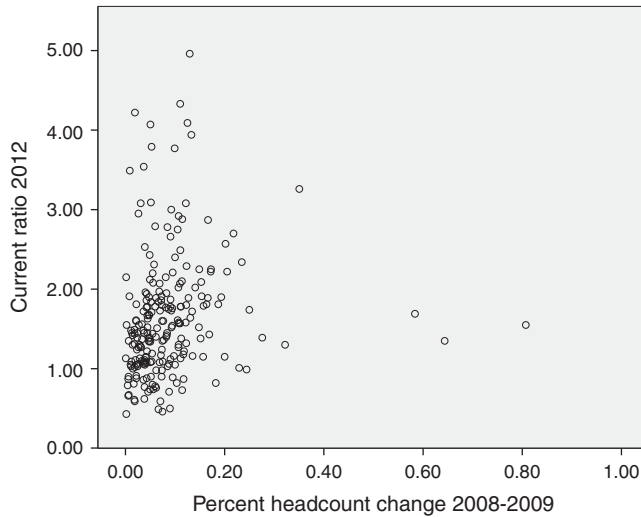


Figure 5.
Scatterplot for current ratio 2012 against size of downsizing event



variance in current ratio four years after the headcount changed. As the percent of headcount change increased, the company's current ratio four years after also increased (current ratio 2013 = 1.058 × percent change in headcount + 1.533, $F = 3.587$, $p = 0.060$, $r = 0.126$, $r^2 = 0.016$). Removal of outlier data points produced little change in the results ($F = 3.246$, $p = 0.073$, $r = 0.121$, $r^2 = 0.015$) (Figure 6).

In summary, the size of the downsizing effort had a negative impact on the company's ROI in the next year following the downsizing. Although the significance of this result is lost when a more rigorous test of significance is applied to correct for multiple analyses. However, the size of the downsizing had a positive impact on the company's current ratio the following four years after the downsizing. And at least in the first year

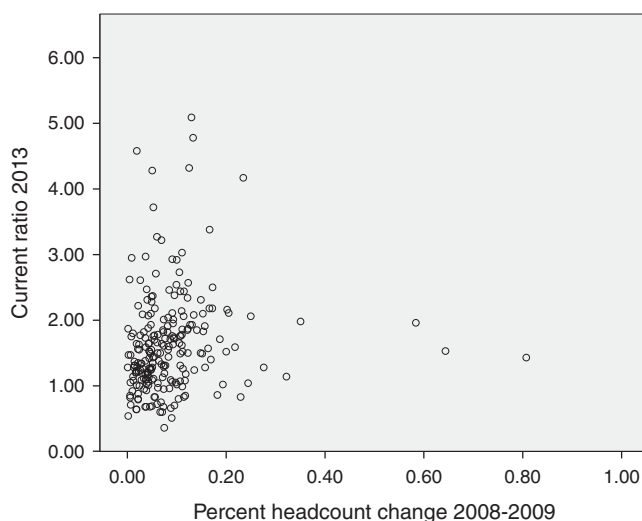


Figure 6.
Scatterplot for current
ratio 2013 against size
of downsizing event

after the downsizing the relationship between the size of the downsizing and the company's current ratio was significant even after correcting for the use of a large number of analyses.

Discussion

Given the disruptive and potentially devastating impact downsizing can have on employees let go (Datta *et al.*, 2010), those left behind in the company after the downsizing (Mishra and Spreitzer, 1998; Trevor and Nyberg, 2008; Datta *et al.*, 2010), as well as the communities in which the downsizing organization exists (Gombola and Tsetsekos, 1992; Atanassov and Kim, 2009; Datta *et al.*, 2010) the downsizing event on balance must produce some good for the company downsizing. However, prior research (see e.g., Capelle-Blancard and Couderc, 2008; Datta *et al.*, 2010; Carriger, 2016) indicates that downsizing has little positive impact on the financial health and market valuation of companies, and in some cases has a negative impact on those companies downsizing. The present study was conducted to begin to flesh out whether a more nuanced picture of the impact of downsizing on financial health and market valuation could be forged. In this particular case, does the relative size (relative to the total employee headcount of the company) of the downsizing make a difference.

In terms of financial measures, such as profitability and efficiency, the answer is no. The size of the layoff does not impact positively or negatively the profitability or the efficiency of the company downsizing for one through five years after the downsizing, with the exception of ROI in the year after downsizing. Similarly, in terms of market valuation, the answer is also no. The size of the layoff does not impact positively or negatively the market valuation of the company downsizing for one through five years after the downsizing.

On the other hand, the size of the layoff does negatively impact the company's ROI the year following the downsizing. Although the significance of this results disappears when a more rigorous test of significance is applied in order to correct for multiple analyses. As companies engage in increasingly larger layoffs (relative to their total employee headcount) their ROI suffers.

However, the size of the layoff does positively impact the company's current ratio four of the five years following the downsizing. And, in that first year the results are significant even when applying the more rigorous test of significance to correct for multiple analyses. As companies engage in increasingly larger layoffs (relative to their total employee headcount) their ability to meet their current cash needs improves. This would make sense. As a company's payroll is its largest expense, decreasing payroll by laying off workers would free up cash that could be used to cover other expenses.

This does suggest a slightly more nuanced picture of downsizing. Although, in general, downsizing does not positively, and in some cases actually negatively, impacts the financial health and the market valuation of companies engaging in this practice, under certain circumstances (size of the layoff) downsizing at least has the positive impact of helping the company meet its current cash needs, at least in the year after the downsizing.

Carriger (2016) has suggested the use of the medical concept of the "band-aid solution" as an explanation for the prevalent use of downsizing as a corporate strategy when the evidence suggests that the downsizing will not work. The "band-aid solution" in medicine is defined as a partial or surface-level solution that addresses the symptoms of the underlying illness but does not address the cause (Carriger, 2016). This may account for the prevalent use of downsizing, which addresses the cash flow issues the company may have in the short term but not the underlying financial or strategic cause leading to the downsizing. By not addressing the underlying causes leading to the downsizing no positive impact on the overall financial health or market valuation of the company is realized. Which ironically may lead to more layoffs thus creating a self-perpetuating cycle.

In the case of the present research, the size of the layoff may be like placing a larger band-aid on the financial or strategic issues that led the company to downsize in the first place. However, simply using a larger band-aid does not transform the solution from a "band-aid solution" and does not ultimately positively impact the company. The larger band aid may stop the flow of blood (positively impact current ratio), but does nothing to address the underlying cause of the injury (financial or strategic trouble).

Limitations and future research

As with the Carriger (2016) work, that employed a similar data set to the present study, a number of limitations should be noted. The data set in the present study included all Fortune 500 companies that were in the Fortune 500 in 2014 and also in the Fortune 500 in 2008. This represents relatively large and successful companies. Whether they downsized or not in 2008, one would expect, by definition, these companies to be successful. This may hamper the generalizability of these results to non-Fortune 500, smaller, and perhaps less consistently successful companies. Additionally, as with much of the research comprising the management literature on downsizing (see Datta *et al.*, 2010; Carriger, 2016 for an overview), the present study did not employ the more recently preferred, and especially so in the financial literature, event methodology approach. The event methodology approach essentially assesses the impact of downsizing on financial and market valuation measures collected very shortly before, during, and very shortly after the downsizing event. The underlying assumption is that any change in the measures from shortly before, to during, to shortly after the downsizing event can more confidently be assumed caused by the downsizing as opposed to some other aspect of the company, the environment, or the economy. Further, the study did not include any control variables, such as industry, economic conditions, size of the company, financial health of the company, in the analysis. Decisions to not use an event methodology and to not include additional control variables were made intentionally. The event methodology suffers from its own criticisms based on the questionability of the underlying assumptions researchers must make when employing this technique. And the intent of this study was to assess the impact of the size

of downsizing longitudinally over a long period of time. An event methodology would not be conducive to this intent. Additionally, given the homogenous nature of the data set, Fortune 500 companies, with the exception of industry, it was deemed unnecessary to include additional control variables in the analysis. Further, although others have found firm reputation (Flanagan and O'Shaughnessy, 2005; Love and Kraatz, 2009), customer satisfaction (Williams *et al.*, 2011) and employee well-being (Grunberg *et al.*, 2001) as potential mediators between downsizing and financial health of the company and employee attitudes such as commitment (Mellor, 1992) and sense of job satisfaction (Wager, 1997, 1998) as actual mediators, mediating or moderating variables were not considered in this study.

Therefore, future research might consider whether a modified event methodology approach could be employed such that the longitudinal nature of the present study could still be captured but the purported controls of the event methodology could be leveraged. And replications of the present study could be conducted on different data sets and controlling for variables such as industry, economic conditions, size of the companies, financial health of the companies as well as mediating variables such as employee attitudes.

Finally, this work looked only at change in headcount from the index year 2008-2009. This index year was chosen as it represented the beginning of the financial crisis. However, the present research did not assess the impact of additional downsizings in later years. Further research might consider the impact of the frequency of downsizing on corporate financial health. And investigation of the impact of the interaction between size and frequency of downsizing may further reveal the impact of downsizing.

Conclusion

The present study was designed to look at downsizing as a continuous variable, considering the percentage of the workforce laid off, and ask the question, does size matter? The answer is a qualified yes. If the company's intent is simply to address cash at hand to cover expenses, size does matter. The larger the layoff the healthier the company's current ratio. However, if the company's intent is their financial health and market valuation, size does not matter. No layoff, of any size, will positively impact the financial health or market valuation of the company.

It is hoped that this more nuanced view of downsizing contributes not only to a greater understanding of the impact of downsizing but also helps senior leaders confronted with a possible downsizing situation make a better, more informed, decision to downsize or not.

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